

Special Committee on Tax Crimes, Tax Evasion, and Tax Avoidance

(TAX3)

**COMMITTEE MEETING
OF
21 JUNE 2018**

Hearing on “Lessons learnt from the Paradise Papers”

Panel II: Alleged aggressive tax planning schemes within the EU

**Background information for an exchange of views with
Multinational Corporations¹**



MCDONALD'S

¹ Document prepared by the TAX3 Secretariat

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This information should not be seen as representing the views of the TAX3 secretariat or the EP. The views expressed are those of the authors/sources

I. General Information

Company description from Reuters

(Source: Reuters Company Profile as of 8 June 2018)

McDonald's Corporation (McDonald's), incorporated on December 21, 1964, operates and franchises McDonald's restaurants. The Company's restaurants serve a locally relevant menu of food and drinks sold at various price points in over 100 countries. The Company's segments include U.S., International Lead Markets, High Growth Markets and Foundational Markets and Corporate. McDonald's franchised restaurants are owned and operated under various structures, including conventional franchise, developmental license or affiliate. The Company is primarily a franchisor. Under a conventional franchise arrangement, the Company owns the land and building or secures a long-term lease for the restaurant location and the franchisee pays for equipment, signs, seating and decor.

The U.S. segment focuses on offering a platform for authentic ingredients that allows customers to customize their sandwiches. Its High Growth Markets segment includes its operations in markets, such as China, Italy, Korea, Poland, Russia, Spain, Switzerland, the Netherlands and related markets. The International Lead markets segment includes the Company's operations in various markets, such as Australia, Canada, France, Germany, the United Kingdom and related markets. McDonald's High Growth markets are focused on creating customer excitement through menu, promotions and value, and implementing a digital strategy with specific mobile solutions and actions. The Foundational markets and Corporate segment is engaged in operating restaurants and increasing convenience to customers, including through drive-thru and delivery.

Annual Report

(Source: McDonald's 2017 Annual Report)

Liquidity

According to 2017 annual report, McDonald's has significant operations outside the U.S. where they earn about 60% of the operating income. The total cash and equivalents held by their foreign subsidiaries totalled approximately \$1.5 billion as of December 31st, 2017. As

a result of the Tax Act², McDonald's expects an incremental cash flow benefit of \$400 to \$500 million annually due to a reduction of the U.S. corporate tax rate from 35% to 21% partly offset by a \$1.2 billion 2017 tax cost on deemed repatriation of foreign earnings that will be paid over the next 8 years. In the future, should they require more capital to fund activities in the U.S. than is generated by their domestic operations and is available through the issuance of domestic debt, they could elect to repatriate a greater portion of future periods' earnings from foreign jurisdictions.

Business Description

- U.S. - the Company's largest segment.
- International Lead Markets - established markets including Australia, Canada, France, Germany, the U.K. and related markets.
- High Growth Markets - markets that McDonald's believes have relatively higher restaurant expansion and franchising potential including China, Italy, Korea, the Netherlands, Poland, Russia, Spain, Switzerland and related markets.
- Foundational Markets & Corporate - the remaining markets in the McDonald's system, most of which operate under a largely franchised model.

Income Tax

- McDonald's operates within multiple taxing jurisdictions and is subject to audit in these jurisdictions.
- In 2015, the Internal Revenue Service ("IRS") issued a Revenue Agent Report ("RAR") that included certain disagreed transfer pricing adjustments related to company's U.S. Federal Income tax returns for 2009 and 2010.
 - In 2017, the IRS completed its examination of the Company's U.S. Federal income tax returns for 2011 and 2012. As of December 31st, 2017, McDonald's is waiting for an open conference³ with IRS Appeals.
- In December 2015, the European Commission opened a formal investigation directly with the Luxembourg government to examine whether decisions by the tax authorities in Luxembourg with regard to the corporate income tax paid by certain of their subsidiaries comply with European Union rules on state aid. In 2017 and 2016, the company increased the balance of unrecognized tax benefits related to tax positions taken in prior years by \$144 million and \$150 million, respectively. These increases primarily resulted from the evaluation of new information during the progression of tax audits in multiple foreign tax jurisdictions.

² It refers to « An Act to provide for reconciliation pursuant to titles II and V of the concurrent resolution of the budget for fiscal year 2018 », December 22, 2017.

³ Open conference refers to a hearing.

Financial Information for Year ending December 31st, 2017:

(Source: Fortune 500)

Key Financials (Last Fiscal Year)	\$ millions	% change (from previous fiscal year)
Revenues (\$M)	\$22,820	-7.3%
Profits (\$M)	\$5,192.3	10.8%
Assets (\$M)	\$33,804	
Total Stockholder Equity (\$M)	\$-3,268	
Market Value — as of March 29, 2018 (\$M)	\$124,244	

Effective Income Tax Rate (EITR):

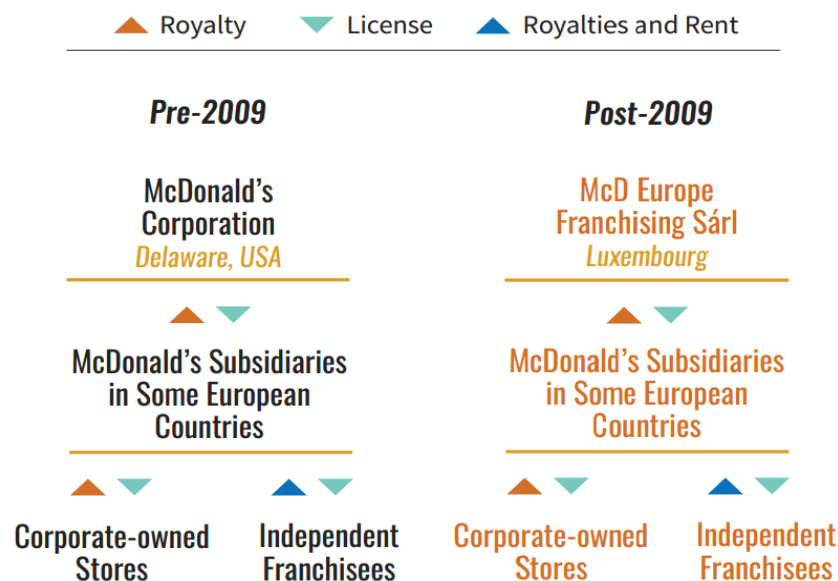
Source: 2017 McDonald's Annual Report

	<i>2017</i>	<i>2016</i>	<i>2015</i>
Statutory U.S. federal income tax rate	35.0%	35.0%	35.0%
State income taxes, net of related federal income tax benefit	1.2	1.5	1.6
Foreign income taxed at different rates	(4.6)	(6.5)	(4.9)
Transition tax	13.7	-	-
US net deferred tax liability remeasurement	(6.0)	-	-
Cash repatriation	0.3	-	(2.3)
Other, net	(0.2)	1.7	1.5
Effective income tax rates	39.4%	31.7%	30.9%

Documents/Articles on Taxation

Source: International Business Times:

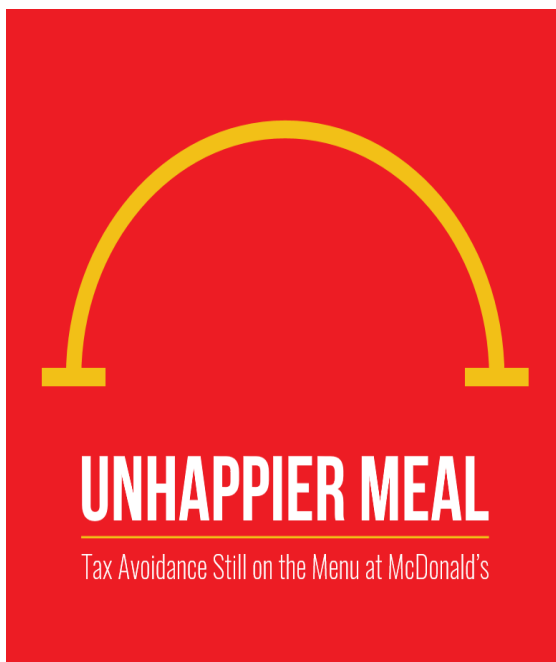
- In 2015, a coalition of European and American trade unions, known as the EPSU, alleged that from 2009 to 2013, McDonald's avoided paying \$1.2B in taxes to Europe following establishing its operations in Luxembourg. As a result of these allegations, in December of 2015, the European Commission Directorate-General for Competition launched an investigation into the dealings between McDonalds and Luxembourg.



- Prior to 2009, the company's stores' royalty revenue would be sent to Delaware, where McDonald's is registered; under this structure, the company's revenue was exposed to U.S. corporate taxes; however, in 2009, McDonald's shifted its revenue stream to a Luxembourg-based subsidiary called "McD Europe Franchising Sàrl." The company changed its corporate structure to take advantage of Luxembourg's generous corporate tax code; this tax code allowed for 80 percent tax exemptions on royalties.

Source: World Bulletin:

- In May 2018, a coalition of top American and European unions, known as the EPSU, published a report titled "Unhappier meal"; the report claimed that McDonald's had embarked on further aggressive tax practices following an EU crackdown on tax evasion by multinational corporations.



- The EPSU consists of three major unions; the European Federation of Trade Unions in the Food, Agriculture and Tourism sectors, the European Federation of Public Service Unions, and the Service Employees International Union -US based union.
- The report slammed McDonald's continued tax-evasion practices since the EU probe by emphasizing that the company's new business model takes advantage of post-Brexit U.K.

According to the EPSU report, McDonald's took the steps below to restructure its business model following EU crackdown on unlawful tax-evading practices:

I. The company “**relocated** its international tax base from Luxembourg to the United Kingdom;

II. **Transferred** the headquarters of McD Europe Franchising Sàrl from Luxembourg to Delaware, in the United States, a jurisdiction with very limited disclosure requirements;

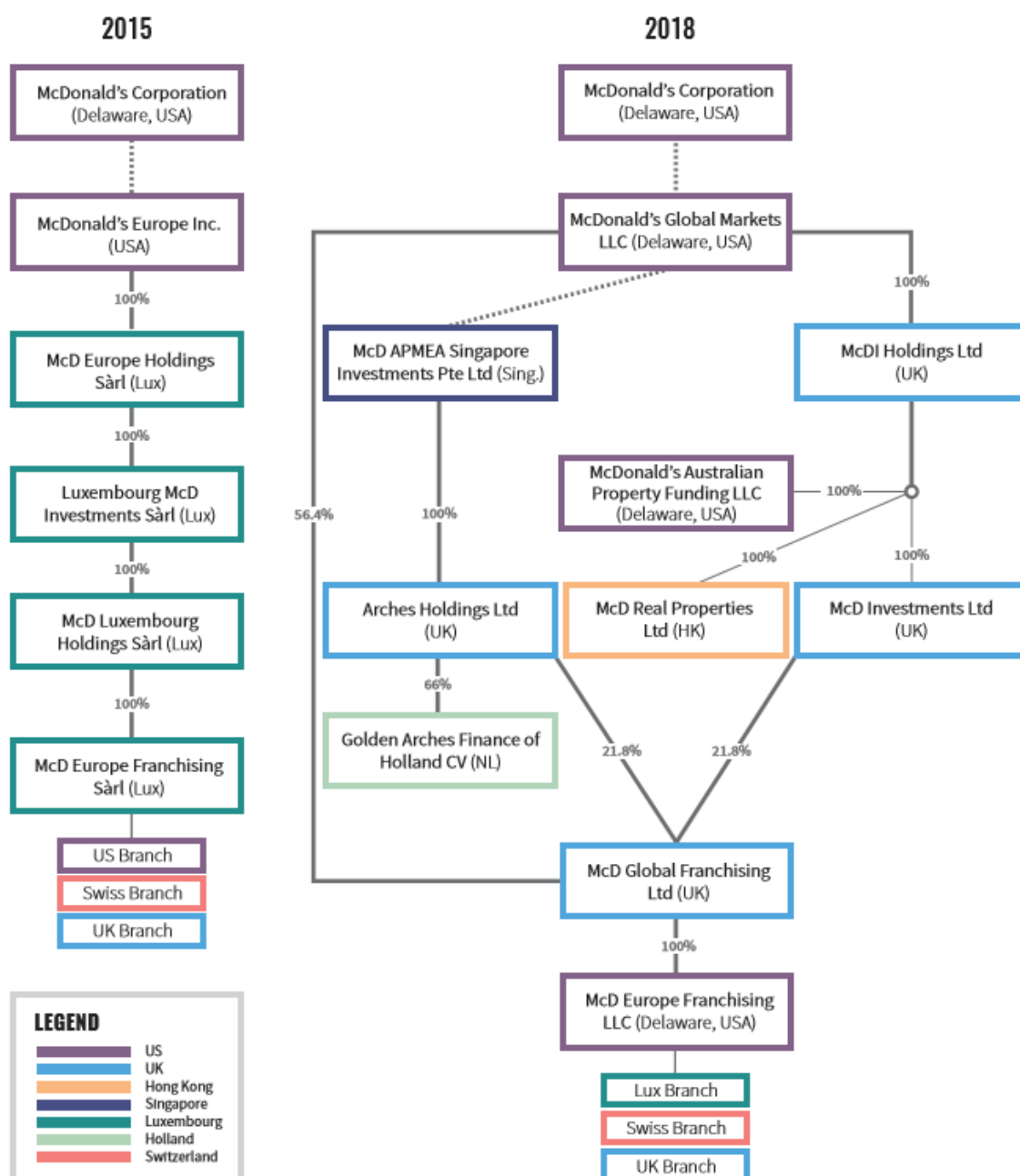
III. **Interposed** a range of subsidiaries in multiple jurisdictions between the newly named McD Europe Franchising LLC and its holding subsidiaries with the effect of reducing the level of transparency and information available in McDonald's public filings; and

IV. **Continues** to rely on multiple subsidiaries or related companies in countries listed on the European Union's grey list of non-cooperative jurisdictions including the Cayman Islands, Bermuda and Hong Kong, and partnering with other companies that similarly rely on such jurisdictions including in Guernsey for McDonald's Nordic restaurants and in the British Virgin Islands and the Cayman Islands for McDonald's Chinese restaurants.”

The report points out that McDonald's new corporate structure "inhibits public scrutiny"; the new entities have no or minimal required public financial disclosures, including paid and owed taxes. Moreover, the decision to relocate to U.K. following the Brexit referendum raises the concern of McDonald's attempting to "minimize any oversight by the European Commission".

FIGURE C

McDonald's Intellectual Property Holding Structure in Europe



According to the report, the company's "complex ownership structure of these entities, and the shift in headquarters from Luxembourg to Delaware, have radically reduced the level of transparency and information available in McDonald's public filings."

In addition, the report cites the following factors in revealing the company's new un-transparent corporate structure;

- "The name of McDonald's new international tax base in the U.K. is not disclosed in public filings;
- The new entities established in the U.K. have not made filings and disclosures in the U.K. corporate registry that allow for independent verification of McDonald's new arrangements for royalties, intellectual property, and taxes;
- A U.K. branch of McD Europe Franchising LLC was also established in 2016. This new U.K. branch describes its type of business as "including but not limited to the management of franchise rights."
- This U.K. Branch of a Delaware company may be the entity responsible for managing McDonald's franchise rights in Europe. However, this entity is yet to file any financial statements that would allow verification of its role in receiving the billions in euros of royalties received by its predecessor companies."

(Source: 2018 EPSU Report)

Sources:

Worldbulletin/Newsdesk. "McDonald's slammed for post-Brexit tax moves". 14th March 2018. Link: <http://www.worldbulletin.net/todays-news/202058/mcdonalds-slammed-for-post-brexit-tax-moves>

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Reuters Company Profile. <https://www.reuters.com/finance/stocks/company-profile/MCD>

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