

Analysis of How Apple Inc. Avoid Paying Taxes

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Abstract: As one of the largest corporations globally, Apple Inc. generates significant profits, resulting in substantial tax obligations. This paper investigates, through a literature review and case study, how Apple leveraged Ireland's tax laws to minimize its tax burden. The findings reveal that Apple's strategic tax avoidance strategies have had far-reaching implications, both for the company and the Irish economy. Apple's decision to channel its profits through Ireland led to a radical increase in Ireland's GDP, as the company brought substantial investments, talent, and industry development to the country. However, this arrangement also raised concerns about the ethics and legality of Apple's tax practices. In 2017, the change in US tax laws prompted Apple to repatriate its profits back to the United States, where it paid the required taxes under the new regulations. This study examines the complex interplay between multinational corporations, national tax policies, and the broader economic and social implications of tax avoidance strategies. The findings offer insights into the challenges faced by policymakers in balancing the needs of businesses, governments, and the public interest, and highlight the importance of transparency and accountability in the global tax landscape.

Keywords: Tax haven, Corporate tax rates, Asset transfers.

1. Introduction

Apple Inc. is a corporation that engages in the design, production, and promotion of smartphones, personal computers, tablets, wearable devices, and accessories. Additionally, the firm offers a range of related services for sale. The company is a California-based organization that was founded in 1977.

In 2015, it is anticipated that Ireland's GDP growth rate was 7.6%. However, it is a truth that the GDP growth rate in Ireland was 26.3%. It is remarkable to observe the growth of Ireland's GDP, considering it is a developed country. The rationale behind this is that a substantial amount of profits, amounting to hundreds of billions, are transferred to Ireland annually by these corporations [1]. Although these profits were not subject to taxation, they were still included in Ireland's Gross Domestic Product (GDP). Another option is to examine the global ranking of GDP per capita. The top-ranked countries on the list were all tax havens, including Monaco with around \$234,316, Liechtenstein with approximately \$157,755, Luxembourg with approximately \$133,590, and Ireland with approximately \$100,172. The population of England was approximately 46,510, while the population of America was around \$70,249 [2]. An intriguing phenomenon occurred: the GDP growth rate experienced a rapid surge, potentially due to the exceptional sales performance of the

iPhone in recent years. Additionally, it serves as an excellent location to minimize one's tax liability [3]. Delaware is frequently ranked as a leading domestic and international tax haven due to its policy that enables companies to reduce their taxes in a different state. This is achieved by transferring royalties and similar revenues to holding companies in Delaware, where they are exempt from taxation, regardless of where the companies conduct their business or have their headquarters. The tax arrangement is commonly referred to as "the Delaware loophole" in tax circles. During the past ten years, the Delaware loophole has allowed corporations to decrease the amount of taxes they pay to neighboring states by around \$9.5 billion [4].

Apple Inc's earnings in 2022 amounted to \$99.8 billion. Apple Inc. came close to reaching a valuation of \$100 billion, making it the second most lucrative business in the world after Saudi Aramco. Before 2017, Apple Inc.'s effective tax rate on its foreign earnings was under 3%. However, the corporate income tax rate in the USA stood at 35%. Therefore, we hypothesize that companies with innovative cultures are more inclined to participate in tax avoidance [5]. This pertains to the rivalry of multinational corporations, including Apple Inc, Google, Microsoft, and Amazon, as well as the European Union, the United States government, and tax havens. Thanks to the assistance of highly skilled tax consultants, numerous major corporations effectively minimize their income tax payments by employing complex corporate structures in offshore tax havens. Apple Inc. is at the forefront of this industry, with 93.8% of its global profits owned by its foreign subsidiaries [1].

One fundamental aspect of tax payment is that enterprises operating exclusively within a particular jurisdiction should fulfill their tax obligations to that country. However, many international corporations, such as Apple Inc., Google, Microsoft, and Amazon, have greater complexity when it comes to fulfilling their tax obligations to the government [5]. These countries employ a method known as value-added taxation to collect taxes from multinational corporations.

These United States-based multinational corporations generate substantial annual revenues and profits, and the taxes they pay constitute a significant portion of the US government's income. If all companies, like Apple, choose to utilize tax havens abroad, the US government will experience a significant decline in revenue allocated for infrastructure development. Simultaneously, this will also escalate the burden on average Americans. The US government plans to intensify tax enforcement, resulting in a decrease in the quality of life for average American citizens.

This article mostly examines Apple's tax avoidance strategies. The paper aims to analyze the rationale behind Apple's tax avoidance strategies and evaluate their potential consequences on various regions and countries.

2. The methods of Apple Inc using for tax avoidance

The following is an introduction and analysis of Apple's tax avoidance policy. Initially, this paper will examine the theoretical process by which the government collects taxes from these multinational companies. A hypothesis is presented to elucidate this process. For instance, Apple Inc. would generate a profit of \$1,000 in Canada if it sold an iPhone. Assume that the iPhone's screen was manufactured in South Korea, the processor was manufactured in the United States, the camera was manufactured in Japan, and the shell was manufactured in China, which means that the iPhone was manufactured in South Korea, the United States, Japan, and China before being sold in Canada. Value-added taxation is a method of tax collection that is exclusively theoretical. Next, this essay will continue to examine how the governments of these countries collected taxes. To supplement the preceding example, the following information is provided. If the screen of this iPhone, which was manufactured in South Korea, is valued at \$200, the South Korean government requires payment of a corporate income tax of 27.5% on the screen's value. Additionally, taxes are paid similarly for other countries, albeit with varying values and items. Lastly, if the total valuation

of the iPhone was \$900 after the addition of all taxes from these countries. Additionally, it was sold for \$1,000 in Canada. Therefore, the iPhone generated a profit of \$100. The iPhone was required to pay taxes to the Canadian government at a rate of 26.5%, but it only had to pay a profit of \$100. Then, the taxes on the iPhone were paid in a manner that was considered value-added, which could also be interpreted as regional expropriation.

However, it was very hard to measure the value of the mobile phone parts and pay the taxes for the local government. So Apple Inc had a lot of room to manoeuvre to avoid taxes through the different tax laws in different countries. Here is a simple reason why they chose Ireland, and the method which Apple Inc wanted to find to avoid the taxes was also like. It is known that these giant multinational companies employed many famous lawyers and help them to achieve the goal. Apple Inc., as one of the multinational Giants, its profit was a large number and was nearly \$100,000,000,000 in 2022. Those great lawyers who were proficient in tax law must help a lot about this. It is estimable that if these lawyers find the way to save only one point of the profit of \$50,000,000,000, that was also a big number which was \$500,000,000, especially for such profit of the big company like Apple Inc. Apple asked these lawyers must create one method to avoid taxes. These lawyers also find some policy to avoid the taxes. The first thing they needed to do was finding a country which has low tax rate. They found Ireland which had a tax rate 12.5% before 2018. At the same time the tax rate was 35% in the USA, 25% in China, 30% in Japan, and 30% in Australia, which were all higher than that in Ireland. It can be found that there were some places which was just like the tax haven, such as the Virgin Island and the Cayman Islands which only had the tax rate about 0 and some places had it about 2.5%. It was much more lower than that in Ireland. And the reason why Apple Inc. chose Ireland was that it was a developed country. Apple Inc., as a big multinational company, would not set up a branch in a little island, for which they finally chose Ireland.

Once they discovered the country of Ireland, their next task was to determine the method by which they might transfer all of their profits to Ireland. Additionally, there is an assumption based on the provided example. The iPhone was successfully launched in Canada, resulting in a profit of \$100. Currently, Apple Inc.'s business in Ireland will impose fees on intangible assets, such as trademarks and patents, originating from Canada. The expense associated with intangible assets, such as trademarks and patents, was in the form of royalty payments. If the royalty payment equaled the profit in Canada, it would amount to approximately \$100. Apple Inc. successfully transferred all profits to its branch in Ireland, thus avoiding any tax obligations in Canada. The profit generated by the iPhone, approximately \$100, has not vanished. The company relocated to its division in Ireland from other international corporations. The royalty payment might account for the movement of the earnings.

There was a controversy regarding why the Ireland branch could invoice other nations for intangible assets like trademarks and patents, even though roughly 95% of the research and development was conducted in America.

The US government also conducted an investigation against Apple Inc in 2013. Apple Inc. also employs a coping mechanism to deal with it. The agreement was referred to as a Cost Sharing Agreement. The Ireland branch made a payment to the American company to conduct research and development. Subsequently, the Ireland office can levy royalty payments from corporations worldwide.

3. The real reason for Apple Inc. choosing Ireland

Currently, the profit was located in Ireland. However, Ireland also maintained a tax rate of approximately 12.5%. Nevertheless, Apple Inc.'s tax rate in 2014 did not reach 0.005%. Before 2014, Ireland's tax code contained a loophole. A prevalent aspect of tax law is the requirement to

remit taxes to the country in which they are administered. However, the tax legislation in the United States and Ireland exhibited disparities. The company's management was focused on determining the tax liability. Apple Inc. strategically acquired a company located overseas, namely in Bermuda, to exert control over its Ireland branch. This arrangement was designed to ensure that the Ireland branch would not be subject to taxation in Ireland and would be exempt from paying taxes to the Irish government. Apple Inc. successfully evaded the 12.5% tax in Ireland. However, achieving the entire set of controls proved to be significantly more challenging than what is commonly said. To expand its operations, the company established other branches in Bermuda, Holland, and Ireland, and also entered into numerous partnerships. Additionally, it was necessary to transfer the profits multiple times to adhere to the tax regulations of other countries, thereby evading taxes. It is noteworthy to mention that these controls also had charming appellations. Apple Inc. referred to this tax strategy as the "Double Irish" and also as the "Double Irish with Dutch Sandwich."

Following the implementation of the Cost Sharing Agreement by Apple Inc., the Ireland branch obtained intellectual property rights and was authorized to levy charges on all enterprises for its use. Subsequently, all the financial gains generated abroad were located in Ireland. Furthermore, there was no financial gain in foreign nations, resulting in the absence of any tax payment. The branch was located in Ireland, not in America, and hence was exempt from paying any taxes. Under the tax legislation in Ireland, the entity that had real authority over the Ireland branch was not physically located in Ireland and therefore was not obligated to pay any taxes. Apple Inc. effectively minimizes its tax liabilities in other countries. That statement does not imply that Apple Inc. did not pay any taxes overseas. It just means that the amount of tax paid was significantly decreased. During this period, Apple Inc.'s overseas tax rate fell short of reaching 4%.

The loophole in Ireland's tax rules enabled numerous global corporations, including Google, Meta, Apple Inc., and Amazon, to exploit this method as a means of tax avoidance. Between 2010 and 2015, Ireland received approximately \$100 billion in profits. In 2018, the cash holdings of American multinational companies in Ireland exceeded \$1 trillion. It has the potential to provide each American with \$3000, which is a substantial amount. The European Commission determined that Ireland provided Apple with favorable tax treatment, resulting in unpaid taxes totaling \$14.5 billion from 2003 to 2014. Apple has exploited U.S. and Irish tax restrictions by utilizing tax havens in Ireland [6].

4. The reason of Ireland keeping its tax loopholes

Despite the absence of taxation on these enterprises, all of these large multinational corporations maintain substantial research and development facilities in Ireland. This could lead to a significant increase in demand for individuals with skills and promote job growth. A quarter of the employment post was contributed by American companies in Ireland. And foreign countries imposed an 80% tariff. Ireland has successfully established a sound medical supply chain and talent reserve.

Based on the aforementioned topics, Ireland stands to benefit from them. American corporations could potentially get financial benefits from it. However, these countries that were previously subjected to taxation experienced a loss. As an illustration, the European Union was among the entities mentioned. The individual expressed anger towards Apple Inc. for evading taxes. In 2016, the European Union issued an order following a three-year inquiry, which revealed that Apple Inc. had accumulated a profit of 110,800,000,000 Euros between 2004 and 2014 without paying any taxes, thanks to the assistance of the Irish government. Apple Inc. was requested to reimburse a sum of 130,000,000 Euro in taxes, which constituted the highest penalty ever imposed by an international tax authority. However, the Irish government promptly addressed this issue and stated

that Apple Inc did not violate any tax rules in Ireland. The European Union, on the other hand, claimed that this action constituted an infringement of Ireland's national sovereignty.

The European Union would significantly influence Ireland's reputation. If Apple Inc. incurred a fine, it is possible that other corporations, such as Google, Microsoft, and Pfizer, may choose to withdraw from Ireland. Ireland's tax code contains deliberate loopholes that are intended to entice multinational companies. During the interview, Mr. Cook expressed his positive opinion of Apple Inc. but simultaneously described the European Union as being entirely politically unsatisfactory.

The American government expressed its displeasure with Apple Inc.'s decision to retain funds in Ireland and exerted pressure on the company. In addition, they requested Mr. Cook's presence at parliament for a meeting. In response to significant pressure exerted by the US government, the Irish government took action to eliminate existing loopholes in its tax legislation in 2015. However, Ireland also granted 5 years for these corporations to exit. Subsequently, these lawyers also devised something. The legal team at Apple Inc. discovered an island named Jersey, located near England. They established three shell businesses on the island and implemented measures to evade taxes. Additionally, it was given the intriguing designation of Green Jersey.

5. The tax law in America

Apple Inc. had been anticipating this opportunity for almost a decade. As previously stated, tax legislation in Ireland and the United States deviates from that of other nations. We have also provided information regarding Ireland's tax legislation. The fundamental tax regulations in the United States are examined about the practice of aggressive tax evasion, and the pertinent parties involved are identified [7].

If this corporation was established in America and it was an American company. Regardless of the country from which it generates income, it must pay taxes to the American government. A loophole allows money to avoid taxation as long as it is not repatriated to the United States. Apple Inc. has accumulated a significant amount of cash in foreign countries to the extent that, by 2017, it surpassed the foreign exchange reserves of the United Kingdom in terms of size. In 2017, following Trump's assumption of office, he advocated for the tax reform legislation. The corporate tax rate in America has been reduced from 35% to 21%. Starting on January 1, 2018, the federal corporate income tax rate will be decreased from 35% to 21%. The expensing of machinery and equipment is implemented for five years (2018-2022) and then gradually reduced over the following five years [8]. The tax rate for repatriation of foreign money varies between 8% and 15.5%. Overseas profits are exempt from taxation if they are not repatriated to the United States, but they become subject to taxation if they are repatriated. Apple Inc. chose to relocate its cash since it was not feasible to keep a large amount of cash offshore. In 2017, Apple Inc. repatriated around \$250 billion in cash to its United States headquarters and made a one-time tax payment of \$38 billion to the American government. Following the enactment of the law, an amount of over \$1 trillion in cash was repatriated to the United States, resulting in the payment of over \$100 billion in overdue taxes. Mr. Cook also commended Trump on the tax law, stating that it resulted in a mutually beneficial outcome for both America and Apple. Apple Inc. repatriated all of its funds to the United States. Apple allocated the funds specifically to repurchase \$600 billion worth of its shares, rather than using it for any other acquisitions or investments. This amount of money was sufficient to acquire any publicly traded company in China. If Apple were to repurchase \$100 billion annually and possessed a market capitalization of \$3 trillion, it would also yield a minimum annual return of 3% to its stockholders. It exceeded the amount of money deposited in the bank. Thus far, the increase has not been taken into account in Apple's shares. Mr. Buffett has made significant investments in Apple Inc. stock in recent years.

The American government possessed knowledge of Apple Inc.'s tax evasion practices and had inside sources that corroborated this information. However, the lack of concern was due to the American government's awareness that the tax would ultimately be returned to the United States. Indeed, Apple Inc. did not pay taxes in other nations and did not provide any to Ireland. The American government finally received it.

6. Conclusion

In summary, a fundamental comprehension of how Apple Inc. evaded taxation can be established. Before 2015, it selected Ireland as the country of choice and established a branch there. In addition, employing the methods that are previously discussed allowed for the circumvention of taxes in Ireland. In 2015, the Irish government enacted a revision to the tax legislation. The tax code was also modified by the American government. In 2017, Apple Inc. repatriated all of its offshore funds to the United States and fulfilled its tax obligations to the American government by the revised tax regulations. This paper mostly focuses on Apple's tax avoidance practices. It is mostly an examination of the competition and conflict between different governing bodies. Based on these financial events, it is not appropriate to analyze financial markets from a fixed perspective. It has been the subject of ongoing negotiations and discussions among policymakers, regulators, and participants.

By examining Apple's tax avoidance practices, the strategy of choosing Ireland to avoid tax allowed Apple to save billions of dollars in corporate taxes. Ireland benefits from the presence of Apple and other global firms that choose to operate there to avoid taxes. This has particularly positive effects on Ireland's development, especially in the pharmaceutical industry. Simultaneously, it exerts a detrimental influence on the US government and the American populace, heightening their tax burden before Apple repatriates its assets to the United States.

This report fails to investigate if the US government maintains a reduced corporate tax rate for companies that repatriate offshore assets and pay substantial corporate taxes in 2017. Furthermore, it is important to ascertain whether Apple has employed any other tax evasion strategies.

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