TaxWatch
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Ted Price
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Dear Mr Price,

On Tuesday 19th November, Mr Steve Hatch, Facebook's Director for the UK and Ireland, was interviewed by Amol Rajan for the BBC's 10 O'Clock News. In that interview Mr Hatch was asked why Facebook's profit margins were so low in the UK compared to the rest of the world, and it was put to him that profits were being artificially deflated to avoid tax liabilities in the UK. Mr Hatch answered that Facebook paid tax in line with the current rules, which taxed companies dependent on where value is created. Specifically Mr Hatch went on to say this meant where things were built, made and generated.

The argument suggests that Facebook has a low profit margin in the UK because profits which arise from the company's sales in the UK are booked in the United States, where most of Facebook's staff and assets are located. Although it was not included in the televised interview, in his follow-up piece on the BBC website Mr Rajan confirms that Mr Hatch said that Facebook pays the majority of its tax in the United States.[1]

The standard mechanism for this to occur under the current system of international taxation would be for Facebook subsidiaries operating in the UK and Europe to make payments to their US resident parent companies for the use of Facebook's IP and for other services performed by Facebook employees in the US. This would increase costs in Europe, diminishing taxable profit, but increase profits in the US as the companies receiving these payments would make a profit on the goods and services provided to their subsidiaries in the normal way.

An analysis of the Facebook annual accounts for 2018 demonstrates that Mr Hatch's assertion does not appear to be true.

The federal tax rate in the United States is currently 21%. On top of that US states charge an additional rate. This is 8% in the state of California. If Facebook made the bulk of its profits in the United States we would expect its effective tax rate to be above 21%. However, Facebook's 2018 annual accounts state that the company's global effective tax rate was just 12%. The reason for this

1 https://www.bbc.co.uk/news/entertainment-arts-50479568

is because Facebook declared 65% of its pre-tax profits outside of the United States, on which it paid an effective tax rate of just 6%.

There is no major market economy in the developed world that has a corporate income tax rate in single digits. Weighted by GDP, Europe’s average corporate tax rate is 25%.

The evidence suggests that Facebook is not sending revenues made in Europe and elsewhere to the US, where it is subject to tax, but instead moving them into tax havens. This appears to be the only credible explanation for the low effective tax rates declared year-on-year by the company.

With that in mind, I would like to invite you to set the record straight, and to put on record the jurisdiction in which Facebook declared the majority of its profits from non-US operations in 2018.

It would also be valuable if you could describe what activities Facebook carried out in that jurisdiction and in particular, what did the company build, make, or create in that jurisdiction.

Given Mr Hatch’s answer to the BBC, I do believe that the British public deserves an honest answer to this important question.

Yours faithfully,

George Turner

Director

TaxWatch

C.C.

Steve Hatch Director, UK and Ireland

Sir Nicholas Clegg, Director, Global Affairs