

'Understanding Transfer Pricing and its role in Multinational Corporation subsidiary revenue and tax reporting: the changing behaviour of MNCs around tax planning '

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for the degree of

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I certify that the dissertation entitled:

'Understanding Transfer Pricing and its role in Multinational Corporation subsidiary revenue and tax reporting: the changing behaviour of MNCs around tax planning '

submitted for the degree of **MBA International Business Management** is the result of my own work and that where reference is made to the work of others, due acknowledgment is given.

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Dedication

To my wife Tricia and my children, Ella, Samuel and Max.

Acknowledgements

I would like to acknowledge the support of my wife Tricia, who has had to work hard to support me and cover the many times that I have been unavailable due to my commitments to the MBA programme over the past two years. Thank you.

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Abstract

This research assesses the practice of Transfer Pricing and how Multinational companies use the method in relation to the subsidiary level profit and tax reporting. In addition, the study examines why the practice has been important for Multinationals historically while, in parallel, understanding the impact of the practice on the company itself in particular in respect of reputational damage for perceived tax avoidance. The study also looks at the potential for alternative approaches and how the OECD is bringing tighter control to practice via their BEPS programme. The research followed an Interpretivist philosophy and employs a qualitative methodology. The methodology is best described as a qualitative mixed method research approach using a combination of grounded theory and document analysis methodologies. Data is gathered via semi-structured one-on-one interviews with a range of tax expert stakeholders who themselves work in Multinational organisations; a secondary source of data is attained from existing publicly available articles and documents pertaining to high profile tax avoidance cases. The data gathered is analysed using a variant of a classical grounded theory qualitative data coding process to produce a set of results which take the form of a list of impact areas and establish patterns on how companies behave in relation to each impact area. The findings show that the tax environment is complex, has many stakeholder groups, has come under great scrutiny in recent times and has become a more regulatory landscape. The results from the interview phase of the research indicate that companies have shifted their emphasis from using transfer pricing and its tax structures as a tax avoidance strategy to ensuring that they are not only compliant with local regulations but also being seen to be paying a fair amount of tax from a public reputation protection perspective. This juxtaposes the data findings from the document analysis which highlights the aggressive tax strategies employed by well-known brands. This research does not attempt to draw theory from the data, but recommendations are given for further academic research and practice.

Glossary of Terms

ALP	Arm's Length Principle
APA	Advanced Pricing Agreement
BEPS	Base Erosion Profit Shifting
CbC	Country by Country Reporting
CCCTB	Common Consolidated Corporate Tax Base
CSR	Corporate Social Responsibility
DTA	Double Tax Agreements
ETR	Effective Tax Rate
EU	European Union
FA	Formula Apportionment
FTSE	Financial Times Stock Exchange
FDI	Foreign Direct Investment
GAFA	Google, Apple, Facebook, Amazon
GDP	Gross Domestic Product
GDPR	General Data Protection Regulation
MAP	Mutual Agreement Procedure
MNC	Multinational Company
OECD	Organisation for Economic Co-Operation and Development
PE	Permanent Establishment
TP	Transfer Pricing
UNCTAD	United Nations Conference on Trade and Development
WTO	World Trade Organisation

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1 Introduction

1.1 Overview

The subject under consideration for this dissertation relates to how Multinational Companies (MNCs) approach their tax reporting commitments using the mechanism known as Transfer Pricing (TP).

Of particular interest to the research, is how do MNCs use TP as a management system that does not promote a double taxation problem in multiple territories for corporations while at the same time, not allowing for tax evasion, manipulation or non-compliance which can have a significant social relevance (Cools et al., 2008).

Through the research acquired from literature review and the collection and analysis of supporting data, I aim to critically examine the background leading to TP becoming the generally accepted international standard which guides MNCs in the tax reporting in respect of their subsidiary locations (Brem and Tucha, 2006). Any differences between how companies in different geographic regions (US, EU and Asia) use TP is also considered as part of the research context.

Another aim of the dissertation research is to consider evidence around whether TP is truly an equitable model and to examine negative perceptions around its usage that have been highlighted by authors such as Sikka & Wilmott (2010).

Of vital importance to the balance of the research will be the review of the alternative to the standard TP approach endorsed by the Organisation for Economic Co-operation and Development (OECD) to a different standard called Unitary Tax (Morgan, 2016). Morgan (2016) believes that this approach will resolve issues with the current model and could emerge as a new standard for corporate taxation.

Finally, the research aims to review the impacts on MNCs of the OECD BEPS project and other government regulation aimed at reducing aggressive tax planning strategies by MNCs.

1.2 Research Purpose

The primary research purpose of this dissertation is to provide the parent company of MNCs with a balanced review of the TP mechanism which is an integral part of the Base Erosion Profit Shifting (BEPS) practice which has been long associated with aggressive tax planning by MNCs (van Apeldoorn, 2018). Of particular interest, is the usage of TP to support MNC decision making around the parent company's potential international tax approach in relation to the reporting of revenue in a subsidiary's jurisdiction. The research also aims to highlight the changes in MNC behaviour in an increased regulatory environment with the advent of the Digital Economy.

1.3 Significance of the Study

This study has the potential to be a crucial reference document for those who are charged with determining a compliant international tax approach to subsidiary revenue reporting for MNCs. In turn, this may have a material effect on how parent companies in the MNC scenario choose to conduct their tax reporting. Of particular importance is how well MNC tax strategies are perceived to be ethical and compliant by tax authorities and the public in the burgeoning Digital Economy.

1.4 Research Objective

In order to support the research purpose, a cohort of experts in the MNC taxation arena needed to be identified and their views regarding the use of TP had to be evaluated. Three key research objectives were established to assist in this regard and are set out below:

1.4.1 *First Objective*

To establish what have been the determining factors for parent MNCs implementing TP as their taxation strategy for their subsidiary revenue & profit reporting.

The identified cohort will be able to give a real-world, up to date narrative as to why is it that their respective company is using TP as a device for their international tax management.

1.4.2 *Second Objective*

To review the perceived equitability of the TP method, the potential reputational risk its use could cause to an MNC employing the device and how MNCs are responding to this risk.

This objective is important because the study wants to understand from the respondents how crucial is brand and company reputation to leaders in the context of how MNCs are perceived to report their tax and pay their fair share in a given region in which they operate.

1.4.3 *Third Objective*

To evaluate viable alternative methods to TP and to review the impact on MNCs as a result of increased OECD and government regulations in respect of MNCs who employ TP as an aggressive tax strategy.

Here, the study seeks confirmation around the awareness of the changing regulatory landscape and whether the MNCs that the cohort represents have adhered to those regulations and have they changed their practices accordingly.

1.5 Structure of the Study

This dissertation is comprised of five sections. This first section looked at the overall structure of the dissertation, the research purpose, the research objectives and explained the significance of the study. The second section contains the literature review, while the third section examines the research design and the use of a mixed methodology which involved the grounded theory influenced inductive approach combined with document analysis. This presented itself as being the most viable approach as the study progressed. The use of interviews as a data collection method and analysis by thematic coding were logical choices when the objectives, philosophy, approach and access to data sources were considered as a whole in the primary research. In addition, to avoid possible unconscious bias arising from researcher and interviewees all working for MNCs, document analysis based upon case study data from prominent controversies involving Apple and Starbucks was included as these cases provided many important elements for the themes persisting throughout the study.

In the fourth section, the data generated by the primary research is presented and its findings are evaluated. In the fifth and final section the thesis concludes with a summary of implications of each research objective and the implications for practice, policy and recommendations for further areas of study.

In the next section, the literature review will examine the studies that cover the research objectives and the overall research purpose. The aim of the literature review is to generate a body of theory, and that a number of concepts from this body of theory can be extracted and applied in the conceptual framework. The conceptual framework will inform the structure of the research methodology and design in part three.

2 Literature Review

2.1 Overview

The aim of this literature review is to explore and assess the literature that relates to the research objectives outlined in part one above. This section of the dissertation seeks to find out perspectives around the significance of the area of tax reporting in the global economy where MNC presence is widespread and how those companies seek to minimise their tax liability. As a natural follow-on, the literature review also aims to explore how those activities of MNCs, using legal structures, impacts on business/industry, the local authorities in both parent and subsidiary country, and , importantly how these practices affect society and the environment. Finally, the review aims to provide analysis of public sentiment on the profit shifting practice and how that can have a reputational impact on an MNC.

The following sections will form the structure of this literature review:

1. MNC tax reporting in the modern business environment
2. Considerations for MNCs using TP as a profit shifting device
3. The effect of BEPS on society and public perception
4. An alternative approach to TP
5. Developments on BEPS by the OECD

2.2 MNC tax reporting in the modern business environment

The nature of economic activity has become ever more global in nature with the role of the MNC being an integral part of that growth with Albertus et al.(2018) noting that foreign operations of US multinationals are an increasingly large and important segment of economic activity, amounting to roughly \$7 trillion of revenue in 2015. Feldstein et al. (1995) suggest that the rise of MNC firms is based on the idea that such enterprises possess assets and skills that can be exploited profitably by producing in many markets. Where investment in a local market occurs, the supporting local finance structures need to be implemented which includes benefits that accrue from reporting profits in the local tax jurisdiction

(Feldstein et al.,1995). Accordingly, the responsibility for and power to tax remains at a state (nation) level and where Foreign Direct Investment (FDI) occurs, a key problem that this leads to for those MNCs operating in multiple territories is the potential for double taxation to exist. Double taxation is where revenue accrued is potentially subject to corporate income taxation in the country of the MNC parent in addition to the country of the MNC subsidiary where the revenue originated from. This prohibitive scenario could discourage international business activity and hence, most countries employ bi-lateral tax treaties based upon OECD convention to avoid this (Rixen, 2010).

Conversely, the adoption of such Double Tax Agreements (DTAs) has meant the need to reconcile competing domestic tax laws which has led to a rising importance of international tax law. By nature, this is a complex landscape with the potential for many loopholes to exist. Tax rate differences further provide multinationals with incentives to re-allocate accounting profits internationally so as to reduce their worldwide corporate tax liability (Huizinga and Laeven, 2006). Devos (2015) contends that this provides MNCs with opportunities to significantly minimize their tax liability by moving their profits to these scenarios. This assertion is supported by Cobham and Janský (2019) who cite that as much as a quarter of the global profits of US multinationals may be shifted to locations other than where the underlying real activity takes place. In 2012 alone, this amounted to almost 1% of the world's Gross Domestic Product (GDP) equating to an estimated \$660 billion (Cobham and Janský, 2019). Furthermore, Hines (1994) indicates that the capability for MNCs to conduct such tax treatment practices can be a significant determinant as to whether parent MNCs chose for their foreign subsidiaries to import technology from the parent country and thus pay royalties to the parent or whether the parent company decides to conduct R & D activity in their subsidiary and realise value / profit in that more corporate tax-friendly location.

Overall, this practice of recognising profits in more favourable tax jurisdictions has become known as Base Erosion and Profit Shifting (BEPS) but is done legally within the respective legislation and thereby classified as Tax avoidance instead of Tax evasion.

One of the primary devices that serves the BEPS practice is a method called TP which is a mechanism to govern transactions among the divisions of a firm. In the MNC context, with firms operating in a multiple tax jurisdictions, TP serves more than internal transactions for management accounting purposes ; in addition, it also determines the tax liability of subsidiaries in different countries and ultimately, the overall tax liability of the MNC (Choe and Hyde, 2004) . Therefore, the parent MNC has some important points to consider when making the decision around using TP as the method to support their transaction processing with their subsidiary and their subsequent tax & profit reporting and this is discussed in the next section.

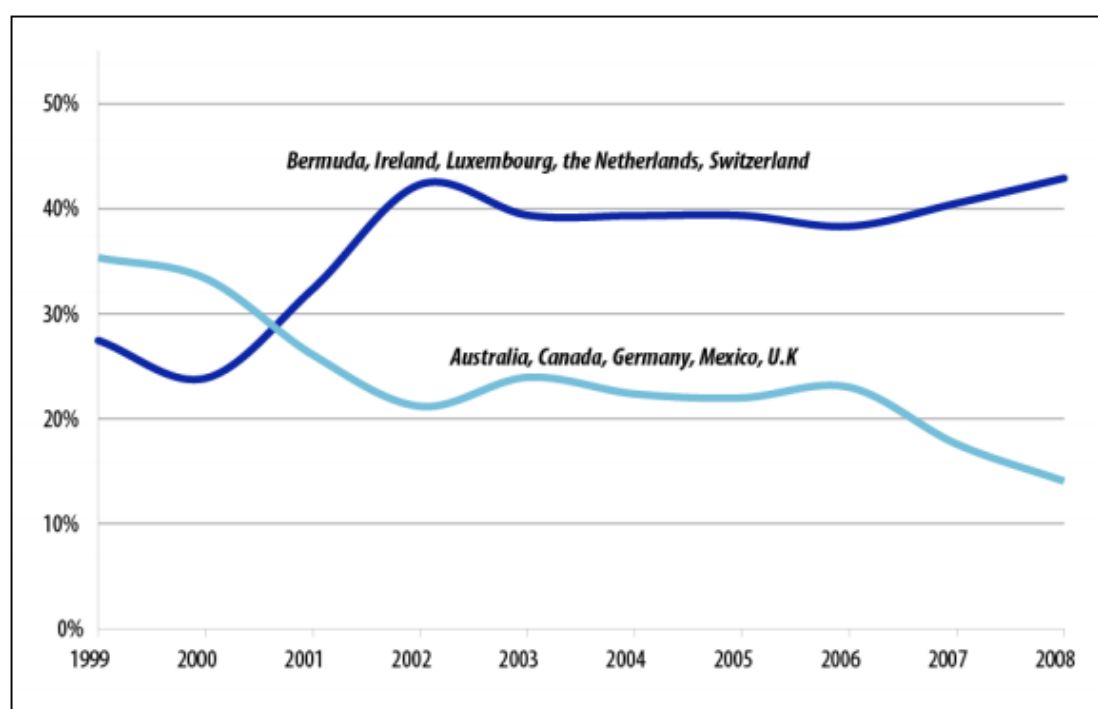
2.3 Considerations for MNCs using TP as a profit shifting device

Shareholders in MNCs expect the enterprise to maximize global profits and, to achieve this result, MNCs analyse the differences in policies & tax rates across jurisdictions and ultimately leverage those differences to minimize their effective global tax burden (Cristea & Nguyen, 2013). From the research carried out thus far and indeed from my own direct experience over the past 5 years, the most popular method of taxation/profit reporting employed by MNCs in relation to their subsidiary businesses is TP. This is an approach that has been endorsed by OECD to the extent that this body has issued various guidelines around its use (OECD, 2011).

The practice has been described as the setting of the price charged for a cross-border transfer of goods, assets, rights, money and services etc., between one part of an organisation and another part of the same organisation, typically a parent company and its subsidiaries (Cravens, 1997). TP is based upon an internationally agreed standard, enshrined in the OECD articles, called the "Arm's Length Principle" (ALP) which states that the prices that the Multinational Corporation transfers goods or services to its subsidiary should be equivalent to those charged between independent trading parties dealing with each other at arm's length in otherwise similar circumstances (Gupta, 2012). Al-Eryani et al. (1990) identified two types of TP ; Market-based which uses prevailing market prices for exchanging products or services within the corporate family or Non-Market based which includes different TP methods such as negotiated prices or cost-based prices. It is the Non-Market approach that was found to be the

preferred model amongst US-based multinationals with 65% of the cohort surveyed reporting that they used one of the Non-Market methods (Al-Eryani et al., 1990).

Gupta (2012) also indicates that the reason why TP has been historically important to MNCs is because TP can be legally manipulated to reduce an organisation's tax liability by shifting profits from high tax to lower tax jurisdictions. An example of this trend can be seen in Figure 1 which illustrates that, in 2008, American MNCs reported earning 43% of their overseas profits in a tax preferred country group comprised of Bermuda, Ireland, Luxembourg, the Netherlands, and Switzerland (Keightley, 2013). Furthermore, Kaye (2014) suggests that US MNCs accumulated \$1.95 trillion profits outside the US in 2013 alone.



Source: U.S. Department of Commerce, Bureau of Economic Analysis, *U.S. Direct Investment Abroad: Operations of U.S. Parent Companies and Their Foreign Affiliates*.

Notes: Profits displayed are for majority-owned nonbank foreign affiliates of nonbank U.S. parent companies.

Figure 1. Profits of American MNCs in selected country groups as a percentage of total profits reported abroad by American MNCs (Keightley, 2013 from US Department of Commerce).

From a US multinational firm perspective, recognising these profits offshore allows them to legally accomplish tax avoidance because of favourable tax credits

mechanisms in place which allows profit shifting from high-tax to low-tax jurisdictions using a variety of techniques, such as shifting debt to high-tax jurisdictions in addition to the transfer pricing strategy (Gravelle, 2015). This means that US tax liability is deferred, possibly indefinitely, until income is repatriated to the U.S. parent as a dividend payment from the subsidiary (Hines and Hubbard, 1990).

One aspect that TP, and by extension, the practice of BEPS brings about is the potential need for business re-structuring and the costs associated with that. This may be dependent on the local tax authority determining whether the necessary business conditions have been created to constitute Permanent Establishment (PE) of a local MNC subsidiary, meaning a fixed place of business through which the business of an enterprise is wholly or partly carried on, and therefore to be subject to the full corporate tax implication in the subsidiary (Andreou, 2014). That overhead cost could significantly impact the fiscal benefits accrued by employing TP to avail of tax avoidance in the lower tax jurisdiction. Mitra et al (2009) discuss this risk in the context of the Indian market and how MNCs need to take care that their local subsidiary is performing some material, value add function and not merely a shell for profit processing in a low tax environment. In a similar vein, Azémar and Corcos (2008) find that wholly owned subsidiaries with a high capital investment, high R & D centric position offer parent firms the greatest ability to manipulate transfer pricing, benefitting from the cumulation of, firstly, their ability to fully coordinate pricing and production across borders and, secondly, their lower probability to be sanctioned since the market price of highly differentiated products is difficult to establish. These findings have interesting implications since countries with low corporate tax rates frequently use taxes to attract foreign investment in order to benefit from technology transfer or spill-overs.

TP has historically been seen as a positive device for large MNCs, however, there are indications that for smaller companies or companies in distress, they are less likely to look to shift income or profit from one jurisdiction to another due to potential costs associated with the practice (Conover & Nichols, 2000). This theory is supported by evidence produced by Lohse & Riedel (2013) who found that, where regimes have strict transfer pricing documentation requirements

(which includes the management and filing of local country as well as corporate level tax returns) as illustrated in table 1 below, there was an average of a 50% reduction in profit shifting behaviour.

	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Austria	.	.	2	2	2	2	2	2	2	2	2
Belgium	2	2	2	2	2	2	2	2	2	2	2
Bulgaria	1	1	1	1	1	1	1	1	.	.	2
Croatia	1	1	1	1	1	1	.	.	.	.	3
Czech Republic	.	.	2	2	2	2	2	2	2	2	2
Denmark	.	.	3	3	3	3	3	3	3	3	3
Estonia	.	.	.	.	.	.	.	.	3	3	3
Finland	.	.	.	.	2	2	2	2	3	3	3
France	.	.	2	2	2	2	2	2	2	2	2
Germany	.	.	2	2	3	3	3	3	3	3	3
Hungary	.	.	2	2	3	3	3	3	3	3	3
Ireland	1	1	1	1	1	1	1	1	1	1	1
Italy	.	.	2	2	2	2	2	2	2	2	2
Latvia	.	.	.	.	.	.	.	.	2	2	2
Luxembourg	.	.	.	.	.	.	2	2	2	2	2
Netherlands	1	1	1	3	3	3	3	3	3	3	3
Norway	.	.	.	.	.	2	2	2	2	3	3
Poland	.	.	3	3	3	3	3	3	3	3	3
Portugal	1	1	1	3	3	3	3	3	3	3	3
Romania	.	.	.	.	2	2	2	2	3	3	3
Slovak Republic	.	.	.	.	.	.	2	2	2	2	3
Spain	.	.	2	2	2	2	2	2	3	3	3
Sweden	.	.	2	2	2	2	2	2	3	3	3
Switzerland	.	.	2	2	2	2	2	2	2	2	2
Ukraine	1	1	1	1	1	1	1	1	1	1	1
United Kingdom	3	3	3	3	3	3	3	3	3	3	3

Notes: The table indicates the existence and scope of national transfer price documentation requirements. Category 1 comprises countries without or with very limited transfer price legislations. Category 2 indicates countries where formal transfer pricing legislations are still weak but transfer price documentation is nevertheless regularly required in practice. Category 3 comprises countries which explicitly introduced transfer price documentation requirements into their national tax law and specified that documentation must either be available upon request or has to be handed in directly with the firm's annual tax return. '.' indicates that we were unable to obtain concise information on the transfer price documentation requirements.

Table 1. Grading of Transfer Pricing Documentation Requirements by country 1999-2009 (Lohse & Riedel, 2013)

The benefits of using TP as part of a BEPS strategy for the parent company in a Multinational Company scenario are clearly understood. However, there are wider considerations and concerns as to what the subsequent effects are for business and society at large in relation to how some companies use the TP method to support their aggressive tax strategies in subsidiary countries. Those concerns are coming under greater scrutiny in recent times and are discussed in the next section.

2.4 The effect of BEPS on society and public perception

A more general, societal impact of MNCs engaging in TP with a view to a BEPS approach is that the practice has contributed to a 'race to the bottom' for countries (even within the EU) over time meaning that there has been a domino effect of countries reducing their corporation tax rates to secure MNC business. Recent research from the European Parliament shows that many MNCs can pay up to 30 % less tax than domestic competitors (European Parliament, 2019). EU corporate tax rates, in terms of effective and statutory rates, are less than the US corporate tax rate of 35% across the board for all EU member states. This is illustrated in table 2 below where the Effective Tax Rate (ETR) has been taken from companies' published balance sheet data as a means of comparison (Janský, 2019).

Country	ETR (all)	Nominal rate
Italy	30%	31%
Greece	28%	24%
Spain	22%	30%
Slovakia	20%	21%
Germany	20%	30%
Denmark	19%	24%
Portugal	18%	24%
Romania	17%	16%
Poland	17%	19%
France	17%	33%
Malta**	16%	35%
Ireland	16%	13%
United Kingdom	15%	23%
Czech Rep.	15%	19%
Croatia	15%	20%
Belgium	14%	34%
Slovenia	14%	18%
Estonia	14%	21%
Sweden	13%	24%
Austria	13%	25%
Lithuania	12%	15%
Finland	12%	23%
Latvia	11%	15%
Netherlands	10%	25%
Cyprus*	10%	12%
Bulgaria	10%	10%
Hungary	8%	19%
Luxembourg	2%	29%

Table 2. ETR and nominal rates for the period from 2011 to 2015 for EU countries (Janský, 2019).

In social terms, such tax competition amongst EU member states in order to increase the attractiveness of the respective states as locations for FDI has raised concerns about a degradation of tax systems. Specifically, this concern centres around the potential impact to the redistributive value in country in terms of reduced tax revenues diminishing the state finances to support services and infrastructure in those respective territories (de Mooij and Ederveen, 2001).

This scenario is amplified beyond the EU borders with Janský and Prats (2015) arguing that, while tax revenues in OECD countries represent around 35% of their GDP, developing countries obtain, on average, only 13% of their GDP. The low amount of tax raised by developing countries can lead to a situation where governments cannot obtain the financial resources required to guarantee citizens' access to essential services such as healthcare, clean water, sanitation, and education. In turn, this can lead to governments to increase debt and aid levels (Janský and Prats, 2015).

These challenges reflect what Visser et al. (2006) call "the often ignored dilemma of companies pursuing conflicting strategic goals: in this case, trying to minimise tax payment on the one hand and claiming to be good corporate citizens on the other". Interestingly, it should be noted that Huseynov and Klamm (2012) suggest that MNCs with strong Corporate Social Responsibility (CSR) ethos that strategize to lower costs may be doing so not only for the benefit of shareholders, but also for the benefit of society. This is because such profitable firms are better positioned to participate in charitable giving, and accordingly, in some instances, it may be socially acceptable to reduce the tax payment to the government agency (Huseynov and Klamm, 2012).

In terms of the public's view of corporate tax avoidance, Hammar et al. (2009) observed that when it comes to taxes paid by companies, there is distrust around large corporations in relation to perceived tax evasion on corporate income tax. Their analysis indicated that if people trust the taxpayers (individuals or firms), they believe they pay their taxes (Hammar et al., 2009). Furthermore, Morgan (2016) points out that "public outrage is not created because MNCs break the law, but rather, because they do not need to break the law in order to pay little or no tax"

Public perception of the transfer pricing device and profit shifting in general leads Sikka and Willmott (2010) to contend that "Transfer pricing practices are responsive to opportunities for determining values in ways that are consequential for enhancing private gains, and thereby contributing to relative social impoverishment, by avoiding the payment of public taxes." This view is endorsed in subsequent findings by Fuest et al (2013) who talk about "the intensity of public debate" from the aggressive tax planning practices of high-profile multinational firms.

Austin and Wilson (2017) find evidence in support of managers in MNCs adjusting their firms' tax avoidance activities to avoid potential reputational costs however they question whether managers' concerns over reputational costs are justified since existing literature has yet to provide evidence that firms actually incur reputational costs as a result of tax avoidance. However, there is evidence to suggest that public scrutiny related to firms' tax avoidance activities can have a significant effect on MNC tax avoidance behaviour. This was seen in the UK where ActionAid International, a non-profit activist group, conducted an investigation to identify which Financial Times Stock Exchange (FTSE) 100 firms were not complying with UK rules requiring firms to disclose the full list of their subsidiaries, ActionAid petitioned the Companies House of the U.K. to enforce the disclosure rule. This pressure resulted in nearly 100 percent compliance with the disclosure requirement (Dyreng et al., 2014).

The concerns of MNCs around the area of reputational damage associated with perceived tax avoidance was previously identified by Ernst & Young (2011) who reported that 88% of tax executives in large companies (with annual revenues of more than US\$5 billion) had stated that managing tax risk and controversy had become of increasing importance to them. This sentiment was highlighted when Starbucks decided in December 2012, following a lot of negative publicity and political pressure, to pay U.K. tax authorities around 20 million pounds in taxes even though they had, legally, reported zero profits for UK tax purposes in that financial period (Fisher, 2014).

2.5 An alternative approach to Transfer Pricing

As described in the previous section, TP has the potential to be manipulated by MNCs to minimize tax liability. Morgan (2016) argues that the fundamentals of the

rules governing taxation for MNCs date back to the 1920s with the primary focus being on taxing each entity based on its reporting of income in that jurisdiction. However, the advancement of communication technology has radically transformed the potential for the geographical separation of administration from other aspects of business activity. Also, as globalization has advanced there have been changes to the structure of production and administration. Morgan proposes Unitary Taxation as a solution to the tax avoidance scenario described above. This is the concept of an international tax law that is universal and binding which is based upon treating the entire MNC as a single entity for tax purposes with a proportion of the profit allocated to individual states based on some universally agreed formula. The formula is constructed to represent real economic activity or presence in given localities (Morgan, 2016).

The method to support this concept is called Formula Apportionment (FA) which would lead to the harmonization of statutory corporate tax rates would eliminate the tax incentives for TP, reducing the need for complex TP regulation in order to allocate the corporate tax base across territories (Sørensen, 2003). Formula Apportionment is further explained by Devereux and Fuest (2010) as being a mechanism where the tax base would apportioned to Member States participating in a Common Consolidated Corporate Tax Base (CCCTB) agreement by using a formula based upon the distribution of companies' payroll, employees, assets & sales across those Member States. The formula would be consistent for all those Member States participating in the CCCTB agreement. It should be highlighted that the CCCTB is currently conceptual. It was conceived by the European Commission and how it could be implemented is under debate in the EU but not yet enforced amongst member states (de Wilde, 2017).

Ostensibly, Formula Apportionment compares favourably with TP as an equitable method of tax reporting however concerns remain that FA may be subject to profit shifting manipulation depending on how the formula is structured and that the apportionment formula needs to be agreed to by all Member States. This may prove problematic depending on the nature of MNC subsidiary activity in a given territory which would determine how the formula is weighted. For example, if the asset share of the weighting is important then a capital-intensive subsidiary would receive a large share of the tax based or, conversely, if apportionment is

heavily based on employment share then the labour-intensive subsidiary would receive the greater tax benefit (Bettendorf et al., 2011). Nielsen et.al (2001) also identify scenarios where the use of FA could actually result in a loss of tax revenue to the two countries, participating in an apportionment pact, who are involved in parent to subsidiary transactions.

2.6 Developments on BEPS by the OECD

As mentioned previously, the OECD are a key organisation in the global landscape of MNC tax guidelines. Following a meeting of G20 leaders in June 2012 which stressed the need for action against MNC profit shifting and tax avoidance (Fuest et al., 2013), the OECD subsequently published a report acknowledging that the aggressive BEPS based tax practices of many MNCs had raised serious compliance and fairness issues. These issues constituted a serious risk to tax revenues, tax sovereignty and tax fairness for OECD member countries and non-members alike (OECD, 2013).

Subsequently, as seen in Figure 2 below, the OECD initiated the development of a 15 point Action Plan on BEPS (OECD, 2019) with the goal being to provide detailed actions that governments can take which will reduce double non-taxation of corporate income, a situation where profit shifting gives rise to so-called "stateless" or "homeless" income and prevent the double taxation of income leading to a more coherent and transparent international tax system. A successful implementation requires widespread participation by G-20 and OECD member countries as well as non-member countries through coordination and information sharing between governments, with the potential amendments to over 3,000 existing tax treaties (Keightley & Stupak, 2015).

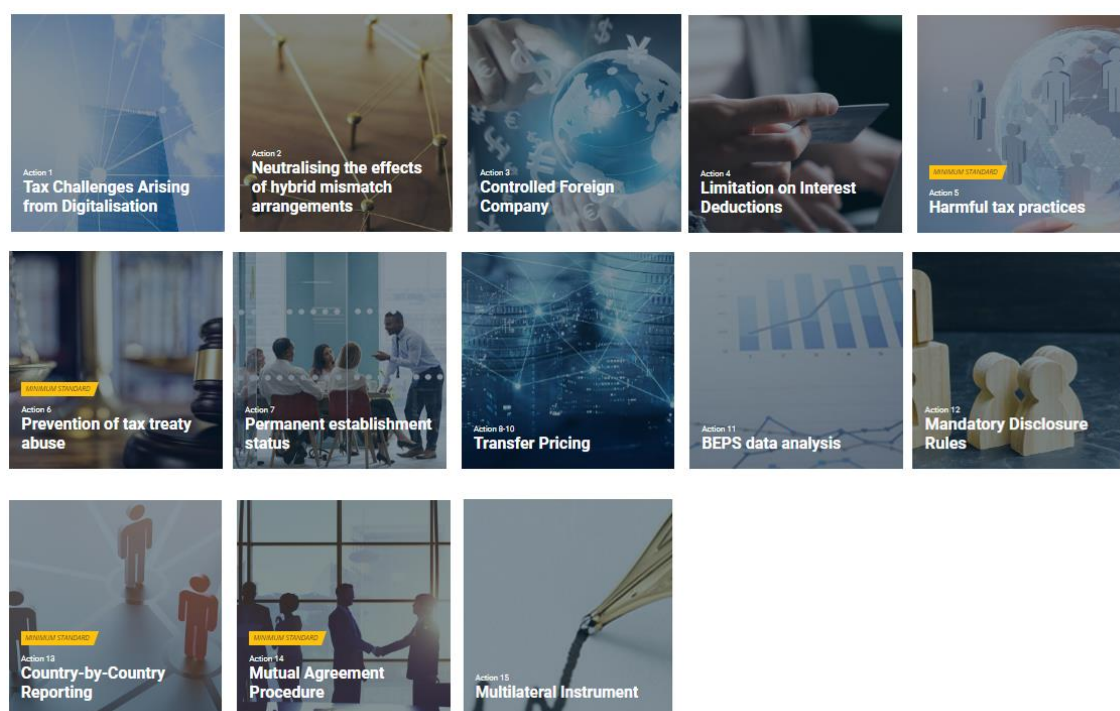


Figure 2. The 15 points of the OECD/G20 BEPS plan (www.oecd.org, OECD, 2019).

The actual OECD BEPS plan came into being in July 2016 with an initial participation of 82 members which currently sits at 129 members and goes by the name of the OECD/G20 Inclusive Framework. Since 2017, the OECD has begun to address the 4 minimum standard areas highlighted in yellow in figure 2 above.

Specifically, Action 5 Harmful Tax Practices which is concerned with the routine exchange of information between tax administrations around the international tax arrangements of MNCs operating in their respective tax jurisdictions to enable earlier detection of, and to deter, aggressive tax planning and non-compliance. Action 6 relates to Tax Treaty Abuse which requires tax authorities to include specific legislation to reduce or remove the opportunity for MNCs to engage in 'treaty shopping' which is the practice of claiming tax treaty benefits inappropriately which thereby deprives countries of tax revenue. Action 13 concerns Country-by-Country (CbC) reporting to be required within TP Documentation which contains information on the global spread of an MNC's activities, results and where it pays taxes thereby ensuring transparency and coherence in international tax. Finally, Action 14 is a mechanism called Mutual Agreement Procedure (MAP) and has been developed so that robust dispute resolution processes exist across jurisdictions to make sure that disputes are

resolved in a timely, efficient and effective manner to ensure predictability for companies (OECD, 2019).

The positive impact of the BEPS plan is highlighted in an analysis of reforms within the South African tax systems by Li and Pidduck (2019) who contend that the BEPS project has increased global consciousness about the significance of international tax accommodations among countries, elevating tax reform from 'closed-door' discussions amongst tax experts and policymakers to a level of political debates in the public eye. Furthermore, they indicate that South Africa has benefitted from that country's participation in the BEPS project in terms of shaping future tax reforms around how MNC tax is governed in that jurisdiction moving forward, citing the adoption of the Country-by-Country (CBC) element of the BEPS plan as an example (Li and Pidduck, 2019).

2.7 Research Context

Given my own direct experience of working for an American MNC at their regional operations centre based in Dublin, the intersection of that relationship is an important contextual reference to this study since the Irish corporate tax situation, in addition to the prevalence of US MNCs locating their European Headquarters in Ireland, is a recurring theme throughout the literature reviewed.

Although my own experience is with a US MNC, for context, it is worth reiterating that TP is not limited to the US and has become an international standard practice (Brem and Tucha, 2006). As discussed previously, typical US MNC behaviour has gravitated towards using TP as a means of selling products and recognizing revenue through a subsidiary in a lower corporate tax in order to minimize overall corporate tax liability (Contractor, 2016). Within the EU, similar behaviour patterns have been observed where parent companies are based in the UK and in France where there is clear evidence of profit shifting to low tax jurisdictions (Liu et al. 2017 ; Vicard, 2015). By contrast, where a parent company originates in Japan or China, these MNCs seem to prefer to re-patriate the group profits back to the home country despite the corporate rate of taxes potentially being higher in the home country of the parent (Eden et al. 2005 ; Pinto, 2012). A successful implementation of the OECD BEPS plan (OECD, 2019) should lead to

a reduction of these behavioural differences across regions around TP with even non-OECD members such as China, since its entry into the World Trade Organisation (WTO), leaning towards practices similar to those outlined in OECD guidelines (Pinto, 2012).

The other element for review is Ireland's position as a favourable tax location for MNCs to set up their headquarters. Historically, this came to the fore in the late '80s and early '90s when US MNCs, in particular, were attracted to invest in Ireland by a combination of a young, educated, English speaking workforce, pro-European governments, and, importantly, the low corporate tax regime (10-12.5%) which facilitated the benefit of using TP (Murphy, 2000). As illustrated in table 3 below, these favourable conditions led Ireland to be the world's leader in the export of Information and Communication Technology (ICT) services with a 12.6% share in 2014 (Stewart, 2018).

	Year	2000		(%) of world	
Table VI. Information and communication technology (ICT) services exports from main exporting countries for 2000 and 2014 (\$m)	Ireland	5,496	6.9	57,646	12.6
	India	4,647	5.8	55,666	12.2
	US	11,069	13.8	34,221	7.5
	Germany	5,246	6.6	29,398	6.4
	UK	7,155	8.9	20,968	4.6
	world total	80,000		457,710	
Source: Computer and information and communication sectors, UNCTAD handbook of statistics 2015, p. 264					

Table 3. ICT services exports for 2000 & 2014 (UNCTAD, 2015).

This table reflects the level of investment of the big US technology companies in Ireland and how they pass their sales and associated revenues and profits through the Irish tax jurisdiction. The most publicised example of this has been the Apple case , which illustrates various facets of the current TP situation in Ireland ; the benefits for the parent company (\$14.5 billion tax benefit over a ten year period) , a positive knock-on effect to the wider economy (6000 people employed in Ireland), the negative effect in terms of affecting Ireland's relationship with the EU due to Ireland's reluctance to pursue Apple on taxes due and, as a result of the dispute, the negative public perception and reputational damage that has accrued from the controversy (Wang, 2018).

2.8 Conceptual Framework

This section illustrates the Conceptual Framework framing my research. A Conceptual Framework can be interpreted as a network of interlinked concepts that together provide a comprehensive understanding of a topic by illustrating how the core topic pervades throughout the research paper, straddling the different areas of data collection via the literature review culminating in the assessment questions which underpin the core objectives of the dissertation Jabareen's (2009). I have leveraged the approach that Jabareen has suggested where he has defined a phased procedure for building a conceptual framework from mapping the data sources, extensive reading and categorisation of the data, the identification, naming and categorisation of the concepts leading to the synthesis and validation of the concepts. As it relates to this study, from the various data sources that I have identified and the associated reading done of those sources, I have established a number of interrelated concepts emerging from the literature review which relate to the overall research purpose.

The literary review illustrates key concepts such as the relationship between the level and nature of FDI and a parent MNC's profit reporting & taxation approach in their local subsidiary in addition to why MNCs have previously chosen the TP/BEPS approach as a means of reducing their tax liability. Furthermore, the literary review highlights how that behaviour has raised significant concerns for international trade bodies , governments & the public, examining alternative taxation strategies and culminating in understanding what the influential OECD is actively doing to help make the international corporate taxation landscape be more equitable. Bringing these issues together, I discuss how these concepts relate to the stated research objectives for the purpose of informing the research methodology phase.

2.8.1 First Objective

The first research objective focuses on understanding what motivates parent MNCs to use transfer pricing as their tax strategy to report their subsidiaries' revenue and profits. The literature reviewed in this area identifies two key

justifications to explain why the practice has become so integral for MNCs operating in multiple territories ; firstly, the need to remove or reduce the threat of double taxation in home and subsidiary jurisdictions (Rixen, 2010) and secondly, the desire to leverage preferential tax rate differences in subsidiary countries in order to reduce the overall worldwide parent corporation tax liability (Huizinga and Laeven, 2006; Devos , 2015; Cobham and Janský, 2019). In terms of the questions that relate to the employment of TP strategy, I am proposing to pose the subject matter expert interviewees who are familiar with international tax mechanisms from a number of MNCs the following questions:

- Does your company use TP as the international tax strategy for the reporting of revenue and profits from the subsidiary company to the parent company?
- What is the motivation for using TP as the tax strategy?
- What savings, in percentage or monetary terms, has the usage of TP given the company in terms of reducing its overall corporate tax liability?
- What overhead costs are incurred per annum in terms of maintaining the TP structure?

I have created these questions in order to relate to the objective in terms of establishing the level of TP usage and the motivation for its usage (Devos, 2015), the desire to minimize global corporate tax liability (Cristea and Nguyen, 2013), the potential savings (Kaye, 2014) & associated costs (Conover and Nichols, 2000). The subsequent comparative analysis of the results is intended to understand if the trend of the cohort population, who, although not necessarily executive level themselves, do influence or advise the tax strategy taken by their executives, and how these findings map to those trends identified in the literature review.

2.8.2 *Second Objective*

The second research objective considers the equitability of the TP mechanism and the potential for its usage to have a reputational risk on the parent MNC. As the literature clearly illustrates, equitability concerns exist where the nature of TP

activity of MNCs can degrade tax systems and in turn, that activity can impact the redistributive value in the subsidiary country around supporting essential services, such as healthcare, clean water and sanitation, and education (de Mooij and Ederveen, 2001; Janský and Prats, 2015). In addition, the potential reputational damage to those MNCs deemed to have aggressive tax strategies resulting from negative public perception has been clearly articulated in the review (Hammar et al., 2009; Fuest et al., 2013, Morgan, 2016). Accordingly, I have established the research questions relating to this objective as follows:

- How does the company view potential concerns around negative public perception that TP and profit shift equates to tax avoidance?
- Has the company tracked public, and, by extension, customer sentiment around potential poor publicity associated with perceived tax avoidance?

The intent is to gauge how seriously parent MNCs take the concerns around poor publicity and the potential loss of business associated with that. While there is still not strong literary evidence of reputational damage (Austin and Wilson, 2017), the literature shows that executives still expressed significant concerns about the potential for the damage to exist (Ernst and Young, 2011) to the extent that some companies will pay above their legal tax exposure to prevent or manage bad press (Fisher, 2014).

2.8.3 *Third Objective*

The third research objective considers an alternative to the TP strategy and the literature supports this consideration by identifying and evaluating the Formula Apportionment (FA) method as part of a Unitary Tax strategy which is a common, shared approach to corporation taxation across jurisdictions (Sørensen, 2003; Devereux and Fuest, 2010; Morgan, 2016). The review has also addressed (OECD, 2013; Keitghtley and Stupak, 2015) the secondary element of this objective by reviewing how the OECD & G20 are actively reacting to MNCs who abuse bi-lateral tax agreements to order to minimize their overall corporate tax liability

and how the OECD BEPS plan is positively influencing local tax legislation in member states (Li and Pidduck, 2019).

The interview questions in relation to this objective would read as follows:

- If you are not using TP, what alternative method is being used and why?
- How does this alternative method work in your organisation?
- How does senior leadership view the success of the alternative method?
- If you are using TP, are you aware of alternative methods?
- Would your organization consider adoption of such methods if it could improve your company's reputation through increased tax compliance?
- Are you aware of the OECD BEPS plan to address MNCs mis-using methods like TP in order to reduce corporate level tax liability?

The intent of this questioning is to understand what level of awareness that the research target cohort has around the alternative approach and remedial activity that is currently on-going in the whole area of international tax governance which has been clearly demonstrated during the literary review.

2.9 Conclusion

I have found that that the OECD based TP Guidelines, which originated in 1979 and have since, added many layers of complexities, remain the generally accepted international standard which guide MNCs in the tax reporting in respect of their subsidiary locations (Brem and Tucha, 2006).

These guidelines, based upon the ALP have a fundamental flaw as the principle assumes Multinational Corporation subsidiaries to be behave like independent entities in country when in fact, they are part of integrated structure within the parent Multinational Corporation. This, combined with the complexities of the international tax law, allows for tax avoidance to be legally manipulated (Picciotto, 2015).

The alternative, a Unitary Taxation approach based upon the Formula Apportionment (FA) method is considered by many in industry to be a more equitable method of taxation distribution which reduces the risk of MNC taxation

avoidance techniques (Quintard, 2010). This FA approach requires the creation of a CCCTB for member states to align to as the basis for formula-based distribution and this remains a stated goal of the EU (Fuest, 2008).

This chapter has provided a detailed examination of the literature that relates to the various aspects of how parent MNCs operate within the international tax landscape. The literature review has highlighted the usage behaviour around TP and BEPS, benefits, possible perception issues, alternatives and governance and compliance considerations.

The outcome of this literature review was the construction of a conceptual framework that highlighted the specific concepts that relate to the research purpose, and how they are interrelated. The following chapter will describe the research design that I have used for the dissertation, the theory that I have used to support it, and an evaluation of the methodology that I have employed to obtain the primary data.

3 Methodology and Research Design

3.1 Overview

This chapter outlines how the conceptual framework has influenced the selected approach to the research methodology. I have aimed to acquire primary data to analyse and support to the stated research objectives and to correlate to what was identified around TP during the literature review in relation to its use by MNCs (Cobham and Janský, 2019), equitability & reputational concerns (Austin and Wilson, 2017) and finally, alternatives & remediation to tax avoidance abuses (Keightley and Stupak, 2015).

I also explain the research strategy, in addition to the methods used to gather and analyse the primary data. After identifying a list of 8 respondents, who have detailed tax knowledge in the MNC arena, I have focussed on the use of interview as the means of objective data because an interviewee has the option of rejecting, or reformulating in their own terms, the questions posed, to introduce new questions, and to object to the interpretations given by the interviewer. This would be in contrast to a research subject choosing among the predetermined response alternatives of a standardised survey or a controlled, experimental set-up. (Kvale, 2003). I have also chosen to use document analysis as a second source of primary data based upon publicly available information in order to achieve a triangulation effect in order to checking the consistency of findings generated by the first method of data collection. This has ultimately resulted in my use of a qualitative specific form of mixed media research (Fidel, 2008).

3.2 Research Philosophy and Approach

Given that the nature of the TP means that its usage can be interpreted subjectively, in addition to the qualitative nature of the research data that underpins the dissertation, and my own particular interest in the topic, I have followed the phenomenological research paradigm as espoused by Thomas Groenewald (2004) who favoured the approach as means to restrict the researcher's own bias. In addition, the qualitative, interpretative nature of the research means the adoption of a phenomenological approach helps the

researcher collect data on the 'lived' experiences of people involved in the topic of the research.

The research design has firstly sourced data from face to face interviews with employees from MNCs who are closely involved in tax strategy development and this has influenced me to pursue the interpretivist approach for this part of the primary research. This qualitative approach treats people as research participants enabling them to make meaning & present their own realities which demonstrates an ontological aspect of the research which, in social science terms, relates to the nature of reality (Tuli, 2010). In parallel, the epistemological element can also be demonstrated in this research because the interpretive research approach is not focussed on the possibility of an 'objective' or 'factual' account of events and situations, but rather, it seeks a relativity based, shared understanding of phenomena between the researcher and the interviewee (Rowlands, 2005).

Due to the fact that I have not only interviewed MNC tax representatives but also participants from tax consultancy firms to get an independent aspect on the research, then this shows the opportunity to leverage Critical Theory based upon the assertion that Critical Theory represents "an integration of diverse philosophical approaches" (Palmer and Maramba, 2011).

The research design also draws data from document analysis which could be viewed as a positivist approach (Harvey, 2019) and, although differing from the interpretivist approach of the interview mechanism, is part of the mixed method research that I am using in order to get a complete unbiased view of the data.

3.3 Research Strategy

In line with my intention to follow a phenomenological approach to the dissertation research, I have decided to use a mixed method research strategy, combining grounded theory and document analysis using data publicly available from high-profile tax avoidance cases.

I have adopted the grounded theory approach as a valid strategy given that its philosophy shares common traits to phenomenology in that "knowledge is seen

as actively and socially constructed with meanings of existence only relevant to an experiential world" (Goulding, 1998). Following Goulding (1998) the study was based upon four key principles:

- A perspective to build analysis from by identifying a reasonable interviewee cohort who can provide rounded data for analysis.
- An awareness of substantive issues guiding the research questions which was established from the initial research conducted during the original proposal and literary reviews.
- A school of thought to help sensitise the emergent concepts which has been revealed and been validated by themes identified in the literary review.
- A degree of personal experience, values and priorities which have been the genesis of this study and driven the direction and objectives of the study that I wanted to achieve.

Given the breadth of the research data available and the existence of some well-documented cases, I have decided to apply a secondary strategy based upon document analysis which would be using a positivist approach in order achieve a rounded view of this complex research area. The legitimacy of combining an interpretivist approach via the interview process and a positivist approach via case study documentation is supported by Roth and Mehta (2002) who term 'The Rashomon effect' whereby both approaches can be used to triangulate data around a single event or , for the purposes of this dissertation, around a single area of research (Roth and Mehta, 2002).

3.4 Collection Primary Data

My primary means of data collection has been through 8 open-ended interviews conducted in person or via conference calls using a defined set of questions as a framework for those conversations. As noted by Alshenqeeti (2014) the value of interviewing builds a holistic view by analysing the words and reporting the detailed views of informants which leads to a rich & large source of research data.

In terms of the type of interview to support the research, I have employed a semi-structured interview method as this method supported my view that this is well suited for the exploration of the perceptions and opinions of respondents regarding what is a complex subject and the usage of this method has enabled probing for more information and clarification of answers (Barriball and While, 1994).

Given my adoption of the mixed-method strategy, I have used the document analysis method in relation to high-profile cases to add to my primary data collection. My use of document analysis is intended to triangulate against the data collected from the interview phase in an effort to help minimise bias and ensure credibility of the study (Bowen, 2009).

3.4.1 Sources

Outside of data sourced from the literature review collateral, the primary data will comprise of two data sources. The first data source will be the output from the interviews which pertains to all 3 objectives of the research dissertation.

Regarding the criteria for respondents, the intention is to ensure an adequate source of data points from a selection of MNCs which will cross technology services, physical good suppliers and accountancy firms. I have arrived on those businesses based upon my own direct business experience and anecdotal insights that I have acquired through different interactions with business leaders in Ireland. Given that the research will use Interpretative Phenomenological Analysis, then 8 participants, comprised of senior tax managers and directors, will be the sample size that will allow for individual cases to have a discernible voice within the study, and for detailed analysis of each case to be conducted (Robinson, 2014).

The second data source will result from document analysis conducted over publicly available press articles and published papers pertaining to two high profile tax avoidance case study articles which relate directly to the research topic. Following my research during the literary review, I felt it was legitimate and, indeed, necessary to augment the main data source with this additional data from multiple reputable sources in relation to those well-publicised cases of MNCs

who, because of their tax difficulties, had encountered many of the topics that the research questions aim to address. Accordingly, it is my intention to ensure that the data from this document analysis is synthesised to support the overall research questions and objectives and not to be treated as isolated data points which inexperienced researchers are often liable to represent (Baxter and Jack, 2008).

3.5 Approach to Data Analysis

Given the qualitative nature of the dissertation research, and specifically, the use of interviews as the primary data collection technique, I favoured the Template Analysis technique as developed by King (1998). King has argued that the Template approach or Template analysis has much to offer to relatively inexperienced qualitative researchers such as myself.

Template analysis involves the development of a coding template that summarises themes identified by the researcher as important in a data set and organises them a meaningful manner.

King (1998) has summarised steps of the technique which is based upon interview transcripts as being the data source. I have attempted to follow these steps for my coding effort:

- 1) Defined a priori (pre-coded) themes if they exist (Themes and codes)
- 2) Transcribed the interviews and read through them to thoroughly familiarise yourself with them. (Transcription)
- 3) Carried out initial coding of the data. Identify those parts of the transcripts that are relevant to the research questions. If they are encompassed by one of the a priori themes, "attach" the code to the identified section. If there is no relevant theme, modify an existing theme or devise a new one. (Themes and Codes)
- 4) Produced the initial template. Group the themes that were identified in the selected transcripts into a smaller number of higher-order codes which describe broader themes in the data. (Producing the Initial Template)

5) Developed the template by applying it to the full data set. Whenever I found that a relevant piece of text does not fit comfortably in an existing theme, a change to the template may be needed. (Developing Your Template)

6) Used the "final" template to help me interpret and write up my findings. (Interpreting and Writing-up)

7) At one or more of the coding stages described above, I checked to ensure that my analysis is not being systematically distorted by my own preconceptions and assumptions. (Quality Checks and Reflexivity)

Below is a sample coding template that I developed, referring back to the themes contained in the conceptual framework described earlier. The format is loosely based on an example from Berends and Johnston (2005).

Colour	Code	Definition	Description	Example
Gold	IM	Importance	Professional's view of the importance of TP	<i>"..TP is a crucial device to help our manage our profit distribution and meet our compliance commitments.."</i>
Green	EF	Effects	The impact of the TP model	<i>" the method has resulted in additional costs to the organization amounting to €1 million per annum"</i>
Blue	AL	Alternative	Alternative method	<i>"Our company follows an Unitary Taxation approach as it is a fairer method and is good for our brand"</i>
Yellow	PE	Perception	How the method is viewed and assessed? Is the model successful?	<i>"by employing TP, our worldwide organisation has legally avoided the potential for paying more than \$500 million in additional taxation costs in local territories"</i> <i>" ... I believe that our brand is suffering by being associated</i>

				<i>with a device that appears like a tax evasion apparatus"</i>
Pink	ME	Method	TP is the primary method for profit shifting from a subsidiary to a parent Multinational.	<i>" ... TP is an OECD approved method which provides many local governments with millions of \$\$ in corporation tax payments.."</i>
Grey	CP	Compliance	Awareness of OECD BEPS project & government initiatives and the increased need for compliance.	<i>"Our company and leadership is fully aware of OECD BEPS and supports its recommendations"</i>
Light Blue	BC	Behaviour Change	Are companies changing their approach in relation to BEPS 2.0 and the Digital Economy ?	<i>"our company has made significant changes to our tax planning to ensure we pay the right tax in country.."</i>

Figure 3. Proposed Coding system for data classification (Finnegan, 2019 adapted from Berends & Johnston, 2005).

3.6 Access and Ethical Issues

In terms of access to the desired target respondents for interview, I have , through my role with a large MNC based in Dublin, an extensive network within my own company amongst the Tax and Finance community who are closest to this area. By extension, I can leverage this internal network to attain contacts into the major Tax consultancy companies in Dublin who advise MNCs on this topic.

As identified by Johl and Renganathan (2010), it is important for researchers to have that level of access as it is crucial for the researcher to have someone of the community to vouch for his or her presence which, in turn, will help the researcher to build webs of relationships which will aid and provide the researcher lateral and vertical connections to people. In addition, I used my own private network to reach out to senior leaders that I knew in other key

technology, accountancy and electronic MNCs based in Dublin and other territories who can act as respondents to the interview process.

In terms of ethical considerations, I work for a company where ethical behaviour is integral to the company's success and indeed, the company has a strident standards of business conduct program. Accordingly, I am well versed in dealing with matters of compliance, confidentiality and ethical practice. I have reached out to the legal department in my company to ensure that there are no restrictions or specific policies in terms of such data collection for academic purposes from their perspective. I have also adhered to the Griffith College Ethics guidelines in respect of research that I, as one of their students, am carrying out in relation to this study (Griffith College, 2019).

In relation to the interview process for this research, that discipline can be applied and there is a broad before, during and after checklist that can be used as guardrail for the researcher and respondent.

Before the interviews I ensured the following:

- that I developed & signed a GDPR (General Data Protection Regulation) standard NDA (Non-Disclosure Agreement) to provide the respondents protection around their individual and organizational anonymity.
- that formal consent to interview is received (can be part of NDA artefact).
- that I provided an overview of the research topic in advance & supplied a sample of the questions that the author may ask to allow respondents some advance consideration of responses.
- that the requested respondent was clear on why they were being interviewed and estimated length of interview.
- that I outlined how the data will be recorded during the interview, how will it be used in the research, how & where it will be stored and for how long.
- that the interview happened at a time suitable for the respondent.
- that promptness of interview start time.

During the interview, I:

- reminded the respondent of the purpose, objective & length of the interview.
- Reinforced confidentiality aspects.
- ensured a courteous and professional demeanour throughout.
- was respectful of the respondent's time and ensured the interview ended at appointed time.
- ensures that respondent gives express permission to have meeting recorded if that is to be used for subsequent transcription.

Following the interview, I:

- advise the respondent on next steps regarding the data analysis process.
- ensure the information gathered is not misrepresented while transcribing to the state for data analysis.
- assign numbers to individuals to protect anonymity.
- store or subsequently destroy data per terms of GDPR / NDA confidentiality agreement.

I believe that employing this ethical rigour allows the researcher develop case studies of individuals that represent a composite picture rather than an individual picture (Creswell 2007).

In relation to the data to be collected via document analysis, given the highly public nature of that information, I am freely quoting and analysing that data without explicit consent. In doing this, I have adhered to 'The Ethical Guidelines for Research Online' as the data accessed is from locations which are public archives that are not password protected (Bruckman, 2002).

3.7 Conclusion

The aim of this dissertation is to examine the area of TP and its use as part of BEPS employed by parent MNCs when reporting their subsidiary revenue and associated tax liability. The intended outcome of the research is to provide parent MNCs with a balanced, informed view of TP in order to assist their decision making around their tax strategy in relation to subsidiary revenue reporting. To achieve this, the phenomenological research paradigm was applied to the research as a means to restrict the researcher's own bias (Groenewald 2004) by gathering data regarding the perspectives of research participants about their

experiences to substantiate the literary review findings or otherwise. I believe that the semi-structured interview method that is being employed is suited for the exploration of the perceptions of respondents given the complexity of the subject (Barriball & While, 1994).

Due to the mixed method nature of the data research strategy, I also felt it necessary to use a document analysis method from well publicised cases of MNC tax avoidance, in order to demonstrate either a juxtaposition to, or congruence with, the data arising from the interviews. This triangulation of data sources across interviews and documents was intended to counter the threats to the trustworthiness of the study from either researcher or respondent bias (Bowen, 2009).

The next section will present and discuss the findings of the primary data for each question, which was collated and analysed according to the research methodology set in this section. The findings from the data generated from each question is discussed and its implications are examined.

4 Presentation and Discussion of the Findings

4.1 Overview

This chapter presents and discusses the findings of the primary data, which was collated and analysed according to the research methodology set out in chapter 3. There, I discussed the mixed method approach of using a grounded theory influenced inductive approach using the data collection method of semi-structured, one-on-one interviews combined with the use of document analysis based on collateral readily available in the public domain. I chose this as the most appropriate way to advance this study towards its objective given the complexity of the topic in addition to opening the possibility to acquire additional context to support the research objectives which may not be attained through, say, a straightforward survey data collection method. There were 8 interviews, each lasting 15-30 minutes, conducted over a two-week period with tax representatives and consultants from a number of prominent MNCs who have an Irish subsidiary. The format of the semi-structured interview is included in Appendix A at the end of the study while the breakdown of respondents is displayed in Table 4 (Finnegan, 2019) below.

Respondent	Role Description	Company sector	Location
1	Tax Director	Technology (Software)	Ireland
2	Financial Director	Technology (Hardware)	Ireland
3	Tax Director	Technology (Software)	US
4	Senior Tax Manager	Technology (Software)	Ireland
5	Senior Tax Manager	Technology (Software)	Ireland
6	Senior Tax Project Consultant	Global Consultancy	UK
7	Tax Director	Technology (Software)	US
8	Financial Director	Technology (Hardware)	Ireland

Table 4. Overview of Respondent Cohort (Finnegan, 2019).

As a general statement, the cumulative data from the interviews conducted was quite consistent amongst the respondents, and across the question set in terms of themes that were identified. I also chose to augment that interview data with additional data from document analysis of existing case study evidence relating to prominent tax avoidance controversies involving major US MNCs operating in Europe. This was to provide additional data in order to evolve the themes in order

to support the research objectives. To recap on the research objective from section 1 above, the purpose of the research is to provide a balanced review for MNCs of TP in order to support the decision making around the parent company's potential international tax strategy around subsidiary revenue reporting with a specific focus on determining factors for usage of the method, equitability and reputational concerns associated with its usage and understanding an alternative or more regulated approach to TP usage.

Accordingly, the key themes that I want to explore through my findings relate to:

- the motivation for parent companies to set-up in subsidiaries using TP as the transaction mechanism
- reputational impact for the parent company in terms of negative publicity associated with tax avoidance.
- awareness and support of regulatory measures and alternatives to ensure a more equitable model and that companies' fair share of taxes are paid
- highlight changes that organisations are making to their TP structure to support regulatory measures, manage reputation and responded to the Digital Economy.

In the previous chapter, I outlined the mechanism of the data analysis and in the following sections, I present the findings from that process. To conclude this chapter, I will discuss those findings and show how they have contributed towards the research objective outlined above. In the final chapter I will draw some conclusions from the findings and from the entire research process.

4.2 Findings from the data collected

As stated in the conceptual framework, there is a high degree of interrelatedness between many of the themes which comes through in the discussion. In this section, I will highlight these interrelations and discuss the implications for parent

MNCs. As these themes have evolved during all stages of the research the conceptual framework was updated to include the evolved linkage. Figure 4 below gives a visual overview of the themes identified through the coding applied against the interviews used for the primary data collection, as defined in section 3.5, Figure 3 above, and how they map to the research questions.

Research Question	Themes Developed	Codes Identified during interviews						
		IM	EF	ME	AL	PE	CP	BC
To establish what have been the determining factors for parent Multi-National Companies implementing Transfer Pricing as their taxation strategy for their subsidiary revenue & profit reporting	- Industry standard method							
	-Tax benefits still a factor							
	- Compliance Driven							
	- Penalty avoidance is a driver							
To review the perceived equitability of the Transfer Pricing method and the potential reputational risk its use could cause to a Multi-National Company employing the device	- Public and Political perception is crucial							
	- Reputational Risk is taken seriously by leaders							
To evaluate viable alternative methods to Transfer Pricing and to review how the OECD and governments are legislating to deter Multi-National Companies from employing Transfer Pricing as an aggressive tax strategy.	-Lack of operational alternative currently							
	-High awareness of OECD BEPS plan among executive leadership							
	-Companies increasingly aligning with OECD BEPS recommendations							

Figure 4. Coding system used for data classification (Finnegan, 2019).

In Appendix C at the end of the study, I have included one of the transcribed interviews to illustrate how the colour coding was used to identify themes arising from the conversation with the respondent. Figure 5 (Finnegan, 2019) below provides a basic 'heatmap' of how the various respondents referred to coded

items during their interviews and shows the themes that I elicited from those conversations.

Respondent	Themes Developed	Codes Identified during interviews						
		IM	EF	ME	AL	PE	CP	BC
1	Industry standard method Tax benefits still a factor Compliance Driven Reputation management critical Changes to processes							
2	Industry standard method Compliance Driven							
3	Industry standard method Tax benefits still a factor Compliance Driven Reputation management critical Alternative not currently viable Changes to support Digital Economy							
4	Industry standard method Tax benefits still a factor Compliance Driven Reputation management critical Changes to support Digital Economy							
5	Industry standard method Cost factor significant to stay compliant Reputation management has been proactive Changes to support BEPS 2.0 and Digital Economy							
6	Industry standard method and historical importance TP happens across geographic regions Reputational concerns can vary Digital Economy forcing change							
7	Industry standard method Tax benefits still a factor Compliance Driven leading to massive operational costs Reputation management critical for leadership to avoid exposure Alternative not currently viable at global level Changes happening to support Digital Economy & OECD BEPS							
8	Industry standard method with benchmarking important Compliance Driven & costly Fear of penalties is a real concern if not compliant Public/political pressure leading to changes Digital economy has meant companies have to change their TP practices.							

Figure 5. Respondent 'heatmap' against codes and themes (Finnegan, 2019).

In relation to findings from document analysis, I felt that, since I work in an MNC subsidiary of a US parent company, it was necessary to help avoid any unconscious bias I may have as researcher, by referring to data, available from other studies and in the public domain, from high profile cases in relation to subsidiary revenue reporting controversy, Apple & Google's situations in Ireland

from 2013 onwards and Starbucks in the UK in 2012. These companies' situations are reflective of what has been happening around the parent to subsidiary relationship which TP supports, and I have used them to compare to the themes which I present throughout this study and which provide important inputs into the research objectives.

4.2.1 What are the determining factors for MNCs using TP?

The recurring theme throughout the 8 interviews conducted with MNC representatives was that TP was not a specific strategy by choice but rather, a matter of industry standard & compliance. The respondents were clear that, where MNCs were in operation in multiple territories, then a TP mechanism was necessary in order for a company to transact in those scenarios. In the main, the respondents, and without an appearance of 'stating the official line', were genuine in their assertions that the employment of TP, is a compliance matter first and foremost.

There were two respondents who did veer slightly from the pattern of response that indicated that usage of TP was purely due to an industry standard and compliance regulations. Respondent #7, a seasoned tax executive at a prominent MNC, did concede that, initially back in the 90s when a European HQ was being considered, the favourable corporate tax rates in Ireland would have been a major consideration in the decision to locate in Dublin (versus, say, Paris) in terms of revenue processing at that point and the associated tax benefits but that emphasis shifted to a compliance position especially following the original OECD BEPS instance earlier this decade.

With a more independent view, respondent #6, who is an experienced expert working in a consultancy capacity echoed that this was a common behavioural pattern for many MNCs in terms of reporting profit through low tax locations stating that:

“implementing special legal structures that would allow the pooling of profits in the Regional HQ legal entity and whose profits were admitted through the necessary complicated channels and then text are very low rate or at 0% in the

US and that from a business case perspective that meant very big dollars for the US companies as long as it fulfilled certain conditions" (Interview #6, July 2019).

Respondent #1 , a tax executive with over 10 years' experience in his current company, did indicate that although his company did use TP using the 'cost plus' model of up to 10 or 12 % in some jurisdictions , including Ireland, to help their parent corporate tax position, he felt that their levels of mark-up applied in subsidiary sales were not aggressive in comparison to their competitors in the technology sector. This respondent's usage of a Non-Market based TP model (cost-plus) aligned with primary research findings which indicated that 65% of US based MNCs used Non-Market techniques versus market-based pricing (Eryani et al., 1990).

In a similar vein, respondent #3, a tax executive with several years BEPS specific experience, was keen to stress that her company were adhering to the ALP which is a key aspect of TP that considers the subsidiary company to be a 3rd party in effect but stressed, that unlike other organisations with aggressive tax planning, her organisation actually invested in IP in the subsidiary. This was to clearly demonstrate substance in that country and not to be merely using the TP structure via 'shell' companies based offshore as means to process revenue in a jurisdiction with, say, a corporate tax rate at approximately 50% lower than the US where the parent company is based. That said, respondent #3 did concede that her company did accrue substantial tax savings (not quantified in the interview) from the model employed albeit in a very structured, non-aggressive manner within regulatory frameworks of respective tax jurisdictions.

The compliance aspect was elaborated upon by respondents #8 who highlighted that for their company, the real benefit of TP was to avoid penalization in territory. As part of TP documentation requirements, the MNC should include a benchmarking study to test the Arm's Length Pricing that they have set in their own scenario (Transfer Pricing Services, 2019). Respondent #2 explains the benchmarking process where an MNC is benchmarked against a set of independent companies in their industry sector based upon analysis done by one of the large independent tax consultancy firms (respondent #2, July 2019). If that benchmarking is absent or not in an acceptable range, then the company could face penalties in addition to the potential for the local tax

authority to arrive at their own estimated transfer prices which could be set at an unfavourable level to the MNC which in turn, could affect their revenue & profits in-country significantly (respondent #8, August 2019).

None of the respondents were able or perhaps, felt comfortable trying to put a quantification on the tax benefits at a parent or corporate level however an interesting theme around the costs of maintaining and managing the TP model has emerged. It is clear from the interview data that the relative costs for supporting the method are high and, where a number was supplied, these amounts ranged from US\$ 200k per annum (respondent #8) in the case of an MNC with an annual turnover of US\$ 1.5bn, right up to US\$ 10-15 million per annum (respondent #7) for a company with an annual revenue stream which is greater than \$100bn per annum. Respondent #7 goes on to say his company, because of the large revenue stream and the need to mitigate the risk exposure that this level of revenue brings with it, has a dedicated team of 8 people who are not only concerned with the management of the necessary documentation from an audit perspective. This team may have to get involved in proactive litigation in terms of establishing Advanced Pricing Agreements (APAs) with local authorities and also in reactive litigation where there has been a dispute about the level of a tax return in a given territory. To continue the theme, Respondent #5 highlights that, especially since the advent of OECD BEPS regulation tightening, there is an increased amount of documentation, for example, local and corporate level tax files, that needs to be managed leading to significant administration and consultancy costs. The need for benchmarking for companies to efficiently apply their TP model, as referred to earlier in the section by respondents # 5 & 8, translates into a material cost element in the form of consultancy costs with one of the 'Big Four' consultancy firms (PriceWaterhouseCooper, KPMG, Deloitte, and Ernst and Young).

In the context of the Apple decision-making scenario, their usage of TP allowed the mechanism to process their revenue and avoid tax mainly due to its Irish-based tax structure, which includes three 'stateless' Irish subsidiaries that were not taxable in any country. The company benefitted from this arrangement by availing of specific tax rulings by the Irish government which resulted in taxes being a fraction of the standard 12.5% Irish corporation tax rate (Sulaiman et al.,

2019). The resulted in an estimated tax avoidance of \$US 14.5bn between the years 2003-2014 (Kanter and Scott, 2016).

Looking at the Starbucks situation, they employed a 3 country TP system involving Switzerland, The Netherlands and finally the UK in terms of their supply chain process where the Swiss Subsidiary sourced the coffee, the Dutch affiliate roasted the beans before shipping to the UK subsidiary. By paying a higher price for coffee to another Starbucks entity, Starbucks UK increased costs and reduced taxable income reported in the UK, thus shifting profit to its Dutch and/or Swiss entities which had, respectively, lower corporate tax rates than the UK. In addition, Starbucks also had a special tax agreement with the Dutch government as part of its agreement to locate its roasting facilities there. The benefit for Starbucks in this whole cycle meant that it paid no corporate taxes in the UK (Campbell and Helleloid, 2016)

4.2.2 Reputational risk associated with using TP and the response of MNCs

The interviews conducted revealed a consistent trend that companies are now very much aware of the potential around reputational risk and were deeply concerned about public and political perception around any suggestion of tax avoidance. Respondent #3 describes her company as very risk averse around this topic to the extent that she felt some of her company's audit settlements with tax authorities were over-stated in order to ensure positive public relations rather than based upon the amount liable arising from the technically correct application of the TP rules. She goes on to say this risk management extends into areas such as investor relations, to ensure there is nothing the company is doing reputationally that could affect the share price. She concludes by emphasising that the company is also deeply concerned about their reputation in the local market where they have a subsidiary and actively work to ensure that they are seen as a good corporate tax payer which is contributing to, & benefits, that local jurisdiction.

The theme of reputational risk is expanded on by respondent #7 who states that his firm is "extremely sensitive to it from the local PR and commercial teams all the way up to the CEO". He goes on to say "nobody wants to be in the news

cycle for perceived tax avoidance ; It's just terrible PR and would contradict the image that the company is a trustworthy one from a computing perspective" . He also highlights that many of the company's customers are, in fact, governments and tax authorities so that relationship is an important one to preserve (respondent #7, July 2019).

Respondent #5 felt that her company were well ahead of the curve with regard to tax planning and that was, in large part, to very strong leadership from their Head of Tax who actively worked with authorities and invested a lot in ensuring appropriate APAs were in place with local Tax authorities to make sure that taxes were being fairly paid in the subsidiary country. Specifically she cites examples in Ireland and Singapore where the company paid significantly more tax in those countries than their industry counterparts and that this compliant approach paid dividends as it meant they stayed "off the front pages" unlike their competitors. She points out that this has been critical as the landscape has changed in the last 20 years where only tax or finance experts understood the implications of tax planning but that now, in the age of social media and heightened public awareness, the topic of tax avoidance is in the mainstream and that MNCs must be seen to pay their fair share of taxes.

However, according to respondent #6, the concern is not necessarily universal yet as he has observed, in his role as a consultant to major tax projects across the UK and Ireland, that there are companies who react differently to the potential for reputational risk. Firstly, there are those firms who have a well- established tax model that has successfully (i.e. favourably) operated for many years and are perhaps, operating in countries that are adopting BEPS at a slower speed and by extension, have less of a compliance urgency to change or abandon their original tax structure as it would damage their business model substantially, and are prepared to carry the risk around negative public perception in relation to tax management. By contrast, he has had clients who don't yet have a strong international tax strategy but whose investment decisions are being influenced by the public and media perceptions around tax avoidance. Accordingly, these companies are fearful of setting up operations in the likes of Ireland, Netherlands or Switzerland because of the potential negative reaction based upon the public

perception that a company is only setting up a presence in those countries for tax reasons only (respondent #6, July 2019).

Respondents #8 also reflect that the public awareness and perception varies from region to region. Specifically, they indicate that public and media sentiment towards tax avoidance and how companies are set-up is much more heightened in Europe whereas they believe that the same level of agenda does not exist in the US. Their belief is that this is echoed in government policy where the trend is for the EU to pressure those within its membership ,who have low corporate rates, to raise them comparatively to other member states whereas in the US, tax reforms are now reducing corporate taxation rates (Respondent #3, July 2019 , Respondents #8, August 2019).

The reputational impact associated with the perceived inequity and ethical issues surrounding corporate level tax avoidance was at the heart of both the Apple and Starbuck cases. In Apple's case, they, and indeed the Irish government because of their part in the affair, did suffer a significant amount of negative press across the globe but especially within the EU and in particular, in Ireland itself (Cogley & Doyle, 2016). Oxfam Ireland was particularly damning saying the EU ruling on Apple gave a glimpse into the 'secretive' world of corporate tax and damages Ireland's reputation. "This ruling backs up Oxfam's assessment that Ireland facilitates corporate tax avoidance on a grand scale," Oxfam Ireland's Chief Executive Jim Clarken said at the time of the ruling in 2016 (Cogley & Doyle, 2016).

Following the EU's ruling , Tim Cook, the Apple CEO, was keen to defend the company's record on tax contributions in Ireland stating that "that \$1 out of every \$15 paid in corporate tax in Ireland in 2014 was paid by Apple, making it the biggest taxpayer in the country that year" whilst he also refuted the claim that Apple had a preferential deal in place with Ireland (RTE, 2016) . Perhaps the most interesting part of the Apple controversy (aspects of which still remain under appeal currently) is that the company's stock valuation only took a 2% dip at the time of the crisis (Barrera and Bustamante, 2018) and as recently as June 2019, the company remains the second most valuable company in the world proving that its brand has not actually suffered in the subsequent 3 years since the EU ruling (Handley, 2019).

When the Starbucks's situation around tax avoidance in the UK began unfolding late in 2012, the public and political reaction throughout the UK was negative and widespread. Starbucks had built its reputation since its inception as a highly ethical company based on fair trade. However, now it seemed the company was being duplicitous because it was reporting its UK results in two different ways to two different audiences ; to its investors, the UK operation was being reported as profitable however , to the UK tax authorities, the company was continually report operating losses year on year. Consequently, this led to public accusations of unethical tax avoidance and an inequity of a huge MNC not paying their fair share ,even though the company had not actually operated illegally (Campbell and Helleloid, 2016).

As with the Apple case, the public backlash demanded an executive response with Starbucks's UK Managing Director, Kris Engskov, issuing an open letter stating that "we're taking action to pay corporate tax in the UK – above what is required by the law" adding that "we hope that over time, through our actions and our contribution, you will give us an opportunity to build on your trust and custom" (Thomas, 2012). In the immediate aftermath, the company still faced much negative press with Stephen Williams, the then Treasury spokesman for the Liberal Democrats stating that "Tax is something that is a legal obligation that you should pay according to the tax rules of a particular country. It's not a charitable donation in order to gain sort of brand value. But that seems to be what Starbucks are doing." (BBC, 2012). However, Starbucks UK benefitted from the reputation of its global brand, continued to have strong sales and did not have to shut down any of its UK operations (Sisson and Bowen, 2017). In a similar trend to Apple, there seems to be have been no tangible longer term revenue impacts with Starbucks revenues still increasing year on year, both at a UK/ EMEA level of 5% in 2018 (Starbucks, 2018) and an increase of 10% at a global level in the same period (Macrotrends, 2019). Indeed. as illustrated in figure 5 below, which starts in 2011 before the controversy, there was no negative dip in Starbucks' revenues around 2012 to 2013 when the controversy was at its height (Macrotrends, 2019).

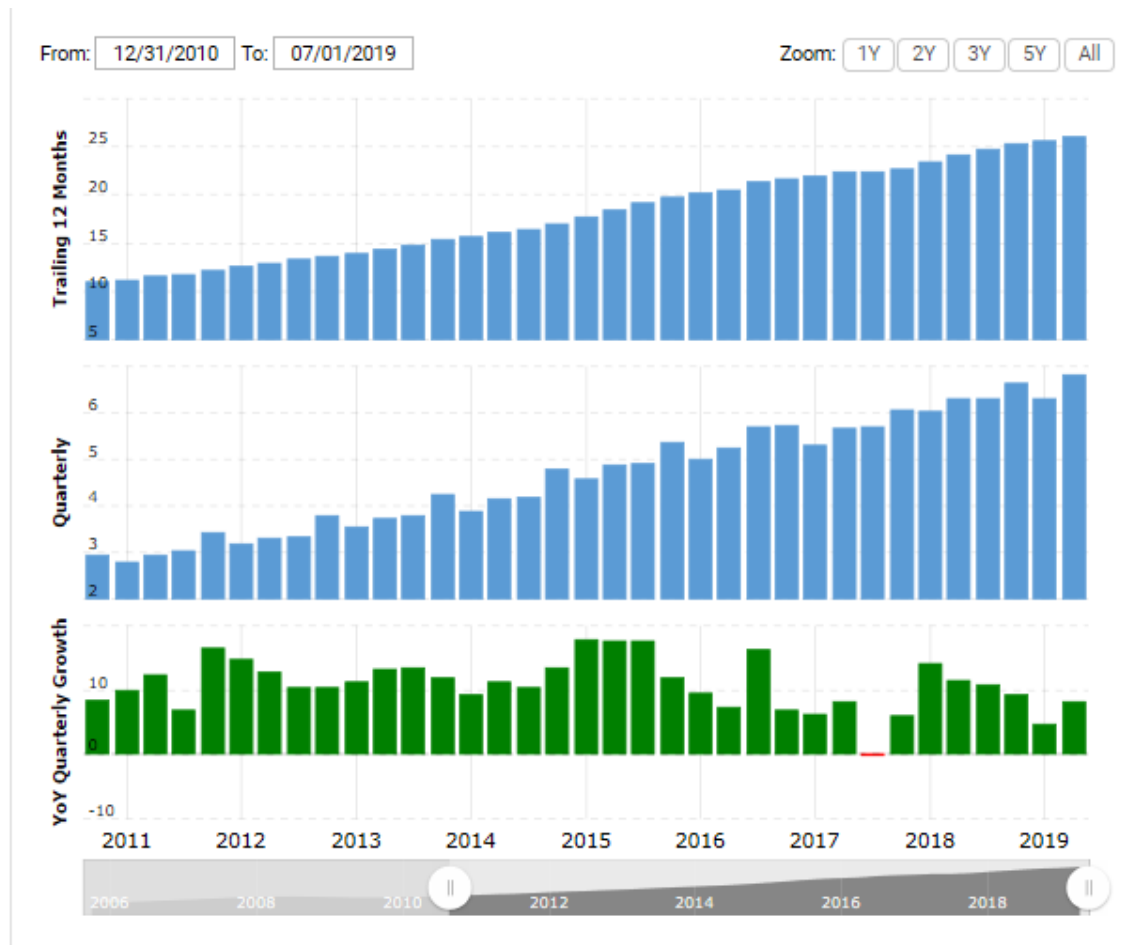


Figure 6. Starbucks' revenues for the period 2011-2019 (Macrotrends, 2019).

4.2.3 Alternatives & the impact to MNCs of OECD & government regulations

The interview cohort, again, provided a consistent thematic response in relation to alternative approaches citing there was no real operational alternative to TP currently available with there being only different tactical methods of employing the device. Some respondents were aware of an alternative proposal around a Unitary Tax (Formula Apportionment) but felt it would be challenging to implement and get global level agreements on. Respondent # 7 specifically acknowledges that some countries, such as China and India could benefit hugely from such a formulaic approach if, say, R & D activities was a heavily weighted part of the formula given that these countries are home to many of the world's R & D resources for the large companies. However that may not make it a more equitable because tax payments to the country of the parent company

or, to that of other subsidiary countries where R & D was not happening, would diminish.

That theme is continued by respondent #3 who says her company has started to look at the potential of using a formula based solution to see if it can achieve more equitable returns across the subsidiary countries that they operate in however she expresses concerns around the approach because depending on how the formula criteria is defined, it may have adverse effects on companies dependent on their size or the industry they operate in.

Instead of a replacement method coming to the fore, the respondents noted that the changes that have been introduced to the TP model via the OECD BEPS project as being positive in terms of reducing the opportunity for MNCs having aggressive tax approaches in subsidiary countries in addition to recognising the changing business world and the movement towards the digitised economy. Respondents #8 specifically call out the shift to digitized transaction flows and they mention how the GAFA (Google, Apple, Facebook, Amazon) selling motions has changed the original rules that the OECD transfer pricing procedures were originally based upon which was the traditional supply chain/manufacturing type transaction flows.

The increased recognition of the importance of BEPS within the wider business community at MNC parent companies (not just amongst the tax/finance employees) is noted by respondent #6 when he observes that up to 2 or 3 years ago, that non-tax people had no idea about BEPS but now, the mainstream business decision makers are familiar with project, it's importance and key elements, to the extent that the provisions of the BEPS program are being referred to when making offshore investment decisions.

Respondent #5 commented that she felt that BEPS 1.0 had made a huge improvement to the situations where parent MNC companies were using tax haven countries where there was little or no subsidiary substance existed and yet huge profits were being reported through those jurisdictions. She goes onto say that the advent of BEPS 2.0 will also focus on how to tax the Digital economy and the respondent comments that, with the suggestion of devices like minimum tax rates being introduced, this would begin to negate the historical advantage that

countries like Ireland would have in terms of using that lower corporate tax rate as an FDI advantage. This would clearly have a corresponding adverse effect on the parent MNC's tax advantage in country. However, she also observes that it is important for all the impacted parties to be at the table in discussion with the regulators because it is a complex landscape and as no two businesses operated in an identical manner, there could be unintended consequences of both the BEPS provisions and the recent US tax reform provisions.

The Apple controversy in Ireland was as a direct result of the EU initiating a ruling in response to their concern that if the method of taxation for intra-group transfers is not compliant with the arm's length principle, then this could provide a selective advantage to the company concerned. In Apple's case, the EC believes that Apple's arrangement with Ireland was artificial and conferred a selective benefit to the company and that the APAs in place effectively constituted "state aid" that was incompatible with the EU's articles (Wang, 2018). In contrast, at a state level, both Ireland and perhaps most interestingly, the US, who had been amongst Apple's critics, disputed the EU's position with the United States Treasury Department said it jeopardized "the important spirit of economic partnership between the U.S. and the E.U." (Kanter and Scott, 2016). Nevertheless, although Ireland still has an appeal in progress with the EU around the ruling, Apple has fulfilled its legal obligation by paying the Irish government the 14.3 billion euro into an escrow (trust) account while the appeal is concluded (Duffy, 2018).

In addition to their 'voluntary' tax settlement of 20 million pounds, Starbucks began to more visibly represent in their annual reporting how they pay their taxes in the UK, putting particular emphasis on the total corporation tax paid in the UK as a banner headline in their annual UK/EMEA financial report (Starbucks, 2018). Significantly, in 2014, the company moved its European HQ to London from Amsterdam in an additional response to the 2012 backlash and to ensure that it was seen to be raising its tax contribution to the UK treasury. (Marriage, 2018). Starbucks has also demonstrated its intent to remain fully compliant and transparent when it issued its publicly available 'Strategy in relation to Taxation' in which it makes key statements of intent such as "We support initiatives to improve transparency on tax matters, including OECD measures on country-by-country reporting and automatic exchange of information" and "We are

committed to maintaining professional, open and transparent relationships with the tax authorities in all jurisdictions in which we operate, including HM Revenue and Customs ("HMRC") in the U.K. and the Internal Revenue Service ("IRS") in the U.S." (Starbucks, 2017)

4.3 Discussion of findings from data collected

For each of the research goals specified in section 1.3 of this paper, I identified related themes which mapped to groups of the questions that were used in the semi-structured interviews which facilitated the data collection process. The data gathered was qualitative in nature and consisted of potential considerations for each theme which any prospective MNC setting up a subsidiary using TP should be aware of and, importantly, any changes to existing practices that they need to consider to ensure regulatory compliance is met and reputation is protected.

In this section, I will juxtapose my own findings around the motivation for use of TP with those identified in the literature review. The responses from my interview data in relation to motivation for use of TP were universal, indicating that, where a parent to subsidiary relationship existed in the Multinational scenario, then some form of TP had to exist. This was necessary to allow an international inter-company transaction to exist based upon the ALP simulating a 3rd party transaction. Equally clear amongst the 7 out of the 8 respondents who worked for an MNC in a tax capacity, was the assertion that the employment of TP was not an aggressive tax strategy. These findings were in stark contrast to the secondary data that emerged during the literature review where Devos (2015) and Cobham and Janský (2019) clearly indicate that TP incentivises MNCs to significantly reduce their corporate tax liability.

My respondents were clear that their organizations, whilst recognizing that their respective companies have benefitted from tax efficiencies, were using TP in respect of subsidiaries that had demonstrated substance in their activities and in no way could be considered as 'shell' companies. Again, this data conflicts with much of the primary research data to date which suggests that, historically, US MNCs have reported large portions of their earnings (for example, 43% in 2008) in tax preferred countries such as Ireland and the Netherlands (Keightley, 2013).

The interview findings show that the respondent companies do invest a material amount of spend in maintaining the structures required to legally support the TP mechanism with the larger MNCs spending millions of dollars per annum to support the TP structure in order to be compliant with the OECD TP documentation requirements. This correlates to the findings of the literary review which indicates that TP Pricing has been primarily seen as a positive device for large MNCs, but less so for smaller companies due who would find the potential costs associated with the practice restrictive (Conover and Nichols, 2000).

The responses tell us that, not only are companies concerned with actually being legally compliant but also being seen to be compliant. 75% of the respondents confirmed that Reputation and risk management is an essential consideration for executives in MNCs in the modern business climate. This is a little less than reported in the literary review where it was reported that 88% reported that managing tax risk and controversy was increasingly important (Ernst and Young, 2011). In terms of MNCs adjusting their tax structures & planning in response to reputational and equity concerns, 62% of interview respondents indicated that their organizations had effected such change for example, making higher contributions than they were legally obliged to in certain jurisdictions to protect reputation.

100% of the respondents were very much aware of and were advocates of the OECD BEPS plans and agreed that this plan had started to discourage the practice of aggressive tax planning. 50% of respondents also indicated that increased engagement and dialogue with governments is helpful in delivering equitable APAs which is in-line with Action 14 (MAP) element of the BEPS action plan as mentioned in the in primary research (OECD, 2019). In respect of BEPS and other government regulations, 87% of respondents have indicated some levels of changes that their organisations have made to their in response to the OECD recommendations such as the employment of specific staff to cover CbC requirements.

While the responses of the interview cohort were rich in context and perspective, the highly consistent nature of the responses did the raise the research concern of unconscious bias give the fact that, both the interviewer and all interviewees were MNC employees and part of that culture. This might have resulted in the

resultant data being affected due to the researcher and respondents unconsciously following “cultural scripts about how one should normally express oneself on particular topics” (Diefenbach, 2009).

Accordingly, the data gleaned from the case study reviews of the well-publicised Apple and Starbucks cases provided good perspective on situations when companies do not execute TP and subsidiary reporting in the appropriate manner. The data from those cases revealed that, although the companies were acting within legally permitted constructs, they were not acting in the spirit in which the OECD Transfer guidelines were originally constructed and were indeed , using the method for tax avoidance purposes. These cases did highlight that, in this heightened age of social media and social awareness, that brands can be damaged very quickly by behaviour that the public sees as unethical, such as tax avoidance. That the management and protection of the company's reputation is essential because keeping an authentic reputation appears to protect the organization in future crisis situations , allowing them more time and credibility to respond to issues than competitors who don't have that authenticity (Sisson and Bowen, 2017). The huge level of tax amounts involved in the Apple & Starbuck cases provides yet further supporting data as to why the OECD was so concerned about aggressive tax behaviours and demonstrates clearly why their own guidelines needed significant upgrading to deal with the digital economy and associated country by country reporting of taxes (OECD, 2015; OECD, 2019).

In the instances of Apple & Starbucks, the document analysis findings also show that both organizations did demonstrate changed behaviours in their reaction to the respective controversies by, not only being very publicly visible in settling their tax liabilities in dispute, but also by adopting changes to their tax strategies to restore public confidence. The document analysis findings support this further by showing that Apple remains one of the most valuable brands (Handley, 2019) and Starbucks year on year revenue and profit continues to rise (Macrotrends, 2019). Their situations also acted as another impetus for MNCs to change their behaviours in respect of how they need to enact TP in the changing business landscape where there has been a significant movement to a Digital Economy based upon digital transactions & intangibles , such as Intellectual Property(IP)

that the success of the GAFA companies has brought into the mainstream. This sentiment was reflected in the interview responses whereby 87% of respondents spoke about the need for organisations to ensure their TP structure supports this modern transaction flow.

4.4 Conclusion

To conclude, upon examination of the primary research findings, it is evident that companies are increasingly concerned with not just being legally compliant with their TP strategy, but also being seen to pay a fair and equitable level of tax. This juxtaposes those studies reviewed in the literary review which were predominantly focussed on the how MNCs were using TP for no other reason than tax avoidance purposes.

My research findings also highlighted that most companies are now proactively concerned with reputation risk associated with the practice of TP and tax structures which again, differs from the documents reviewed in the literary review which did not identify this as a strong theme.

The primary research findings also established that MNCs are very aware of, and supportive of, the OECD BEPS program aimed at reducing the opportunity for aggressive tax practices.

At an overall level, the findings of my primary research data indicated how MNCs were changing in their attitude and behaviour in terms of how they utilise TP in relation to their corporate and subsidiary tax reporting strategies which benefits:

- their compliance standing with governments
- reputation management with their customers
- their ability to transact effectively in the modern Digital Economy.

This is a research aspect that the data from the literature review does not focus on.

In this chapter I have presented & discussed the findings from the primary data. The structure of the data analysis and the presentation of the findings continued on from the conceptual framework as described in chapter 2. The findings are

intended to advance progress towards the research purpose by providing supporting data to correspond to and provide depth to the research objectives as stated in section 1.3. These findings & supporting discussion are subjective, by nature, and are intended to act as a reference artefact to help the evaluation of parent companies considering investment in a subsidiary country and using TP to support that structure.

In the final chapter, I draw conclusions from the findings and discuss implications, describe the contributions and implications of the research and make recommendations for further research.

5 Concluding Thoughts on the Contribution of this Research, its Limitations and Suggestions for Further Research

In the previous chapter, the findings from the cohort of tax practitioners interviewed were analysed, presented and discussed. These findings were then juxtaposed to prominent case study data demonstrating that, on the other hand, MNCs were guilty of aggressive tax policies and non-payment of tax in subsidiary countries. The juxtaposition revealed that MNCs are now increasingly concerned with being compliant with tax regulations, paying the right tax and maintaining their reputation. Also highlighted was the fact that MNCs are changing their TP practices in what is now an increased regulatory environment with the advent of the Digital Economy. The chapter concluded with a summary of the findings and the implications for the research objectives.

In this final section, the implications of the findings for the research questions are presented and the limitations and recommendations for future research are discussed. Any implications or considerations for MNCs wishing to invest in a subsidiary are highlighted and suggestions are put forward for future research.

5.1 Summary of Findings

In reviewing the three objectives that framed this study, a number of findings emerged from the primary research that have informed the discussion around these objectives. Although this is a qualitative study, I felt it was useful to provide a percentage value to against the key findings where possible to support the finding statements. Regarding the first research objective, namely, to establish what have been key factors for MNCs using TP as their taxation strategy, the interview processes established that:

- Companies now are now concerned with the responsible usage of TP in terms of being compliant with local tax authorities rather than using TP as a tool for aggressive tax planning and tax avoidance (87% of respondents).

- Companies are incurring significant costs, relative to the size of their business, to operate their TP structure in order to ensure that they compliant in terms of their subsidiary reporting in country (75% of respondents).
- The implementation of TP has been beneficial, in terms of tax liability optimization to most companies that have implemented the method (75% of respondents made some reference to this without quantifying that benefit specifically).

Regarding the second research objective, namely, to review the perceived equitability of the TP method and the potential reputational risk its use could cause an MNC, the semi-structured interview addressed this research objective in so far as:

- Company leaders are very risk averse with regard to ensure brand reputation and integrity in the information age and the removal of the risk for any potential public or political perception that the company is not a good corporate citizen (75% of respondents) .
- Company leaders are acutely aware of the need to not only be legally compliant but also to be seen to be paying tax appropriately in subsidiary countries and fair usage of TP will allow that.

In relation to the third research objective, namely, to evaluate viable alternative methods to TP and to review how the OECD and governments are legislating for MNCs who employ TP as an aggressive tax strategy , the interview data addressed this research objective as follows:

- Only 25% of respondents said that they were aware of potential alternatives but saw them as impractical and non-standard.
- For each of the MNCs represented in the interview, it was clearly stated that TP was the only viable method for profit and tax reporting. (100% of respondents)

- For each of the MNCs represented in the interview, those organizations' leaders were aware and fully supportive of the OECD BEPS plan and adoption of measures to remove the opportunities for aggressive tax planning. (100% of respondents)

On the theme of changes that organizations have put in place to their TP structures, the following results were revealed from the interview sessions via unsolicited responses (not in response to a specific question on the semi-structured interview):

- 62% of interview respondents indicated that their organizations had effected change to their TP process or policy to address reputational risk
- 87% of respondents have indicated that some levels of changes to their tax structure or tax planning strategy have made by their respective organisations in response to the OECD BEPS recommendation
- 87% of respondents spoke about the need for their organisations to ensure their TP structure supports the changes in the nature of financial transactions due to the advent of the Digital Economy.

The document analysis in relation to the Apple and Starbuck's cases provided the following key findings:

- Apple demonstrated an aggressive tax strategy by negotiating a 'sweetheart' deal with the Irish government involving preferential, sub Corporate Tax level, rates on their profits generated out of Ireland.
- Starbucks avoided paying UK corporate taxes for a 15 year period by its usage of a TP method which involved 2 other low-tax subsidiaries in their product supply chain who reported the profit elements from transactions, with the UK entity ending up reporting the loss-making elements of transactions even though the company had huge sales figures in the UK.

- Both companies suffered reputational damage through negative media and political exposure.
- Both companies did ultimately strive for reputation repair by paying their outstanding tax liabilities.
- Both companies did indicate their willingness to adjust their tax reporting and organisational structures to ensure that they were compliant in paying appropriate taxes in subsidiary countries.

5.2 Implications of Findings

The findings derived from the data generated in the primary research highlighted some interesting differences from the studies researched during the literature review of this study. Starting with the topic relating to the motivation for MNC using TP as their subsidiary tax strategy, the existing literature predominately indicated that this motivation was purely, through structures which were technically legal, about minimizing the amount of tax that was paid at corporate level through subsidiary instances which often had little substance. In contrast, the data collected from the interviews, whilst acknowledging that initial subsidiary set-ups, with little substance, may have been driven by preferential corporate tax rates, that this position has now changed significantly. Now parent companies were not only legally compliant but were paying their rightful tax based upon their presence at a subsidiary that is performing substantial activity.

Moving to equitably and reputation, the interview respondents emphasised that companies were very aware of reputational risk and anxious to be seen to be proactively conducting business in an equitable manner around payment of taxes and by extension, were deeply concerned about their safeguarding their reputation. The reputation theme, although referred to in literature during the primary research at times, was not prevalent in terms of companies seeing it as a top priority.

Considering alternatives methods, the literature reviewed did reveal several references to an alternative subsidiary corporation tax allocation method

(Unitary Tax/FA) and proposed it as a viable alternative if adopted at a multi-country level. However, the data collected through interviews contradicted that school of thought and was quite clear that TP was the accepted industry standard and is currently the only viable method for dealing with subsidiary tax reporting.

With regard to OECD and governmental activity to discourage aggressive tax practices, the interview cohort findings were universal in their awareness and support of the OECD BEPS project. That constituency were convinced of its benefit and its intention to change TP, in particular, in relation to how it deals with transactions in the evolving digital economy. This was consistent with the existing literature reviewed which described the positive impacts that the BEPS project was bringing to ensure coherence, transparency & equity in international tax activity.

Following on from the previous point, a key implication arising from the interview findings relates to how companies are actively effecting change their TP structure, policy and behaviour to react positively to the OECD recommendations in order to protect their brand reputation and to meet the changing business landscape associated with the Digital Economy. This sentiment was not evident in the existing literature that was reviewed in this study.

The document analysis in relation to the Apple and Starbuck's cases provided key findings that mainly juxtaposed the findings arising from the interview process in that both companies were 'guilty' of aggressive tax planning by using 'legal' frameworks to minimise corporate level tax payments. In addition, the findings suggest that both companies did not consider reputational risk during the extended periods of tax avoidance. However, it should be noted that the case study findings did ultimately correlate in part with the interview findings in so far as both companies subsequently sought, in the aftermath of their respective controversies, to address reputational damage through tax settlements. The companies also demonstrated some changes in their tax structures to become more compliant on an ongoing basis.

5.3 Contributions and Limitations of the Research

The data generated from the primary research suggests that the literature needs to be greater around the recorded effects of the OECD BEPS project in terms measuring success against aggressive tax behaviours following changes in TP guidelines that have happened since 2015 given that they will have a significant bearing on the usage of TP by MNCs especially in respect of areas of Digital Economy based activity .

In terms of the interview cohort, ideally, I would have liked to have been able to secure additional respondents from MNCs in different sectors of industry. This would have allowed me to gain some additional insights from areas other than the technology sector.

Finally, I did display inexperience in research terms, when I likely should have adjusted my interview questions after the first few interviews to drill into areas where I saw some patterns evolving. I was probably guilty of sticking to the script a bit too much.

5.4 Recommendations for Future Research

I see a few opportunities in regard to future research potential. These recommendations could well be part of a single study or have papers developed in their own rights. The first area is around expanding on how MNCs have changed their attitudes to TP particularly since the advent of the OECD BEPS initiative. This paper has started to examine that theme but there is an opportunity to re-visit that aspect in more detail by getting a larger interview cohort across a wider MNC and government community.

Secondly, and again in the aftermath of OECD BEPS and various tax controversies involving Ireland, it would be worthy for future analysis to understand, in more detail, Irish industry's and government's perspective on TP usage and how the OECD recommendation are affecting companies' behaviour at a national level. Specifically, how has Ireland, as a country,

reacted to the changing MNC behaviour and in particular, how it affects the FDI decision-making by corporations to invest in Ireland.

Finally, a longer-term research opportunity, perhaps in 5 years, would be to understand how the impact of Brexit affects the area of TP and how the UK regulates TP rules. Presumably, the UK will remain part of the OECD and given its financial and trading importance, it will remain part of the G20 however the true impact of Brexit to the UK economy remains unknown. In particular, the impact to FDI into the UK could be affected and the UK government may want to incentivise investment which, in turn, could impact TP rules.

5.5 Final Conclusion and Reflections

This area of study is covering a topic which is technically complex in its application and management but also complex in terms of the stakeholder groups that International Corporation Tax affects from the company itself, to its shareholders, investors, employees, the governments and tax authorities it deals with and arguably, most important of all, the public who buys its services. Commercial enterprises are in business to achieve the maximum profit ultimately, but the landscape has changed significantly in recent times around how companies do that and are they ethical about it. In relation to corporation tax, this equates to companies paying a fair amount of tax in those countries where it has a functioning subsidiary. During this study I have attempted to bring those diverse elements of the complex landscape together to give the reader an understanding of the complexities and to provide considerations for MNCs who are currently operating in subsidiary activity or who, importantly, are considering investing in a new subsidiary and need an understanding of the factors involved with that.

Finally, my original interest in this topic arose from a work-related project that I was working on which involved TP. This was the genesis of my interest to make this the subject of my dissertation. During the initial research, it became clear that the practice of TP had become synonymous with tax avoidance in many people's eyes. This was accentuated through the high-profile cases in Ireland and the UK which I have referred to throughout this paper. However, I would

encourage students of this area to be wary of being ultra-critical of those organisations. While tax strategy decisions were made, legally if not ethically, to help maximize shareholder return and the profits and associated taxes involved were huge, these companies investment in subsidiary countries have contributed immensely to local economies directly (corporation tax paid) and indirectly (via employee income tax). Ultimately, what I wanted this paper to conclude with is the fact that companies are changing in terms of their TP practice, either voluntarily or through OECD or government regulation .Whatever the true motivation is, in any event, if this is leading to companies paying a fair and equitable level in the countries in which they operate , then the original intentions of the OECD TP guidelines will have been honoured leading to a fair deal for the government, its people and ultimately for the MNC itself whose reputation and brand remains in good standing.

6 References

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7 Appendices

Appendix A – Semi-Structured Interview

Data Collection Interview Questions

Candidate: Mark Finnegan

Course: MBA in International Business Management

Institute: Griffith College Dublin

Dissertation Proposed Title:

'Understanding Transfer Pricing and its role in BEPS as it applies to Multinational Corporation subsidiary revenue and tax reporting'

Research Objective:

The primary research purpose of this dissertation is to provide the parent company of Multinational Companies (MNCs) with a balanced review of the Base Erosion Profit Shifting (BEPS) mechanism, in particular the device known as Transfer Pricing (TP) in order to support their decision making around the parent company's potential international tax strategy as it relates to the reporting of revenue in a subsidiary's jurisdiction.

Privacy & Non-Disclosure Statement:

I will ensure that no respondent can be individually identified from their answers. The name of the respondents will be held separately from their responses (for dissertation audit purposes). I will ensure that no company names of the respondents will be referred to in any part of the dissertation process or the final document itself.

Data Usage and Storage:

The data acquired from the responses will be codified, analysed and abstracted for inclusion in the findings section of the dissertation. The data will be physically stored on a secure share inside the network of the author's employer who have the highest standard of network security protection. The data will be stored for a period of 12 weeks until the dissertation process has been completed at which point, the author will destroy the data.

Candidate Signature:



Date: July 17th 2019

Questions:

- Does your company use Transfer Pricing as the international tax strategy for the reporting of revenue and profits from the subsidiary company to the parent company?
- What is the motivation for using Transfer Pricing as the tax strategy?
- What savings, in percentage or monetary terms, has the usage of TP given the company in terms of reducing its overall corporate tax liability?
- What overhead costs are incurred per annum in terms of maintaining the TP structure?
- How does the senior leadership of the company view potential concerns around negative public perception that transfer pricing and profit shifting equates to tax avoidance?
- Has the senior leadership of the company tracked public, and, by extension, customer sentiment around potential poor publicity associated with perceived tax avoidance?
- If you are not using Transfer Pricing, what alternative method is being used and why?
- What overhead costs are incurred per annum in terms of maintaining the alternative approach?
- How does senior leadership view the success of the alternative method?
- If you are using Transfer Pricing, are you aware of alternative methods?
- Would your organization consider adoption of such methods if it could improve your company's reputation through increased tax compliance?
- Is your company leadership aware of the OECD Base Erosion Profit Shifting (BEPS) plan to address concerns around MNCs potentially abusing methods like Transfer Pricing in order to reduce corporate level tax liability and if they are aware, how do they view this initiative?

Interview #1 - July 22nd, 2019 - Edited Transcript

Saturday 3 August 2019
17:21

Coding Key

Colour	Code	Definition	Description
Gold	IM	Importance	Professional's view of the importance of Transfer Pricing
Green	EF	Effects	The impact of the TP model
Blue	AL	Alternative	Alternative method
Yellow	PE	Perception	How the method is viewed and assessed? Is the model successful?
Pink	ME	Method	Transfer Pricing is the primary method for profit shifting from a subsidiary to a parent multi-national.
Grey	CP	Compliance	What is happening to make TP more compliant?
Light Blue	CG	Behaviour Change	Are companies changing their approach? Not explicitly asked.

Interview

?

Researcher: Interview number one. we're going to go through and the questionnaire with respondents has been pre furnished with.

Researcher: Q1: Is your company is using transfer pricing as the international track tax strategy for reporting of revenue and profits from the subsidiary company back to the parent company?

Respondent: Yes. MNC#1 uses the transfer pricing methodology when calculating the profits from the subsidiary jurisdiction,

Researcher: Great thank you and is there a motivation for using TP as the tax strategy?

Respondent: No, it's just a standard strategy that all peer companies certainly use and we're no different. So, it's just an industry standard.

Researcher: Great, thank you and if you can answer, are there savings, either monetary or percentage wise, that the usage of TP is given the company in terms of reducing its overall tax liability.

Respondent: MNC#1 is non-aggressive when it comes to setting the transfer price of its products and that's why we've managed to stay out of a lot of the headlines. However, we would use a cost plus in most jurisdictions up to 10 and 12% in some countries, depending on how aggressive the Tax Authorities or the business environment is in that particular country. The transfer pricing. I don't have a number, but certainly our transfer pricing strategy is used to minimize tax that we pay, but having said that I know for a fact that our percentages that we use in the cost plus / transfer price is extremely non-aggressive when it is compared with our competitors.

Researcher: Thank you. And in terms of the costs associated with maintaining that model I mean? Do you have any record or understanding about the overhead involved in administering TP?

Respondent : It is quite a small transfer pricing team, so staff costs running the transfer pricing group, there are possibly 7 people in that group and they produce packs transfer pricing packs for all of our sales and marketing subsidiaries, hopefully on for data center entities particularly. Uh and there's a cost to produce those packs. Most of the work for the packs is done in-house. Unless there is a country where this, particular statutory requirements that you know out of the ordinary that you would need local assistance with those will be a professional fee costs. So, I think a lot of the work is based on in-house old costs

Researcher: OK. Thank you To question #5, I mean, If this is answerable, how does senior leadership of the company view any potential concerns around negative public perception that transfer pricing and by extension profit shifting equates to tax avoidance.?

Respondent: It's something that's taken very seriously by the company right up to CEO level and CFO level ; our CVP of Tax is very cognizant of this as is the leader of the transfer pricing group. It's quite a different atmosphere out there in terms of politics, yeah, a lot of this is politics, driven rather than tax authority. Yeah, so that's the shift that we've seen in the last couple of years and particularly the base erosion and profit shifting. The OECD guidelines that have come out there have certainly emboldened a lot of tax authorities to dig a bit deeper and to look a lot more closely at how corps are structuring their tax affairs of which transfer pricing is one. So, you know, our transfer pricing model has been certainly challenged in the past under these new OECD guidelines. It is still coming in for scrutiny. We're still currently, undergoing a number of audits for the outcome of those audits is not clear yet. So, we are seeing tax authorities looking at our Transfer Pricing model and seeing if it is accurate. It always has been examined more and more so now.

Researcher: OK. Thank you. And I think it's a related question, but I mean, thinking about public sentiment or political sentiment, I mean, they are the customer base for the company. Do you see any concerns around that has there been any correlation ever made of that or is it that people not know enough about it?

Respondent: I think it's reasonably, well publicized and you know the public generally seen one view of things and you know in terms of dealing with suppliers such as MNC#1. There only really interested in the price they are charged, rather than, and a good service for that price, rather than the tax structures of a particular supplier. However, having said that it has gained a lot of political momentum on the moral slant of it all, you know, these corporates are not paying their fair share and somebody, a wise man was ask what's a fair share and the answer was more so that is definitely a seed change that I have noticed in the last couple of years very short couple of years is that it has turned from being tax avoidance, we were never accused tax avoidance at MNC#1 before but we're now mentioned in the same breath as other multinational who are structured differently and have a more aggressive transfer pricing policy. So, senior leadership would be aware that there could be potentially negative implications. I believe that for our company these concerns are certainly taken seriously. We have a public relations group as well, who manage all the communication if we're doing something in the country. They are very closely managed. So to say, that our senior leadership within the company, not just the Tax Department, take, you know, how we're perceived externally extremely seriously. It's Tax's job within that approach is certainly key so, we would work very heavily with local PR people in particular country and then there's a person in the US you coordinates globally our message that we would send out to institutions or Tax Authorities or press releases or any of that. So, we do take it extremely seriously. Because reputationally, if our reputation was damaged through, in the headlines for aggressive tax planning. It will not be, you know, well received at senior management level, they expect us to manage our shop, you know, appropriately and stay out of the headlines to the extent possible.

Researcher: Makes sense. Thank you. The next bits are not applicable because you use transfer pricing here. However, I just did want to ask a question. Were you aware of alternative methods? I think you mentioned earlier on the interview that TP was the accepted standard at the time. As the company was evaluating local billing, was there any examination of other methods like for example, formal apportionment?

Respondent: I don't know, I think that may be country specific, yeah, because I think the Transfer Pricing guys, Tax Director X and Tax Director Y would have a better handle on exactly what countries are operating ; certainly we're not standard across the Globe in terms of the Transfer Pricing policy as the percentages that we use in our mark-up exercises generally depends on the country itself and what's will fly in that country is how we tend to structure our affairs per market almost.

Researcher: OK. That's good. I'm going to skip to question,12, you mentioned early on in the conversation about the OECD BEPS project and so it sounds like the company is aware of that with the CFO having good visibility to it at the corporate level?

Respondent: Yeah, absolutely. So we within MNC#1, a Policy , sorry, within MNC#1 Tax Department, a policy group led by Tax Director #3. The group is responsible for monitoring all political and tax authority developments in all countries in all areas that would have an impact to MNC#1 . For example, the digital services taxes. The big ticket item at the moment is that the UK draft legislation last week, the French have done the same a week or 2 before that, and we're seeing unilateral moves by a number of countries with regard to digital services tax and what they're doing is, eh, drafting their legislation, figuring it out and taking feedback down from businesses and other interested parties to fine tune the legislation. That's happening now. Our policy and advocacy group, that that's probably the best way to describe them, they work with industry groups to liaise with tax authorities and express our concerns. We don't generally do it directly as a company, but we do it through various industry groups in each country. That advocacy group, that's all they do so. There's currently to one guy in the UK, probably 3 or 4 more on the trade side service probably 6 people in that group as well as indirect tax. So, there's about 6 people in that group and that's their sole function. So we do take it seriously again, We did put a lot of resources into it.

Researcher: That's the end of the list of questions; anything to add in conclusion?

Respondent: no.

Researcher: Thank You for your time today.

Appendix C – Memory Stick with supporting research data, coding & documents

This collateral will be supplied at the Viva Voce presentation.