

AMAZON



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LARGEST COMPANY
IS SUBSIDISED BY
YOU**



Centre for
International
Corporate Tax
Accountability
and Research

MAY 2022

A large warehouse filled with shelves of various products, with two workers in the foreground using handheld devices. The shelves are densely packed with a wide variety of goods, including household items, electronics, and packaged goods. The workers are seen from behind, focused on their tasks. The overall scene depicts a busy, well-stocked distribution center.

Public money is subsidising the relentless growth of the world's largest and most lucrative company: **Amazon...**

Summary

...These public subsidies come in a variety of forms.

First, they come through tax breaks and laws which allow widespread aggressive tax avoidance by multinational companies like Amazon and make it difficult for tax authorities to challenge opaque corporate tax planning. Second, many states directly subsidise Amazon with public funds, ostensibly to support investment in particular regions. Recent research in the United States of America shows how Amazon's growth strategy feeds off state and municipal government tax breaks and subsidies. Finally, the rapid growth of Amazon's most profitable segment – its cloud computing business – is increasingly being indirectly supported by taxpayers through hundreds of billions of dollars in government contracts around the world.

This report focuses on three key jurisdictions which are representative of Amazon's global practices: the United States of America (US), the United Kingdom (UK) and Australia. Citizens and taxpayers in every country where Amazon operates deserve much greater transparency regarding this tech giant and its financial practices. When public money is used to support the growth of this multinational, at the very least, the public has the right to know if and how Amazon contributes to the public services and infrastructure that help generate profits, including by engaging in responsible tax practices.

Despite the apparent gaps in Amazon's transparency and accountability record, it has shown little interest in responding to investor and community concerns. Between 2017 and 2019, the United Nation's Principles for Responsible Investment (UNPRI) ran a collaborative engagement on corporate tax transparency which found Amazon "unresponsive".¹ Nonetheless, pressure is increasing for Amazon to change its behaviour in relation to tax. Just in 2020, Amazon reported that it paid out over US\$1.2 billion in settlements with tax authorities.² The multinational also estimated on a contingent basis that it may be liable for up to

US\$3.2 billion in further tax payments if its practices are challenged.

Amazon's lack of public transparency, combined with the company's significant tax disputes and well known history of tax avoidance means that Amazon must be required, as a matter of urgency to report publicly on its country-by-country revenues, operations and tax payments so that investors, taxpayers and governments can determine the role that Amazon plays both as a recipient of public investment and a corporate citizen in the jurisdictions in which it operates and ensure that necessary changes, if any, are made.

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Amazon Web Services

Headquartered in Washington state but incorporated in Delaware, Amazon is publicly listed with a market capitalisation of US\$1.6 trillion. It is one of the world's largest and most recognisable corporations and has grown astronomically since its inception in the 1990s, and especially since 2010. Amazon Web Services (AWS) is one segment of Amazon. A lesser known-but extremely profitable cloud computing segment.

Table 1: Net sales and operating income for Amazon's three business segments, 2021

(US\$ billions)

Segment	Net sales	Net sales % of total	Operating income	Operating income of total	profit margin profit margin
North America	\$280	60%	\$7	25%	2.5%
International	\$128	27%	(\$0.9)	-	-
AWS	\$62	13%	\$18.5	74%	30%
Total	\$470		\$25		5.3%

Source: [Amazon.com](https://www.amazon.com), 10-K report, for 31 Dec 2021.

AWS is by far the smallest segment of Amazon's business with net sales in 2021 of US\$62 billion, compared to Amazon's retail segments, organised by geography: North America (US\$280 billion) and International (US\$128 billion). AWS net sales are only around 13% of Amazon's total, but contribute nearly 75% of the company's profits. Based on the aggregated figures in [Amazon.com](#) Inc's annual report (10-K), the company's overall profit margin is around 5-6%.

Amazon's revenues are accelerating rapidly in all markets. From 2020-21, Amazon's revenue in the geographic segments it reports on increased between 15% and 39% from 2019-2020 (see table below).

Table 2 Amazon (net) sales by country, 2021

(US\$ billions)

Country	Net sales 2021	Net sales as % of total	% change since 2020
United States	\$314	67%	19%
Germany	\$37	8%	23%
UK	\$32	7%	18.5%
Japan	\$23	5%	15%
Rest of World	\$64	14%	39%
Total	\$470		

Source: [Amazon.com](#), 10-K report, for 31 Dec 2021.

AWS is the fastest growing segment within Amazon's business. As the originator of cloud computing Amazon holds around one third of the global market. AWS had a long lead time ahead of Google and Microsoft, having set up the cloud computing business organically since the early 2000s as a way of restructuring and reorganising its in-house infrastructure.³ Nonetheless, other tech giants and smaller companies have quickly entered the space and are now competing with AWS for this lucrative and powerful place in the global digital economy.

Amazon government contracts

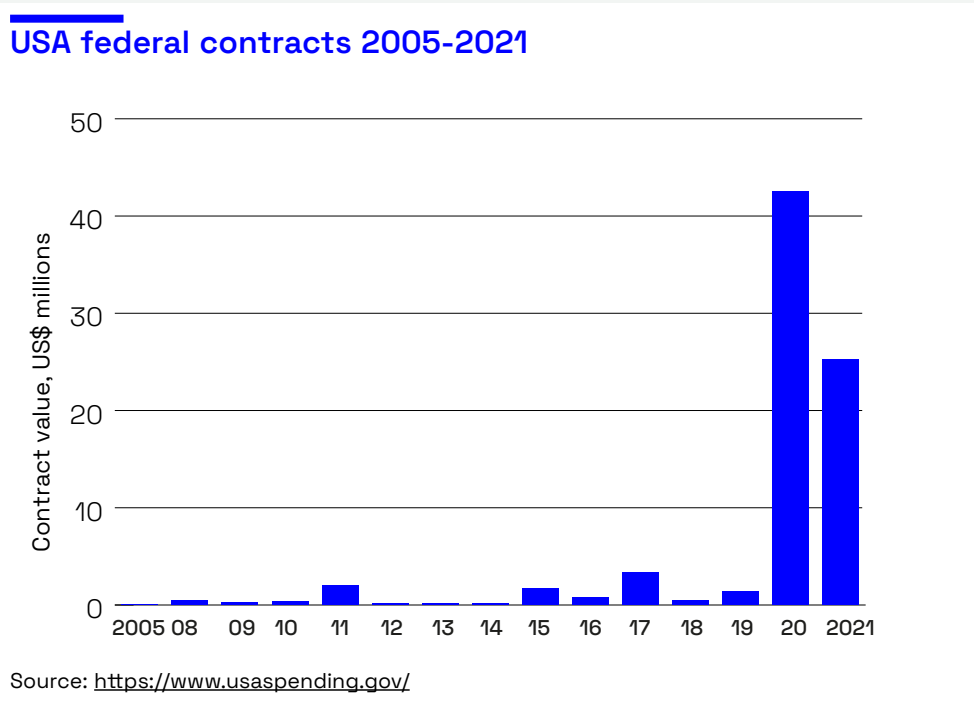
The majority of Amazon's public sector contracts are through AWS for cloud computing services. In this domain, Amazon has been growing exponentially in the last few years with hundreds of millions of dollars' worth of contracts with governments at all levels worldwide. Amazon's annual report cites exposure to government contracts as a significant risk factor for its business.⁴ The deep integration into the storage and management of public sector data by Amazon, and other corporations, presents risks for democratic governance and

regulation, which require further examination. However, the focus in this analysis is on the obvious contradictions in issuing public sector contracts to one of the world’s most notorious tax dodgers.

Below is a more detailed, but incomplete, analysis of AWS government contracts in the US, UK and Australia. However, the growth of AWS’ footprint in the public sector is not limited to these jurisdictions. Recent reports from the European Union (EU) highlighted that Amazon has been growing its presence in cloud computing there just as quickly, and that public authorities are key AWS clients. In the EU, Amazon held virtually no public sector contracts until 2019, when it obtained 12 contracts worth €464 million. In 2020, Amazon added a further 18 contracts worth €402 million; and in 2021, 32 contracts worth €503 million.⁵ More than 90% of these contracts are with AWS rather than other segments of Amazon’s business. While the majority of these contracts were in the UK, it is clear that AWS is expanding its public sector influence throughout Europe. Other key contracting partners for AWS at this stage include governments in Belgium, Switzerland and Denmark.

United States of America

Amazon, and in particular, AWS, has rapidly increased its contracting relationship with the US federal government in the last few years. The US federal government database of contracts shows that AWS has entered into more than US\$88 million worth of contracts since 2005, and more than US\$78 million worth of contracts just since 2018 (see graph below).⁶ AWS accounts for more than 83% of all of Amazon’s federal government contracts: US\$65 million since 2018. Funding for AWS contracts is primarily from the Department of Defense, as well as the General Service Administration, with smaller contracts for Treasury, the Department of Justice, the Securities and Exchange Commission and a range of smaller contracts with other agencies.





US\$ 160
MILLION

AWARDED BY NORTHROP GRUMMAN, ONE OF THE
WORLD'S LARGEST WEAPONS MANUFACTURERS

Amazon also receives significant US federal government money via subawards from other contractors. In total, Amazon has received more than US\$314 million in sub contracts, and all of these sub-contracts have been for AWS. Again, these amounts have been accelerating in recent years, with US\$211 awarded since 2018. The vast majority (US\$160 million) of these subcontracts are awarded by Northrop Grumman, one of the world's largest weapons manufacturers, while global consulting giant Accenture accounts for around US\$15 million. The largest funding agencies for these contracts are Defense (US\$78 million), followed by the Social Security Administration (US\$67 million) and the Department of State (US\$46 million).

Obtaining a comprehensive picture of Amazon's public sector footprint in the United States is virtually impossible. There is evidence that the contracts reported in the US federal disclosure database do not tell the complete picture of Amazon's dominance. Part of the explanation for this is the classified nature of the contracts AWS is awarded.⁷ In other cases, contracts are awarded to third parties which then migrate government data to the AWS cloud.⁸ There are many media reports implying that AWS' footprint in federal government contracting is much larger than it appears from publicly disclosed data.

AWS has contracted with US federal government agencies for cloud computing services since 2010, when the Obama Administration sought to reduce the cost associated with data hosting.⁹ Beginning with the Recovery Accountability and Transparency Board, the government moved [Recovery.gov](https://www.recovery.gov) to AWS' cloud. Around the same time, Amazon moved data for NASA, the Federal Register, Social Security and the Department of Energy. In 2013, AWS was awarded a US\$600 million cloud computing contract by the Central Intelligence Agency.¹⁰ It was recently reported that AWS received a contract worth up to US\$10 billion from the National Security Agency.¹¹ Another US\$10 billion cloud computing contract for the Pentagon has been cancelled in the context of legal disputes with Microsoft, Amazon and the Department of Defense. It is expected that this contract will become a multivendor arrangement and that both AWS and Microsoft will have the opportunity to tender.¹²

Disclosure of public contracts at other levels of government varies even more. It is increasingly clear that Amazon is focused on growing its business through contracting with governments and public authorities such as states, counties, school boards and municipalities. A 2018 report by the Institute for Local Self-Reliance (ILSR), for example, revealed that Amazon has obtained many contracts through joint purchasing agreements which establish it as the default supplier of services to cities, local governments and school districts.¹³

Recent research by U.S. non-government organisation PowerSwitch Action explored a sample of government contracting data in California at the municipal level. To understand relationships between Amazon and local governments, the organisation filed requests for public records with 91 agencies in 37 distinct California cities and counties. The amount and quality of information returned in response to these requests varied significantly. Noting the limitations of the data and the transparency and accountability requirements, PowerSwitch Action was able to observe AWS had relationships with 16 of the 37 jurisdictions investigated. Agencies may have direct contracts with AWS, or they may use third-party or cooperative purchasing arrangements, such as the national AWS contract through the Omnia (US Communities) purchasing cooperative with Fairfax County VA as the lead agency. (The Omnia contract does not create a direct AWS relationship with the agency or government; instead it uses DLT Solutions as a contractor. There may be other similar cooperative agreements involving Insight Public Sector as an AWS contractor.) There are not typically master agreements. For example, in the city of Los Angeles, the airport, the port, the IT department, and department of general services each have an AWS agreement. The amounts that jurisdictions pay for AWS services varies significantly. It is not clear what the basis of the charging policy was in many cases.

Cloud computing in the public sector is growing exponentially in recent years and is core to Amazon's growth strategy. Since 2018, AWS has hired 66 senior US federal government officials.¹⁴ These staff have experience in procurement and / or technology and more than half of them are from Defense. Jeff Hauser, executive director of the Revolving Door Project, a group which analyses the relationship between executives in the public and private sectors in the US, has cautioned that AWS's hiring practices may generate a "*potentially significant and insurmountable advantage in cloud computing.*" More troubling is the possible consequence such a dependent relationship between Amazon and the US government:

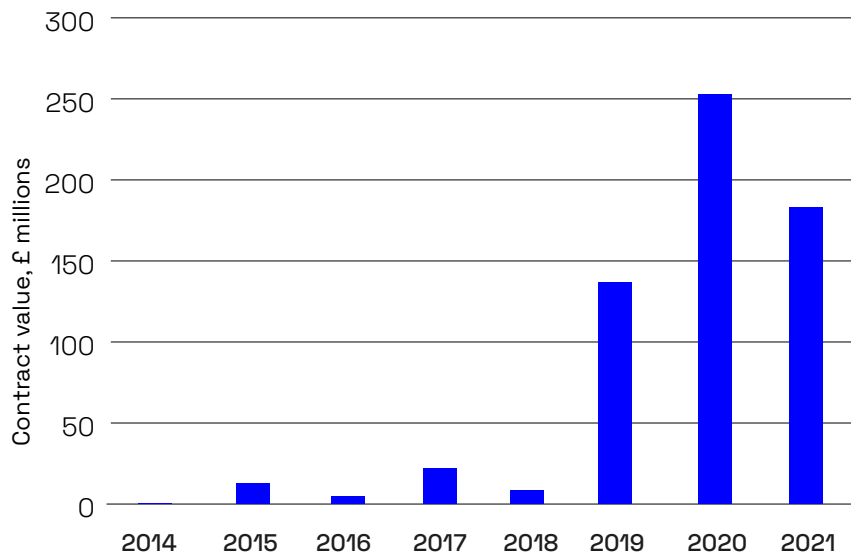
“The more Amazon becomes an unavoidable part of the government, the more difficult it becomes for the government to properly regulate Amazon”.¹⁵



United Kingdom

In the **United Kingdom**, AWS is a top government IT supplier with almost £600 million awarded on over 100 contracts between 2018-2021. Major contracting agencies for AWS included the Home Office (£225 million); HMRC, the UK tax authority (£162 million), the Department of Work and Pensions (£60 million), the Ministry of Justice (£46 million) and the National Health Service (NHS) (£15 million).¹⁶ Recent contracts for cloud computing between the UK government and AWS also include very sensitive documents held by MI6, MI5 and the Ministry of Defence.

UK public contracts 2014 -2021



Source: <https://www.gov.uk/contracts-finder>

Amazon’s contracting relationships with UK public authorities have rapidly accelerated in recent years, as they have in many jurisdictions. In the years up to 2018, Amazon was awarded a total of around £20 million in public contracts. In the years between 2018-2021, the total value of Amazon’s public contracts has jumped to £597 million, thanks to a handful of very lucrative, medium-term contracts with the Home Office, HMRC and its other key contracting partners. There has been a further jump in the last two years with more than £350 million contracts awarded since the beginning of 2021. Almost all of these contracts are with AWS, rather than other Amazon business segments.

Most of Amazon’s UK public contracts are with the central government, as well as a handful of relationships with city and local authorities. In late 2020, AWS entered into a memorandum of understanding with the Crown Commercial Service.¹⁸ This agreement treats the UK central government as one client for AWS with common pricing and contractual terms. The ‘One Government Value Agreement’, as it is known, provides discounted rates to UK government clients and will include training for 6,000 civil servants in the use of cloud computing.¹⁹ It is difficult to assess the full scale of AWS’ business in cloud

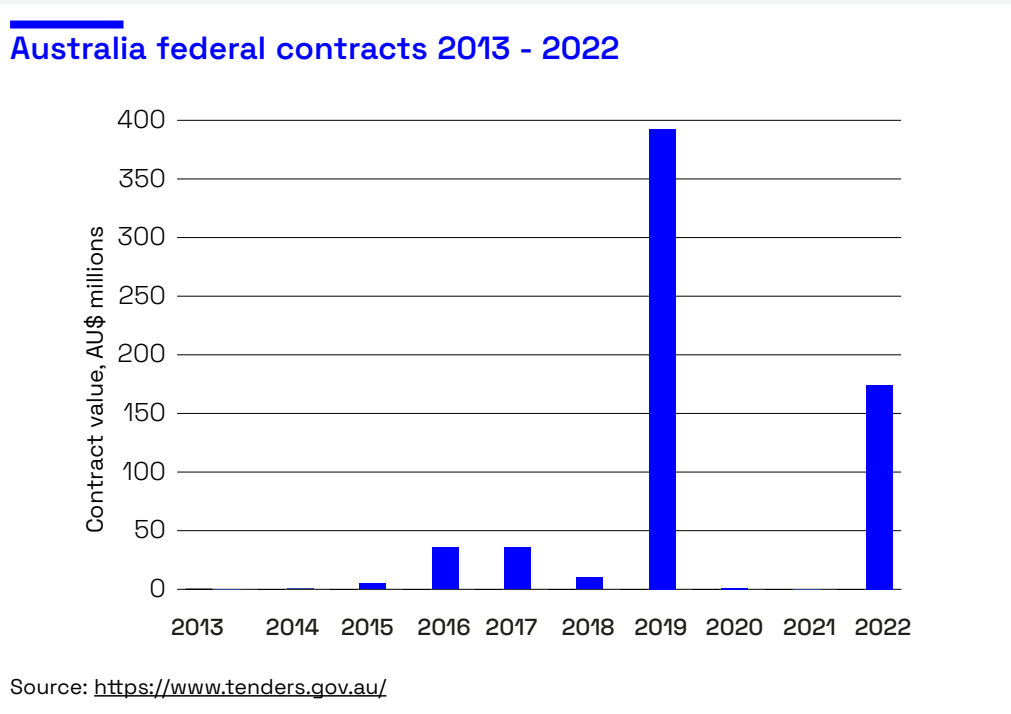


computing given the complexity of contracting and sub-contracting arrangements at different levels of government and public authorities. For example, over 150 companies have provided £1.3 billion services to the government via AWS' G-Cloud.²⁰

The heavy reliance of the UK government on AWS for cloud computing services, and in particular for storage of state secrets held by intelligence agencies, has been the subject of controversy and questioning in the media, and by various political figures.²¹

Australia

AWS has collected AU\$626 million in federal government contracts in Australia. The most significant of these is a AU\$390 million contract with the Digital Transformation Agency in 2019 and a recent extension of that contract for AU\$174 million up to 2025. In total, **AWS will receive over AU\$560 million from the Digital Transformation Agency between 2019 and 2025.** The original 2019 contract ballooned in value from AU\$39 million,²² so the total cost of this latest contract may well exceed the initial price at which contracts were awarded. Once governments are locked into external contracts, corporations have a pattern of increasing costs, and profit, over time.



While other contracts pale in comparison to the Digital Transformation Agency, AWS also received more than AU\$31 million from the Australian Taxation Office (ATO) and more than AU\$10 million from the Department of Employment, Skills, Small and Family Business, as well as a handful of contracts from a wide range of other federal government agencies. In addition to these direct contracts, AWS receives subcontracts for cloud computing services from other government vendors. Recently, the Australian Bureau of Statistics contracted PWC Australia as its IT partner for the 2021 Census. PWC ran the digital census on AWS, after a failure by IBM on the 2016 census.²³ In April



2020, the Australian federal government controversially awarded Amazon the contract to host data for the failed COVID-19 tracing app despite the fact that several wholly Australian-owned cloud storage services had been vetted.²⁴

Taxes

Between 2010 and 2020, Amazon had cumulative tax settlements of US\$1.5 billion.²⁵ This is equivalent to approximately 25% of the total value of income taxes paid between 2010 and 2020.²⁶ This suggests a pattern of significant underpayments over a decade which have been, and will continue to be, contested by tax authorities around the world. As of December 31, 2021, Amazon had approximately US\$3.2 billion recorded in 'tax contingencies', up from US\$2.8 billion the year before.²⁷ This means that Amazon reasonably expects it may need to pay these amounts out in tax if its accounting and financial practices are challenged. Tax contingencies can be an indication of the 'aggressiveness of a company's tax practices'.²⁸

Amazon is under increasing scrutiny in relation to its tax planning and corporate structure in recent years.²⁹ In addition to more than US\$1.2 billion in tax settlements in 2020, Amazon has recently reported accrued interest and penalties of US\$131 million (2019) and US\$83 million (2020), and interest and penalties of US\$20 million (2018), US\$4 million (2019) and US\$(48) million (2020).³⁰

A recent and innovative analysis by economists on behalf of the Left in the European Parliament describes Amazon's tax practices as based on a 'tax credit arbitrage scheme'.³¹ Coordinated via Luxembourg, this scheme is said to facilitate shifting losses generated in other parts of the world into tax credits in the United States. Through this process, the researchers concluded that over the last decade Amazon's tax schemes have dramatically eliminated or reduced tax obligations all around the world, including in the US.³²

In 2017, the European Commission found that Amazon had been granted unlawful state aid by the Luxembourg government between 2006 and 2014. It ordered Luxembourg to collect €250 million in back taxes, plus interest.³³ The decision was based on tax ruling from the Luxembourg tax administration which endorsed Amazon's European corporate structure that saw profits from European operations not being subject to corporation taxation in Luxembourg. The European Commission argued that this ruling went beyond the normal application of Luxembourg tax law. Luxembourg was the main profit centre in Europe for Amazon, with Amazon subsidiaries based in other European countries providing services to Luxembourg company on a low margin.³⁴ This meant that profits and taxes in the other EU member states where its subsidiaries operated were negligible.

In 2021, the European General Court upheld Amazon's appeal against the 2017 ruling, seriously undermining European efforts to tackle multinational tax avoidance.³⁵ The European Commission has decided to appeal the decision through the European Court of Justice.³⁶ Notwithstanding the overturned ruling at the European Commission level, in 2018 Amazon paid an undisclosed

US\$ **3.2** BILLION RECORDED IN
'TAX CONTINGENCIES'

TAX CONTINGENCIES CAN BE AN INDICATION OF THE
'AGGRESSIVENESS OF A COMPANY'S TAX PRACTICES'.

sum to settle a claim by the French Government for €200 million in relation to minimising its tax bill via Luxembourg.³⁷ In late 2017, Amazon also reached a settlement with the Italian tax authorities to pay €100 million.³⁸

While asserting the legitimacy of its corporate structure in the European courts, Amazon has altered its corporate structure due to regulatory changes in the United Kingdom and disputes in France and Italy. In 2015, the UK government introduced a punitive 25% tax on 'diverted profits' where multinationals artificially shift monies away from UK subsidiaries to avoid tax.³⁹ Despite continuing to deny its corporate structure is tax-motivated, Amazon opened a branch of its Luxembourg operations in the UK, accepting that the company had a taxable presence in the country and meaning that that the company would declare revenues and profits made by Amazon from UK customers to HMRC and escape the diverted profits measures.⁴⁰

Despite this restructuring exercise, TaxWatch observed that Amazon's corporate structure and tax conduct remains unsatisfactory.⁴¹ Amazon does not publish sufficiently transparent accounts to enable external observers to analyse the business and its compliance with tax law. Amazon's global and Luxembourg accounts show that it had no tax liabilities in Luxembourg because its profit was offset by deferred tax assets. As a result, Amazon received tax credits in Luxembourg. There is no evidence available to establish whether Amazon paid any tax in specific jurisdictions like the UK. Amazon's use of tax assets to offset its liabilities is partly based on the company's assertion that its Luxembourg earnings are 'uncertain'. Given that pandemic dramatically boosted global sales for Amazon and further increased its advantages over traditional retailers,⁴² this seems odd.

While Amazon claims that it generates massive profits outside its home jurisdiction of the US, and pays significant taxes on these profits, Amazon's disclosures about non-US taxes are reported in aggregate. Further, Amazon's profits outside the US can now be transferred to the US where they are subject to a special tax regime, the Foreign-Derived Intangible Income deduction (FDII). Without public country-by-country reporting, it is simply not possible to properly analyse Amazon's tax affairs and assess corporate claims regarding compliance with tax law.⁴³

Luxembourg remains critical to Amazon's tax planning not only in Europe,

but globally and the tech giant has at least 10 companies incorporated there.⁴⁴ Amazon subsidiaries in Luxembourg appear to charge fees to Amazon companies operating not only in Europe, but globally, to artificially reduce profits where they are genuinely earned. The US Internal Revenue Service (IRS) pursued Amazon in US courts for major tax avoidance through transfer pricing on royalty payments on intellectual property rights held by Luxembourg subsidiaries, but the court ruled in Amazon's favour. The court proceedings made it clear that Amazon was using aggressive tax avoidance practices and that national and global tax laws are in urgent need of reform to make these practices illegal. Amazon recently reported a transfer of intangible assets from Luxembourg to the US which reduced their tax liability.⁴⁵ Without further disclosure of details this is hard to analyse.

United States of America

Amazon was the top-ranked tax dodger among the 'Silicon Six' of global tech giants

identified by Fair Tax Mark for the ten years between 2011 and 2020.⁴⁶ Fair Tax Mark research estimated that the gap between expected tax liabilities and the amount actually paid by the Silicon Six was US\$149.4 billion.⁴⁷ Expected tax liabilities, for which provisions are made, are for accounting purposes only and do not reflect actual tax payments.

Amazon was identified as by far the poorest performer with respect to tax responsibility. While none of the companies profiled could be described as responsible, Amazon's conduct was deemed worse by several orders of magnitude. Apple paid US\$100.6 billion in income taxes throughout the ten years under investigation, Microsoft US\$55.3 billion. By contrast, Amazon now the most valuable company in the world, paid a paltry US\$5.9 billion.

Responding to a report on Fair Tax Mark's research in the Guardian, an Amazon spokesperson described the report as "extremely misleading". They went on to say that, "Amazon is primarily a retailer where profit margins are low, so comparisons to technology companies with operating profit margins of closer to 50% is not rational," and "Governments write the tax laws and Amazon is doing the very thing they encourage companies to do – paying all taxes due while also investing many billions in creating jobs and infrastructure. Coupled with low margins, this investment will naturally result in a lower cash tax rate."⁴⁸

Although it is the case that Amazon's profit margins are lower than other tech giants and it may have re-invested more in growth, reducing present tax obligations, the lack of country-by-country disclosure makes it impossible to see from the outside whether the country is paying the right amount of tax where it operates. However, it seems clear that Amazon's inexorable growth and competitive advantages have been, and continue to be, partially under-

AMAZON AVOIDED ONLY

94%

OF ITS TAXES IN 2019

written by taxpayers in the US and now around the world.

As Matthew Gardner, Senior Fellow at the US-based Institute on Taxation and Economic Policy (ITEP), argues, Amazon's managers appear to use tax breaks as a competitive advantage.⁴⁹ As reflected in the Fair Tax Mark research, ITEP explains how Amazon has sheltered the majority of its revenues in the US from income taxes. In 2017, Amazon booked US\$5.6 billion in US profits, but maintained an effective tax rate of zero per cent. In the five years to 2017, the company sheltered more than two-thirds of its profits from taxes, and benefited from postponing its tax liabilities due to the Trump Administration's 40 per cent cut in corporate rates. According to ITEP, this generated a US\$789 million windfall for Amazon.⁵⁰ Astonishingly, in 2018, Amazon's US profits of US\$11.2 billion nearly doubled from the previous year. However, instead of paying US corporate income taxes, Amazon managed to obtain a US\$129 million tax credit, a tax rate of negative 1%.⁵¹

In 2019, Amazon excitedly announced improvements to its tax conduct in its reports on economic impact. The excitement appeared overstated though, given that Amazon was paying only 1.2% of its US\$13 billion in US profits in federal income taxes.⁵² ITEP's analysis showed that instead of avoiding the entirety of its income tax liability in the US, in 2019, it avoided only 94% of its income taxes.⁵³ As it does in its economic impact statements for other jurisdictions, Amazon's new claims about the taxes it was paying were largely based on indirect taxes, such as sales taxes that it collects on behalf of customers, and deferred direct taxes that have not in fact been paid.⁵⁴

Despite extensive public and community pressure⁵⁵ on Amazon and the US government, there has so far been little appetite amongst US politicians to reform the tax code and ensure that one of the world's most valuable and profitable companies pays its share to public coffers. Amazon and other tech giants have been supportive of recent global tax reform efforts through the OECD that were prompted by the Biden administration. Some tax policy experts have argued that these efforts are likely to have little impact on Amazon and may eliminate global efforts to introduce digital service taxes,⁵⁶ specifically introduced to challenge the aggressive tax avoidance by Amazon and other tech giants and attempt to collect at least some government revenue on growing digital transactions which frequently displace traditional retailers.

The most recent accounts show that Amazon continues to avoid billions in US income taxes. Although the company has set aside several billion dollars to pay US federal income taxes over the last two years, its effective tax rate remained remarkably low.⁵⁷ In 2020, Amazon enjoyed astronomical pandemic-driven profits, but succeeding in reducing US tax liabilities by more than US\$2 billion.⁵⁸ Similarly, still riding the wave of pandemic profits, Amazon saw massive increases in revenues in 2021, but reduced its US corporate income

tax liability by a staggering US\$5.2 billion.⁵⁹ The key mechanisms that Amazon relies on to reduce income tax payments are fairly standard. In 2021, US\$1 billion was due to tax credits, another billion due to stock options and related deductions. Foreign-derived intangible income delivered another US\$300 million. All of these tax breaks have been supported and expanded by the US Congress.⁶⁰ In a recent news report, Amazon responded to ITEP's analysis of its accounts between 2018-2021. Amazon's statement refers to income tax expense rather than taxes paid, and aggregates other tax payments from third parties with its own. As one example, in defence of its own tax practices, Amazon refers to US\$22 billion of sales taxes collected from customers.⁶¹

United Kingdom

A 2021 research report into Amazon's tax practices shows that only a fraction of the company's UK sales are accounted for in its UK accounts. Analyst Vivek Kotecha showed that while Amazon's 2019 global aggregated accounts show net sales in the UK of £13.7 billion, UK filings for Amazon's subsidiaries there reflected only a small fraction of this amount.⁶² Kotecha estimates that up to £8.2 billion (60%) of Amazon's revenues may have been shifted to Luxembourg.⁶³ Based on the company's records, Kotecha also estimated that Amazon paid tax on only around 0.6% of its total sales (a similar rate to that identified by the Fair Tax Mark research on US taxes⁶⁴).

Given Amazon's corporate structures across Europe, sales in the UK and elsewhere appear to be channelled through subsidiaries in Luxembourg. While the UK government has taken some measures to tax profits generated in the UK but booked offshore, there is no evidence that these measures have been effective.⁶⁵ Amazon subsidiaries in Luxembourg reported €57 billion in 2019 revenues. This is equivalent to each resident purchasing an average of €92,000 worth of goods from Amazon that year.⁶⁶

How much tax should Amazon be paying in the UK? The company reported in its economic impact statement for 2020 that it made revenues of £20 billion (US\$26 billion), which is consistent with the 2020 annual report. Amazon's economic impact statement shows £492 million in direct taxes, of which the largest amount was employer taxes. The remainder included digital services tax, business rates, corporation tax, and other taxes such as stamp duty and import duties.⁶⁷ Given the lack of transparency in Amazon's accounts, different tax payments cannot be isolated. However, researchers have estimated Amazon's business rates payments at £71.5 million, equivalent to 0.37% of its 2020 revenue.⁶⁸ This figure, if correct, is 15% of the total direct taxes Amazon paid in 2020 and has raised concerns from traditional bricks and mortar retailers about Amazon's unfair competitive advantages with much lower business rate payments relative to sales and ongoing concerns over corporate income tax payments.

Given that Amazon's global profit margin is was 5% in 2021 (see table 1), it is reasonable to assume a similar profit margin in the UK business. This would mean that £20 billion of revenue should generate around £1 billion in profits. With the UK corporate tax rate at 19%, this should mean corporation tax of £190 million. Kotecha estimated corporate income tax payments of a maximum of £84 million, less than half of the above estimate and at least £46

million less than expected in Kotecha estimates suggest should have been paid. While Amazon contested the estimates, telling the Independent that the estimates were “wildly inaccurate”, it did not provide any figures for corporate income tax payments and instead only provided figures for direct and indirect taxes saying, “Our UK retail and Amazon Web Services revenues are recorded here in the UK and reported directly to HMRC. Our total tax contribution in the UK was £1.1bn during 2019 – £293m in direct taxes and £854m in indirect taxes.”⁶⁹

In early 2021, the UK government announced plans for a new tax concession for investment in capital goods which is likely to even further erode Amazon’s tax liabilities. Analysis by TaxWatch of Amazon’s UK accounts suggests that the new concession could eliminate the company’s tax bill. In 2019, Amazon UK Services Limited, made profits before tax of £102 million. The tax liability was £6.3 million. Amazon UK also spent £66.8 million on plant and machinery, £80.4 million on office equipment, and £15.3 million on computer equipment. Applying the new tax concession for deducting 130% of the cost of capital goods, Amazon’s tax liability would be zero.

Table 3 (below) shows that for Amazon’s UK-based companies, its effective current tax rates are lower than the 19% UK corporation tax rate.

Table 3: Amazon’s three largest UK-based companies, key financials for 2020

Company	Revenue	Profit before tax (PBT)	Current tax charge	Current tax as % of PBT	Number of employees	Revenue per employee
Amazon UK Services Ltd	£4.8bn	£128m	£18m	14%	33,675	£144k
Amazon Digital UK Ltd	£1.8bn	£31m	£3.6m	12%	310	£6m
Amazon Online UK Ltd	£1bn	£6m	£74k	2%	391	£2.5m

Source: Company accounts, year ended 31st December 2020

Australia

Amazon has three subsidiaries which report corporate income tax payments to the Australian Taxation Office (ATO): Amazon Corporate Services Pty Ltd (‘AZ Corporate’), Amazon Commercial Services (‘AZ Commercial’) Pty Ltd, and Amazon Web Services Pty Ltd (‘AWS Australia’). These three subsidiaries are each owned by a different US-based subsidiary of Amazon Inc. All three of these companies collected revenues in excess of half a billion in FY20, but paid negligible income tax.

According to the latest ATO corporate tax data (see table below), AWS Australia had AU\$600 million in total revenue, but only AU\$55 million in taxable income and paid AU\$16 million in corporate income tax. Revenues for AZ Commercial were \$563 million, with taxable income only AU\$26 million, and tax paid AU\$8 million. For the same year, AZ Corporate booked AU\$635

million in revenue, with taxable income at AU\$45 million, and tax paid of AU\$14 million. The subsidiaries' financial reports are also broadly consistent with the ATO data, indicating very large revenue figures, comparably small taxable incomes and taxation payments. However, tax payments in Australia are likely a higher percentage than in most other countries due to greater levels of scrutiny and enforcement by the ATO compared to other jurisdictions.

Financial year		AU\$ millions			Calculated profit margin %
		Total income	Taxable income	Tax payable	
2019-20	AZ Commercial	563	26	8	5
	AZ Corporate	635	45	14	7
	AWS Australia	600	55	16	10
	COMBINED	1,748	126	38	7
2018-19	AZ Commercial	293	20	6	7
	AZ Corporate	493	39	12	8
	AWS Australia	319	34	10	11
	COMBINED	1,105	93	28	8
2017-18	AZ Corporate	387	25	8	6
	AWS Australia	202	22	7	11
	COMBINED	589	47	14	8

Source: ATO Corporate tax data

Australian subsidiaries of Amazon are likely to have artificially reduced taxable income in various ways. Particularly those companies that engage in the provision of cloud computing and other IT services to business and government, appear to organise the business so that contractual payments from clients are paid directly to Amazon entities in Delaware. Some federal government contracts have been directly with the offshore AWS entities rather than with Australian incorporated entities.⁷⁰ Financial statements of the Australian Amazon subsidiaries indicate substantial payments, related party transactions, from offshore Amazon entities for the delivery of the relevant services in Australia. This appears to mirror the structure in Europe, where substantial revenues are booked overseas, with a small part of that revenue being returned to locally based Australian companies via a service agreement. However, it is impossible to decipher from the Australian accounts what level of services provided in Australia may have been paid directly to Amazon's offshore entities with only some portion of the payment paid to the Australian entity.

AWS Australia financial report 2021

AWS Australia described its principal activity as 'marketing support services to related parties and the provision of professional and training services to external parties', until November 2021, when its principal activity shifted to the 're-sale and promotion of cloud computing and the provision of professional

and training services to external parties'.⁷¹ This change may have been due to pressure from the ATO.

AWS Australia's financial report for 2021 shows that revenues have continued to grow rapidly with a total income over AU\$1 billion. However, 'administrative expenses' of AU\$1.1 billion resulted in a final loss of AU\$39 million.⁷² Reporting low profits or losses in Australia, by using potentially artificial expenses, avoids corporate income tax payments at the 30% tax rate. Aside from employee-related expenses, AWS Australia's large expenses included stock-based compensation AU\$120 million. AWS Australia also recorded 'other' income and expenses, which primarily consists of net foreign currency losses of AU\$3 million and sublease income from related parties of AU\$24 million.⁷⁴

AWS Australia engages in extensive related party transactions. More than AU\$660 million of the company's revenue was for sales to related parties⁷⁵ and a further AU\$24 million for sublease payments from related parties. While many of these expenses and related party transactions appear to be legitimate and may reflect actual business costs and revenues, some are more questionable. One of the company's most significant expenses is a **'cloud service fee' of more than AU\$223 million**⁷⁶ and AU\$55 million paid for intangible assets, both paid to a related party. These types of large, typically offshore, related party transactions are common indicators of aggressive tax avoidance by multinationals.

AWS Australia also owed a large amount in debts to related parties (AU\$98 million).⁷⁷ AWS Australia also had AU\$30 million unsecured loans to related parties, and participates in a **AU\$339 million cash pooling arrangement** with other members of the same corporate group. Offshore related party debts at artificially high interest rates and cash pooling arrangements can also be used to shift profits and avoid taxes.

Other Amazon Australia entities

Financial statements of other Amazon entities in Australia show a similar pattern of related party transactions in both expenses and revenues making it difficult to analyse actual business operations. **AZ Corporate** operates a data centre to provide data hosting services. In 2021, AZ Corporate reported total income over AU\$809 million, but administrative expenses were more than AU\$768 million, and the overall result was only AU\$24 million profit before taxes.⁷⁸

AZ Corporate engages in **extensive related party transactions**, with more than **AU\$400 million due from related parties as at 31 December 2021**. Most of

'CLOUD SERVICE FEE'
OF MORE THAN

AU\$223
MILLION

the transactions between AZ Corporate and other related parties were for sales of services (AU\$809 million in total), property and equipment (AU\$4 million) and leases (AU\$6 million). AZ Corporate also participates in a **cash pooling arrangement with other Amazon subsidiaries, worth around AU\$389 million**.

AZ Corporate holds AU\$951 million worth of leases in its assets but is also liable for AU\$409 million in accrued expenses on those leases. The company pays interest on its lease liabilities, which was AU\$15 million in 2021. Total cash outflow in relation to leases for 2021 was AU\$533 million. AZ Corporate is committed to leases with future payments of more than AU\$1.5 billion.⁷⁹

AZ Commercial is responsible for Amazon's retail business in Australia. In 2021, AZ Commercial reported revenue of AU\$1.7 billion but a profit before taxes of just AU\$2.9 million, and income tax payments of AU\$32 million. The reported tax payments of more than ten times pre-tax profits may be an indication of that the ATO contested AZ Commercial's accounts.

AZ Commercial's income is evenly split between retail products (AU\$883 million) and retail services (AU\$871 million). Total expenses included cost of sales (AU\$961 million) and administrative expenses (AU\$785 million).⁸⁰ AZ Commercial engages in **extensive related party transactions** which may have been used in an attempt to artificially reduce taxable income in Australia. These extensive related party transactions include sales of services (AU\$471 million), purchase of services (AU\$166 million), purchase of goods, property and equipment (AU\$116 million) and leases from other related parties (AU\$9 million). AZ Commercial was also due over AU\$170 million from related parties, linked to the cash pooling arrangements between Amazon group companies.

Subsidies and government assistance

Aside from the contradictions of issuing government contracts to a tax dodging multinational, public money is directly subsidising Amazon and its rapid growth. Amazon has extracted more in direct subsidies from governments and public authorities in the United States than anywhere else. Extensive and long-term research by Good Jobs First shows that as at January 2022, Amazon had received more than US\$4.1 billion in tax breaks and subsidies from governments in the United States, at the state and municipal levels.⁸¹ These subsidies were driven by Amazon's expansion strategy from 2012.

The company had previously set itself up in few locations to avoid having to pay sales tax, deriving a cost advantage over competitors. From 2012, however, Amazon began to offer delivery time promises to customers, through the expansion of its Prime business. This required more fulfilment centres, closer to a range of markets. Initially the company tried various avoidance tactics, and racked up large tax bills, such as a US\$269 million bill in Texas.⁸²

By 2017, Amazon was collecting sales tax in relevant jurisdictions, but set up a 'subsidy office'. As a result of lobbying for state and local government

subsidies in return for setting up warehouses, Amazon has received over US\$4 billion in taxpayers' money.⁸³ Amazon is being paid these generous subsidies despite the fact that it makes clear its expansion strategy is based on the need to access markets, not the need for state support.

A recent research collaboration between UNI Global Union and Good Jobs First has exposed Amazon's expansion of this practice globally.⁸⁴ The availability of information about public subsidies varies significantly outside the United States. Nonetheless, researchers were able to identify hundreds of millions of dollars in states subsidies to the world's largest company. These subsidy packages included: US\$5.1 million for a warehouse in Asturias, Spain; US\$2.3 million in 2011 for a call centre in Edinburgh, Scotland; US\$1.3 million in 2012 for a warehouse in Sevrey, France, near Lyon; US\$15.6 million for a warehouse in Leipzig, Germany; and US\$10.44 million for a warehouse in Fife, Scotland. In addition, researchers estimate Amazon received over US\$260 million for a data centre in Québec, Canada, US\$180 million for a data centre in São Paulo, Brazil. Besides all of this, there is evidence that Amazon may have received public monies to subsidise as many as 407 facilities in 13 countries including:

- data centres in Argentina, Bahrain, Brazil, Canada, Chile, China, India and Ireland;
- warehouses in Brazil, Canada, China, India, Mexico, Poland and Spain;
- film and television production facilities in New Zealand and Spain;
- call centres in South Africa; and
- office facilities in Ireland.⁸⁵

Recommendations

It is clear from the representative examples provided by Amazon's affairs in the US, UK and Australia, that greater transparency is essential if multinationals like Amazon are to be held accountable on taxation obligations. While there is sufficient evidence to raise many serious doubts and questions, there is insufficient evidence to properly analyse the complex multinational structure of Amazon's global business, and its tax liabilities in specific jurisdictions.

If governments are going to continue supporting and relying upon AWS for the provision of increasingly prevalent cloud computing services, it is crucial that those governments require transparency. Implementation of public country-by-country reporting of revenues and tax payments, in accordance with the [Global Reporting Initiative's Tax Standard](#), is the first step that all governments at every level can require as a condition of any new contracts. As is the trend in several jurisdictions, all multinationals should be required to report tax payments on a country-by-country basis. Greater transparency will help ensure that multinationals support public services in communities where profits are generated.

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