
McDonald's written response to questions from the European Parliament TAX3 Committee

Thank you for the opportunity to provide comments to the TAX3 Committee in the hearing focussed on lessons from the Paradise Papers. We offer these introductory remarks to assist the TAX3 Committee in advance of these discussions.

At the outset, we wish to point out that we pay all the tax owed in each market where we operate and we pay significant amounts of corporate taxes. Our average global tax rate for the last 10 years is 32%, i.e. close to 1/3 of total profit. In the European Union, from 2013-2017 we paid more than \$3B in corporate taxes with an average tax rate approaching 29%. We also pay social, real estate and other taxes. We pay these taxes in the countries where we operate. In the US, we paid almost \$1.3B in federal and state taxes, plus property and employment tax in every state in 2017.

More than 85% of McDonald's restaurants in Europe are owned and operated by independent businessmen and women. Consistent with our franchised system, McDonald's as a franchisor and licensor owns the associated proprietary property such as our global brand and operating system. McDonald's independent franchisees and owned operations pay – and have always paid – a royalty for the right to use McDonald's proprietary property. This enables us to invest further and to share resulting innovations and developments across our system.

The level of royalty is given careful consideration and is benchmarked externally against comparable factors using OECD approved methods. The percentage paid is fair and based on arm's length market principles.

In 2015, we announced a significant reorganization of our business grouping together countries around the world based on common market characteristics rather than on the basis of geographical proximity. In December 2016 we announced a decision to create a new integrated international holding company structure to align with and to support the new business structure.

This resulted in the creation of a unified structure located in the United Kingdom with responsibility for licensing the majority of the company's global intellectual property rights outside the United States. It comprises a mix of UK companies incorporated in the UK and US companies which continue to be incorporated in the US. Those US companies are also tax resident in the UK.

This change has a clear business rationale in matching our corporate structure to our new functional structure. The new structure supports the company's growth plans by streamlining decision making, reducing expenses, and supporting its refranchising initiative.

This change resulted in the closure of the company's operations in Geneva. The Company's Switzerland office in Crissier remains open and our office in Luxembourg retains responsibility for Luxembourg restaurants.

McDonald's selected the UK for the location of its new international holding structure because of the existing significant number of staff based in London working on our international business, the availability of additional suitably qualified staff, language and connections to other markets.

Our decision to re-organise the business and to align McDonald's international holding company structure with the new structure of the business is independent of Brexit, OECD BEPS developments and Paradise Papers. Our decision pre-dates the Brexit referendum (June 2016), the formal adoption of BEPS (June 2017) and the publication of Paradise Papers (November 2017).

McDonald's acknowledges that the international tax system may need to be reviewed, though we are concerned about unilateral adoption and uncoordinated approach by countries that could arise if BEPS is not implemented holistically.

We are in favour of a tax system that creates a level playing field and provides for equal opportunities to compete. We support transparency and information sharing between tax authorities, provided there is a holistic application and implementation. There must be safeguards in place to ensure commercially sensitive information is not made public.

Finally, with specific reference to the US, the Company expects a benefit from the US tax reform which will be used to invest in the modernisation of our restaurants in the US under our 'Experience of the Future' program. Following changes in the US tax law, we also announced in March 2018 that McDonald's will allocate \$150 million over five years to its global Archways to Opportunity education program. The Archways to Opportunity program provides eligible US employees at company-owned and franchised restaurants an opportunity to earn a high school diploma, receive upfront college tuition assistance, access free education advising services and learn English as a second language. This additional investment will provide almost 400,000 US restaurant employees with accessibility to the program.

We look forward to discussing these issues in more detail with the Committee.
