Governments to target tech giants' tax avoidance - draft

Western governments are set to target a range of tax loopholes used by technology giants including Apple(AAPL.O), Amazon(AMZN.O) as part of an international drive to tackle corporate tax avoidance, a draft action plan seen by Reuters said.

The Organisation for Economic Co-operation and Development (OECD), which advises its mainly rich nation members on economic and tax policies, has been charged by the G20 group of countries with formulating measures to stop big companies shifting profits into tax havens.

Corporate tax avoidance has become a hot political issue following public outrage over revelations in the past year that companies such as Apple and Google (GOOG.O) had used structures U.S. and European politicians said were designed to minimise the amount of taxes paid.

The OECD is now due to present an "action plan" highlighting broad areas where changes will be discussed to a G20 meeting later in July.

A preliminary draft of the plan, dated May 27, seen by Reuters, shows the organisation has already identified a number of specific profit shifting schemes.

"Domestic and international tax rules should be modified in order to more closely align the allocation of income with the economic activity that generates that income," the draft said, echoing comments from politicians in the United States and Europe in the past year.

Business lobby groups have questioned whether companies do engage in activities to shift profits to units in tax havens and whether there is a need for rule changes.

But as governments struggle with large deficits following the financial crisis, lawmakers have said enough is enough.

The draft plan aims for OECD members and non-OECD G20 members to agree on specific changes to international tax rules in one to two years -- fast by the standards of international tax diplomacy.

Among the areas the draft said the OECD would seek to address are situations where companies avoid creating a taxable residence in a market where they have major activities.

British lawmakers have accused Google of using certain arrangements to avoid creating a tax residence in the UK.

Its low tax bill is a result of channelling revenues through Ireland, from where most revenue is sent to Bermuda, with next to taxes being paid anywhere in the chain.

The action plan said the OECD would also examine the avoidance of tax residence, or permanent establishment (PE) "through the use of commissionaire arrangements" -- a mechanism used by companies including Dell (DELL.O) to avoid reporting revenues in markets where they have major sales.

Also up for possible revision are long-standing "specific activity exemptions" which have been used by Amazon to enable it operate major retail businesses in countries like Britain and Germany without creating tax residences for these businesses.

The OECD draft also said it would target arrangements where treaties designed to avoid double taxation of corporate profits are abused through the use of "dual resident entities" to ensure no taxation whatsoever is paid.

A U.S. Senate Committee in May said Apple had created companies which were registered in Ireland and managed from the United States, and thereby qualified as being tax resident nowhere, enabling the company to shelter billions of dollars income from tax.

The OECD also has its sights set on arrangements where companies allocate profits to tax haven units on the basis these units funded research or bore business risks related to transactions elsewhere in the group.

Microsoft (MSFT.O) uses such arrangements to allocate profits derived from research conducted in the United States to a unit in Ireland, a U.S. Senate investigation last year showed.

There is no suggestion that any of the companies have broken any law and analysts in the investment community say corporate executives have a duty to shareholders to minimise their companies' tax bills.

Dell was not immediately available for comment. All the companies said they follow the tax rules in the countries where they operate.

The OECD declined to comment on the draft.

(Reuters)