



# GAMING GLOBAL TAXES

**MICROSOFT**

**WINNING  
GOVERNMENT  
CONTRACTS**

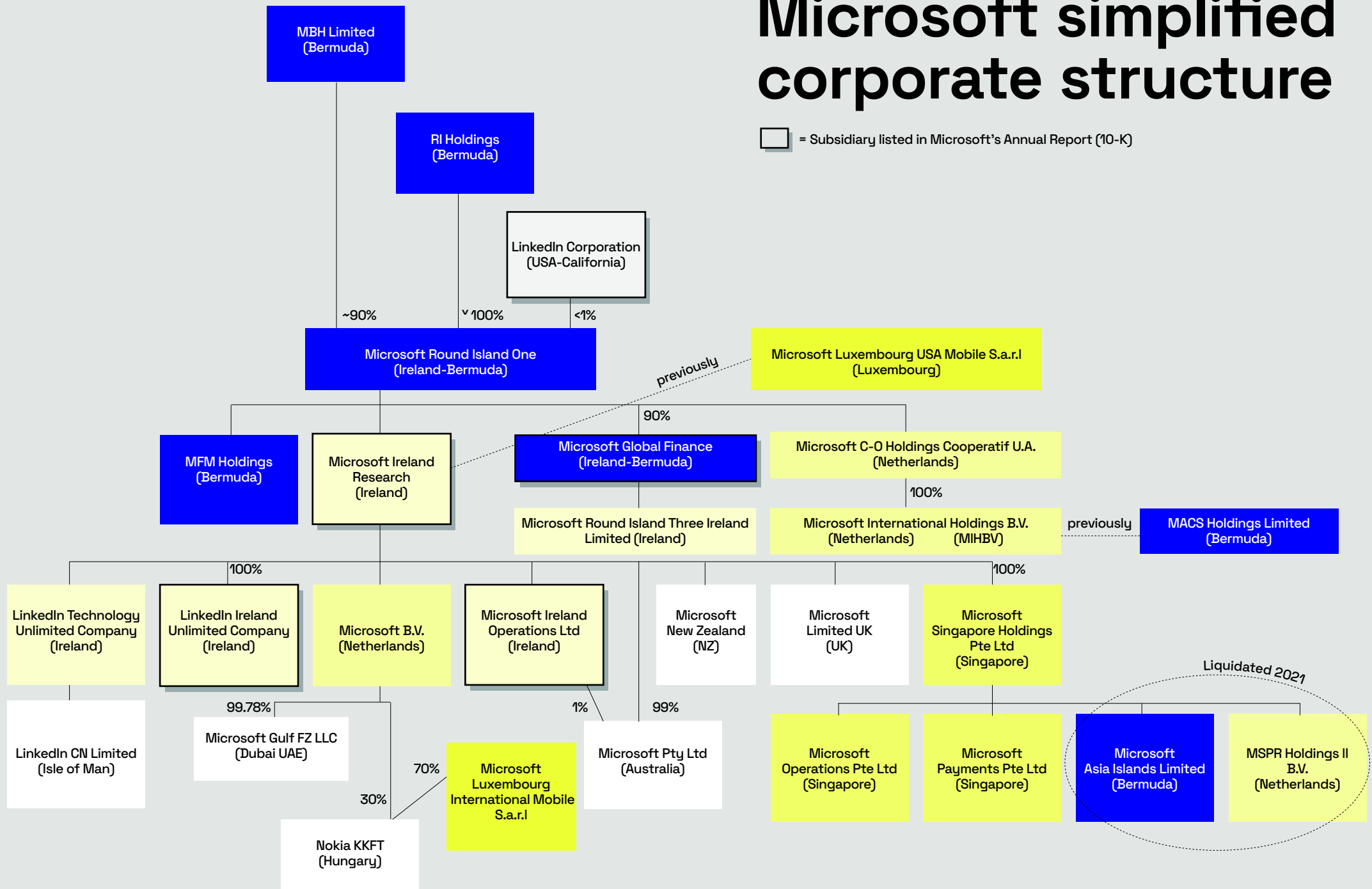


Governments worldwide can and should demand that Microsoft open its windows to public scrutiny, and demonstrate fair tax practices, before any new contracts are awarded.



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# Microsoft simplified corporate structure



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# Executive Summary

Information technology giant Microsoft, one of the most valuable companies in the world by market capitalisation, derives billions in revenues from providing IT services to governments around the world. Microsoft has been criticised for a poor track record of tax transparency, clouding its affairs using complex corporate structures and subsidiaries in known secrecy jurisdictions.

According to our research, it appears that Microsoft does not contribute fairly to funding the public services that its global workforce and customers depend on, and from which it earns enormous profits. Governments worldwide can and should demand that Microsoft open its windows to public scrutiny, and prove it demonstrates fair tax practices, before any new contracts are awarded.

Corporate tax avoidance by the world's largest tech giants has an enormous impact on public finances. A recent report from the Fair Tax Foundation reveals that the "Silicon Six" (Facebook, Apple, Amazon, Netflix, Google and Microsoft) paid \$149.4 bn less, over the period 2011 to 2020, than the headline rate of tax.<sup>1</sup>

This report finds that Microsoft uses a vast network of subsidiaries around the world to game its taxes. It traces billions of dollars in financial flows between companies that have zero employees and claim residency in known secrecy jurisdictions including Luxembourg, Singapore, Bermuda, Ireland, and the Netherlands.

Microsoft reports to its shareholders an operating profit margin well over 30%. Yet in countries including the UK, Australia and New Zealand, its subsidiaries' financial reports claim profit margins of just 3-5%. Are Microsoft's operations in these countries only engaged in low margin operations or dramatically underperforming? Or does Microsoft use its vast international network of subsidiaries to ensure its profits are booked in low-tax or no tax jurisdictions?

Indeed, Microsoft is the subject of an ongoing audit by the U.S. Internal Revenue Service, one of the largest audits in the tax authority's history. The investigation revealed Microsoft used intracompany sales to benefit from a deal with the Puerto Rican government that lowered its tax rate in the U.S. territory to almost zero.<sup>2</sup> Although not widely known, Puerto Rico is used as a tax haven by U.S. corporations. Revenues booked in Puerto Rico are treated as foreign earnings for U.S. tax purposes and taxed, if at all, at much lower rates than domestic earnings.<sup>3</sup>

This report reveals the global scope of Microsoft's profit-shifting practices. It exposes for the first time how Microsoft's Irish subsidiaries pull in profits from Microsoft operations all around the world, while paying nothing in corporate taxes. The Irish subsidiary Microsoft Round Island One has previously made headlines for its \$315 billion annual profit – nearly equivalent to three quarters of Ireland's GDP – and a corporate tax bill of zero dollars, thanks, in part, to its tax residency in Bermuda.<sup>4</sup> This report traces the subsidiary's profits to Microsoft's operations in places as far-flung as Australia, through its ownership of another Irish company, Microsoft Ireland Research. Yet this is far from a

complete picture of how Microsoft uses its Irish entities to avoid corporate income tax.

This report reveals another Irish subsidiary that is tax-resident in Bermuda and at the centre of Microsoft’s world wide web of subsidiaries. Microsoft Global Finance had over **\$100 billion in total investments**, and paid **no tax** in 2020, despite an operating profit of **\$2.352 billion from shifting funds between subsidiaries all around the world**.<sup>5</sup>

Finally, this report reveals that Singaporean subsidiaries form another crucial nexus in Microsoft’s corporate tax avoidance. Microsoft Ireland Research is the immediate parent company of yet another super-profitable, zero-employee subsidiary. Microsoft Singapore Holdings Pte Ltd reported an income tax expense of **just \$15** in 2020, and in the same year, reported profits from dividend income, generally not taxable, of **a remarkable \$22.350 billion**.<sup>6</sup>

By shifting profits from the countries where its workers live and where it genuinely operates, Microsoft starves the public sector of much needed revenues. At the same time, Microsoft makes billions as a government contractor, with contracts at all levels of government and in virtually every country.<sup>7</sup>

**Table 1: Value of Microsoft’s federal (national) government contracts for selected countries, most recent five years, according to publicly available data (US \$m)**

Government	Contract value, sum over five years (US \$m)
United Kingdom	\$202
United States	\$2,900
Canada	\$80
Australia	\$194
Total	\$3,376

Notes: the sum of contracts over a five-year period is given, as many contracts run for multiple years. Data collected in Q1, 2022. These figures significantly underestimate the value of Microsoft’s government contracts in the selected countries. They omit sub-national data, and many contracts are omitted from public databases. See discussion under “Microsoft’s government contracts”, below.

Microsoft should act more transparently, and contribute its fair share, before it is allowed to profit further from government contracts. Pressure is growing for greater corporate accountability. Transfer pricing investigations, like the IRS audit of Microsoft, are likely to increase with increased funding to the U.S. agency.<sup>8</sup> The Australian government is consulting on a proposal for public country-by-country reporting of revenues and tax payments.<sup>9</sup> Governments should require such disclosures, in line with the Global Reporting Initiative’s Tax Standard, as a condition of future contracts. An increase in transparency is a necessary first step to holding Microsoft, and other multinationals, accountable.



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## Government contracts are a growing revenue stream for Microsoft

- Microsoft is second only to Amazon Web Services (AWS), and gaining market share, in the growing, lucrative and pervasive global cloud computing business
- Microsoft is investing in health care data and plays an increasing role in public health systems including the UK's National Health Service (NHS)

Governments are significant purchasers in key growth areas targeted by Microsoft. Governments around the world are among the many users of its operating systems and office software, a user base over which Microsoft has leveraged its historical dominance to drive subscriptions to its cloud business. This process accelerated in response to the Covid-19 pandemic. In the highly profitable “infrastructure as a service” (IaaS) market, Microsoft's server product and cloud service Microsoft Azure is now the clear second player and gaining market share from its rival Amazon Web Services (AWS).<sup>10</sup>

**Table 2: Worldwide IaaS Public Cloud Services Market Share, 2020-2021 (US \$m)**

Company	2021 Revenue	2021 Market Share (%)	2020 Revenue	2020 Market Share (%)	2020-2021 Growth (%)
Amazon	35,380	38.9	26,201	40.8	35.0
Microsoft	19,153	21.1	12,659	19.7	51.3
Alibaba	8,679	9.5	6,117	9.5	41.9
Google	6,436	7.1	3,932	6.1	63.7
Huawei	4,190	4.6	2,681	4.2	56.3
Others	17,056	18.8	12,697	19.8	34.3
Total	90,894	100.0	64,286	100	41.4

Source: Gartner (June 2022).

Note: some of these cloud providers, notably Alibaba and Huawei, primarily serve the Asia Pacific, with minimal presence in the US and Europe.<sup>11</sup> The Chinese market is dominated by Alibaba, with a 37% market share.<sup>12</sup>

The company recently released new public sector-specific branding for its cloud services, “Microsoft Cloud for Sovereignty”. The redesign is seemingly aimed at European governments, which responded to growing public concerns by implementing data protection regulations. Microsoft is promising a partner-based model of service delivery that would allow the U.S.-headquartered corporation to continue to benefit from IT contracts with E.U. member states.<sup>13</sup> Marketing for Microsoft’s security products envisages a future where Microsoft is an intermediary in many interactions with government: storing and verifying education credentials, verifying patient and doctor identities, and taking responsibility for the privacy of patient-doctor communication.<sup>14</sup>

Health care data and processing is a growing market for Microsoft and other IT giants. U.S.-based tech giants have identified national healthcare systems like the UK’s National Health Service (NHS) as a major business opportunity. Even before the Covid-19 pandemic, the UK-based Institute for Public Policy Research warned of “the encroaching privatisation of publicly held data” and called for the creation of a “digital commons”.<sup>15</sup> Researchers at the University of Oxford anticipate that the entry of big tech into healthcare will “commoditise incumbent service providers”, with tech firms controlling critical data while the public is left to pay for (unprofitable) delivery of primary healthcare services.<sup>16</sup>

Microsoft is expanding into healthcare-specific IT services and data management through its Azure cloud platform and data analytics. It markets tailored products to healthcare providers and researchers, including Microsoft Cloud for Healthcare and Microsoft Genomics. In 2021 it acquired Nuance Communications, a leader in cloud and AI software specializing in healthcare, for \$19.7 bn – the largest deal in Microsoft’s history after LinkedIn.<sup>17</sup> The same year, Microsoft announced a number of collaborations in the sector, including with an NHS Trust in the UK and Apollo Hospitals in India.<sup>18</sup>

Government contracts are used to signal a contractor’s viability to other large organisations and are significant on their own.<sup>19</sup> The importance of such IT contracts with government is evident in the bitter dispute between Microsoft



and AWS over the Joint Enterprise Defense Infrastructure (JEDI) contract, worth up to \$10 billion, with the U.S. Defense Department. The contract was initially awarded to Microsoft in 2019, but to prevent a long litigation battle with Amazon, the Department cancelled it. Instead, a Pentagon spokesperson said that a new Joint Warfighter Cloud Capability program would likely allow components to be awarded to both major cloud providers, as well as Google and Oracle.<sup>20</sup>

## Microsoft: a sprawling, profitable tech empire

- Microsoft reports **181,000 employees worldwide**, including 103,000 in the U.S. and 8,000 in India.<sup>21</sup>
- In 2021, **Azure grew 50%**, driving a 27% increase in revenue in server products and cloud services.<sup>22</sup>
- From fiscal 2020 to fiscal 2021, **commercial cloud revenue increased 34%** to US \$69.1 billion, from US \$51.7 billion in FY 2020 and \$38.1 billion in FY 2019. This revenue includes Azure, Office 365 Commercial, the commercial portion of LinkedIn, Dynamics 365, and other commercial cloud properties.<sup>23</sup>
- The business segment “Intelligent Cloud”, which includes Azure, generated **US \$60.1 billion in 2021**, a 24% increase on 2020, and **US \$26.1 billion in operating income**, a 43% increase on 2020.<sup>24</sup>
- **Microsoft is poised to become the largest video game company in the world**, with the acquisition of Activision Blizzard for \$68.7 billion. Microsoft’s massive existing stake in the gaming business means this deal requires multiple regulatory approvals. It already owns the Swedish company Mojang, creator of Minecraft – the most popular video game ever – and combined revenues from Xbox and Activision Blizzard would exceed \$26 billion per year.<sup>25</sup> Activision Blizzard is itself subject to tax investigations in multiple countries and has subsidiaries in a number of secrecy jurisdictions.<sup>26</sup>

**US\$26 BILLION**

**REVENUES FROM XBOX AND ACTIVISION BLIZZARD WOULD EXCEED**



- Microsoft's revenues from its social network LinkedIn, acquired in 2016 for \$26.2 billion, increased to over \$11.5 billion in 2021. LinkedIn's extensive international operations are based in Ireland, not its headquarters in Sunnyvale, California.<sup>27</sup>

## Microsoft's government contracts

- Microsoft is a massive and growing government contractor worldwide
- The value of known national government contracts in just five countries over five years exceeds \$3.37 billion
- Poor transparency in government contracting means the actual figure is undoubtedly much larger<sup>28</sup>

Microsoft is a key government contractor worldwide, with contracts at all levels of government and public institutions. This report uses publicly available data from five countries to illustrate Microsoft's growing business in government contracting. Transparency about these contracts is a major problem. Many jurisdictions, especially at the sub-national level, do not make details of these contracts publicly available. Others provide detailed, easy to use datasets, but that tend to omit certain types of contracts. This report thus significantly underestimates the full extent of Microsoft's public sector contracts, even in the five countries examined here for which data is relatively accessible.

Microsoft is a major **United States** federal government IT contractor, having been awarded billions in contracts just in the last few years.<sup>29</sup> Over 70% of those contracts are with the Department of Defense, followed by Department of State (10%), Departments of Homeland Security (9%), Justice (7%), and Transportation (1.5%). Most of the contracts are for computer systems design (63%), Other computer related services (18%) and custom computer programming (16%).

In addition to receiving nearly 700 direct awards over the last five years, Microsoft has also been awarded a further 250 sub-awards, mostly from the Department of Defense. For example, a 10-year \$4.4 billion cloud contract awarded to General Dynamics in November 2020 included transitioning both classified and declassified environments in the Department to Microsoft Office 365, a transition that it accelerated in response to the Covid-19 pandemic. According to General Dynamics, this was the "largest ever deployment" of Office 365.<sup>30</sup>

Microsoft is a major **United Kingdom** government IT supplier with £139 million in 104 contracts between 2018 and 2021. Microsoft's work is spread across 60 government agencies, with a concentration in the Departments of Justice (£30 million) and Defence (£45 million), which together account for £75 million in contracts. The Covid-19 pandemic created opportunities for Microsoft to expand its IT services within the public sector. For example, the NHS Test and Trace programme paid £2 million for a one-year license of Microsoft's Azure cloud service.<sup>31</sup> Most controversially, Microsoft is one of



several multinational corporations with contracts to work on the NHS Covid-19 Data Store. The Data Store was heavily criticised over the lack of transparency around the contracts, the privatisation of data assets, and the potential risks to the security of NHS health data.<sup>32</sup>

Microsoft is a significant IT vendor at the federal level in **Canada**, with almost CA\$12 billion in contracts, the majority of which (over CA\$11 billion) is with Shared Services Canada. Microsoft also contracts directly with a wide range of federal government agencies.

The City of Toronto authorised negotiations with Microsoft for contracts in the order of over \$90 million for five years' worth of Microsoft 365 licenses and implementation.<sup>33</sup> In 2019, the City entered into a contract worth nearly \$1 million for cloud licenses and server updates.<sup>34</sup> The City also has a 'Blanket Contract' with a third party supplier (Softchoice) for access to Microsoft licenses, which is worth around \$3 million per year.<sup>35</sup> The City of Toronto has also, at times, used the Province of Ontario's master agreement with Microsoft to negotiate its own IT service agreements.<sup>36</sup>

Microsoft has not been awarded a direct contract by the Ontario provincial government, but its software products are licensed via third party providers.<sup>37</sup>

In **Australia**, Microsoft has been awarded over AU \$634 million in federal government contracts, and AU \$270 million just since 2017. The majority of these contracts are for Defence (AU \$90 million), Services Australia (AU \$42 million), the Department of Education, Skills and Employment (AU \$13 million), the Digital Transformation Agency (AU \$11 million) and the Department of Home Affairs (AU \$10 million). The remaining AU \$100 million in contracts is spread across a wide range of federal government agencies. In addition, Microsoft receives contracts at other levels of government. In New South Wales, Australia's largest state in terms of economic activity, Microsoft received over \$14 million in contracts over the same period. In the state of Victoria, a "rapid evaluation process" saw Microsoft gain a contract to provide a cloud-based vaccination management platform in the second year of the Covid pandemic. Unlike in other states, the cost of the platform increased over the course of the contract, from an initial cost of AU \$5.8 million over six months to a total of AU \$18 million over 18 months. Notably, the state's Department of Health, which issued the contract, is a heavy user of Microsoft's existing products.<sup>38</sup>

Microsoft is known to have Azure business with other government agencies around the world, including New Zealand's firefighting agency and France's space agency.<sup>39</sup>

# Microsoft's low effective tax rate

- The stark contrast between Microsoft's impressive global profit margins and meagre margins at the national level is a likely indicator of tax avoidance through profit shifting
- Even in the US, significant profits are shifted to Puerto Rico and Ireland, before getting to Bermuda, dramatically reducing total corporate income tax payments

Elements of Microsoft's tax practices in the US and the UK can be pieced together from publicly available information. Our analysis reveals a dramatic difference between the global profit margins that Microsoft reports to its shareholders in the U.S. and the meagre profits reported in subsidiary filings at the national level in places like the UK. Reduced profits in countries with higher tax rates is a likely indicator of profit shifting to avoid tax payments where profits are genuinely earned.

## United States

**Table 4: Microsoft global profitability (US \$m)**

	FY 2021	FY 2020	FY 2019
Total revenue	\$ 168,088	\$ 143,015	\$ 125,843
Income before income taxes	\$ 71,102	\$ 53,036	\$ 43,688
Operating profit margin	42.3%	37.1%	34.7%

Source: Microsoft 10-K, 2021. Note that Microsoft reports use a financial year that ends June 30. Profit margin calculated as revenue divided by income before taxes.

Microsoft remains under audit with the IRS in the U.S. over transfer pricing issues, in one of the largest audits in the agency's history. The audit covers tax years 2004 to 2017 and is discussed in detail below. In FY 2021, Microsoft made a payment of US \$1.7 billion to the IRS in tax and interest to settle a portion of the audit for tax years 2004-2013.<sup>40</sup> In addition to the IRS, Microsoft is currently subject to audit by unspecified tax authorities outside the U.S.<sup>41</sup> Among these, the Australian Taxation Office is conducting an audit of Microsoft Pty Ltd's Goods and Services Tax payments from 1 October 2013 to 31 December 2017.<sup>42</sup>

Microsoft reports that its effective tax rate in the U.S. is generally lower than the federal statutory tax rate because of its use of "regional operations centers" in low-tax jurisdictions, Ireland and Puerto Rico (and in 2019, Singapore).<sup>43</sup> In FY 2021, Microsoft attributed 82% of its foreign income before



tax to regional operating centres in Ireland and Puerto Rico; 86% in 2020. In FY 2019, 82% of foreign income before tax was attributed to regional operating centres in Ireland, Singapore and Puerto Rico.<sup>44</sup>

That is, Microsoft publicly states in its annual report (10-K), filed with the U.S. Securities and Exchange Commission (SEC), that it pays reduced taxes in the U.S. and freely divulges that this is because it attributes larger portions of its revenues to Ireland, Puerto Rico, and Singapore. By 2017, Microsoft had accumulated \$142 billion in offshore profits – the third-most of any U.S. corporation, after Apple and Pfizer. The Institute on Taxation and Economic Policy estimates that, by choosing where it booked profits, Microsoft secured an average tax rate on those offshore profits of just 3.3%.<sup>45</sup>

Microsoft benefitted again, with the Trump administration's 2017 Tax Cuts and Jobs Act (TCJA). The Act cut the statutory corporate income tax rate from 35 to 21% and established a far lower rate on "repatriated" offshore profits. It thus increased Microsoft's tax expenses in the U.S., as these offshore profits were brought into the scope of U.S. corporate tax, but the company only expected to pay \$18 billion. Under the prior law, Microsoft had estimated its tax liability on these offshore profits at \$45 billion.<sup>46</sup> Indeed, Microsoft's 2019 annual report (10-K) states that the transfer of "certain intangible properties held by our foreign subsidiaries to the U.S. and Ireland", in response to the Act, resulted in a net income tax benefit of US \$2.6 billion. According to the report, "the value of future tax deductions exceeded the current tax liability from foreign jurisdictions and U.S. global intangible low-taxed income ('GILTI') tax."<sup>47</sup>

Microsoft's U.S. effective tax rate fell further, from 17% in 2020 to 14% in 2021, due to an Indian court ruling against the requirement to pay withholding taxes on software sales. (Microsoft was not a party to the case.) The ruling led to a net income tax benefit to Microsoft of US \$620 million in 2021.<sup>48</sup>

## United Kingdom

New analysis of recent UK filings for Microsoft’s primary subsidiary reveals several ways that the company may be shifting profits to reduce its taxable income. Microsoft’s tax avoidance in the UK came under scrutiny from Fair Tax Fair Tax Foundation in their December 2019 report, “The Silicon Six”. The report estimated that Microsoft avoided £622 million in UK taxes from 2012-2017. The company structure and operations have changed since this analysis. Microsoft’s UK subsidiary paid a relatively high tax rate, but the absolute value of taxes paid in the UK was depressed by a much lower reported profit margin than at the global level.<sup>49</sup> Its tax expense, as recorded in the profit and loss account, was just £51 million in 2021.<sup>50</sup>

New analysis reveals that in the UK, Australia, and likely elsewhere, Microsoft subsidiaries’ profit margins are much lower than those reported to investors at the global level. Microsoft’s top-level profit margins are typically near 35% or above (see table 4). Yet in the UK, its profit margin (calculated as profit before tax divided by revenue) was just 4.5% in 2021. While reporting a total revenue of £4.8 billion, significant expenses reduced the company’s taxable income to only £220 million. These were primarily cost of sales of £3,825 million, administrative expenses of £725 million and distribution costs of £87 million; there was an expense of £5.68 million in finance costs.<sup>51</sup> It is impossible to know how much of its expenses are purchases from related parties, as it does not disclose its transactions with other wholly-owned Microsoft subsidiaries.<sup>52</sup> At the end of the 2021 Microsoft UK owed £679 million to related parties.<sup>53</sup> In addition, Microsoft UK paid dividends totalling £255 million.<sup>54</sup> Dividend income paid between companies in the same group is generally not subject to income tax.

The Microsoft Limited accounts present information about the individual company and do not include dozens of other Microsoft subsidiaries in the UK, owned through other structures, and performing a wide range of business operations. The complexity of Microsoft’s UK structure and the undisclosed related party transactions involving the main UK subsidiary, Microsoft Limited, raise additional questions given the heavy reliance on a number of Irish subsidiaries. These Irish subsidiaries are examined in more detail below.

MICROSOFT GLOBAL FINANCE HAD OVER \$100 BILLION IN TOTAL INVESTMENTS AND PAID NO TAX IN 2020 DESPITE AN OPERATING PROFIT OF **\$2.352 BILLION** FROM SHIFTING FUNDS BETWEEN SUBSIDIARIES AROUND THE WORLD

# Shining a light through Microsoft's windows: how the company avoids paying taxes

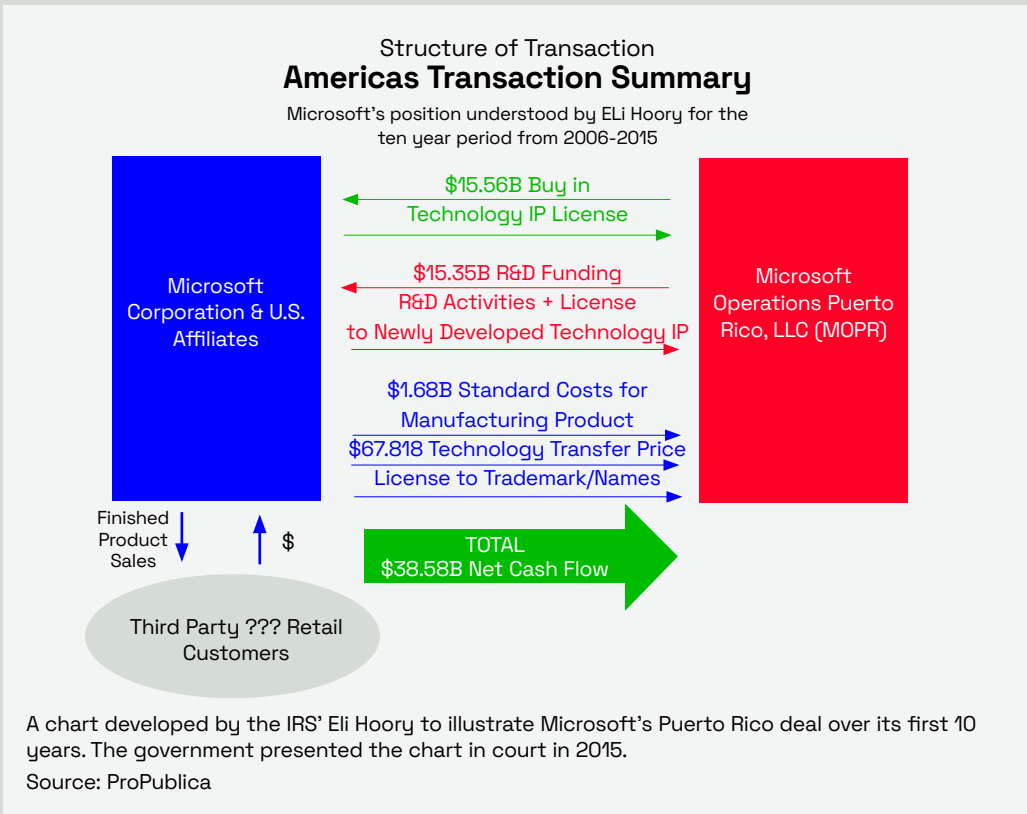
- Only a partial glimpse is possible into how Microsoft uses a constantly shifting global corporate structure, minimising corporate income tax obligations all around the world
- This analysis is based on publicly available filings from several global subsidiaries

Microsoft's global tax affairs have attracted far less public attention and condemnation than many other global IT giants. However, it is the subject of a major IRS audit and maintains a frequently morphing network of subsidiaries in known secrecy jurisdictions around the world, many of which lack a clear operational purpose and appear to generate billions of dollars in tax-free revenues without employing a single worker.

## It begins at home? the Puerto Rico scheme

An ongoing audit of its tax affairs reveals that Microsoft's tax schemes are enabled by the U.S. itself. This major IRS audit examines Microsoft's use of low-tax jurisdictions and transfer pricing. The audit was "the biggest audit by dollar amount in the history of the agency" when it was launched in 2012 and has major implications for the future treatment of multinational tax avoidance.<sup>55</sup> The IRS investigation revealed that an internal Microsoft document described as a "pure tax play" the company's use of a Puerto Rico subsidiary to stash at least \$39 billion in profits, taxed at a rate of nearly 0%. The scheme exploited the inherent secrecy of intra-company sales, as Microsoft sold its intellectual property to an 85-person factory in the U.S. territory. It also relied on the ability of the company's accounting firm, KPMG, to secure a deal with the Puerto Rican government granting Microsoft a 15-year "tax holiday".<sup>56</sup> Earnings of U.S.-based corporations registered in Puerto Rico are treated as foreign earnings and are thus exempt from U.S. federal and state income taxes.<sup>57</sup>

The audit is ongoing, as Microsoft continues to lobby, litigate, and organize to defend its practices and deny allegations of misconduct. It has mobilized corporate allies; requested IRS documents in relation to the case under the Freedom of Information Act; and even sued the IRS for supposedly failing to comply with FOIA requests, a lawsuit that is ongoing since 2015.<sup>58</sup> Cases relating to the audit led to at least one important development when a federal judge ordered that Microsoft hand over key documents to the IRS. Importantly, the judge ruled that the documents were related to a tax shelter, and thus not protected by "tax practitioner privilege". The decision seems to indicate an expansion of what kind of business decisions are considered tax avoidance.<sup>59</sup>



Microsoft's aggressive stance in relation to corporate taxes within its home country is matched by its attitude to sales taxes and taxes on royalties. The company recently won legal battles it initiated against two U.S. state revenue departments. The first allows it to restrict the geographic scope of taxable sales to the state where its "intangible" products are used, while the outcome of the second allows Microsoft to use an interstate network of subsidiaries and related party transactions within the U.S. to reduce its state tax liabilities.<sup>60</sup>

## Glimpses of a world wide web: the Ireland-Bermuda scheme

In 2021, Microsoft's tax affairs made some headlines when The Guardian reported that Irish subsidiary Microsoft Round Island One, with zero employees, recorded a profit of **\$315 billion** in 2020 which was equal to **nearly three-quarters of Ireland's gross domestic product**.<sup>61</sup> No tax was paid on profits at this level as its 2020 financial statements revealed that "the company is tax resident in Bermuda, no tax is chargeable on income."<sup>62</sup> The Guardian reported that Microsoft Round Island One "collects licence fees for the use of copyrighted Microsoft software around the world".<sup>63</sup>

Tracing the origins of this reported profit reveals a constantly re-woven web of shape-shifting subsidiaries. In 2020, \$301.1 billion of the reported profit was "related to the surplus and assets transferred from two liquidated subsidiaries, Microsoft Luxembourg USA Mobile SARL and MACS Holdings Limited, which the Guardian understands is not taxable under common global tax principles as an 'unrealised gain' ".<sup>64</sup> Microsoft responded by saying that almost



all of the \$13.6 billion in operating profit “was a dividend from an Irish tax-resident company which had been taxed in full in Ireland”.<sup>65</sup> In typical form for multinationals responding to allegations of tax avoidance, Microsoft spokesperson said the company was “fully compliant with all local laws and regulations in the countries where we operate.”<sup>66</sup>

## Uncovering the web: Ireland at the centre

What the Guardian and others did not report was how Microsoft Round Island One connects to the rest of Microsoft’s global business. The Irish entity’s massive dividends – at least \$30.5 billion following the end of the 2020 financial year (30 June), \$24.6 billion in 2020 and \$43.4 billion in 2019 – were presumably, as is standard practice, paid to the company’s immediate parent “MBH Limited, an entity incorporated in Bermuda.”<sup>67</sup> This is the same company that previously owned Microsoft B.V. in the Netherlands until it was sold to Microsoft Ireland Research in March 2021. As of March 2021, it appears that MBH remained the primary owner of Microsoft Round Island One, but that approximately 10% of the shares were held by RI Holdings, another Microsoft holding company at the same Bermuda address as MBH Limited, and a small number of shares were held by the LinkedIn Corporation in Mountain View, California.<sup>68</sup>

At least three key nodes in Microsoft’s global structure and operations are subsidiaries of Microsoft Round Island One. Microsoft Global Finance is 90% owned by Microsoft Round Island One, along with 100% of MFM Holdings, another holding company incorporated in Bermuda, and more than half a dozen subsidiaries in other countries.<sup>69</sup> The transactions discussed above and publicly revealed by The Guardian resulted in Microsoft Round Island One receiving 99.97% interest in Microsoft Ireland Research, 100% interest in “MSFT C-O Holdings Cooperatif U.A.”, and 100% interests in three other global subsidiaries. Microsoft Global Finance is discussed below. The role of Microsoft Ireland Research is discussed through case studies of Australia and New Zealand. Finally, MSFT C-O Holdings Cooperatif U.A. appears to be an important entity in Microsoft’s transactions between Dutch subsidiaries.<sup>70</sup>

Microsoft Round Island One’s zero-tax record for its phenomenally profitable year of 2020 extends beyond Ireland. As discussed above, its “tax residency” in Bermuda prevented it from accruing any tax liability in Ireland. That same year, it also reported zero foreign taxes – even as one year prior, it reported \$30.6 million in foreign taxes paid.<sup>71</sup>

Finally, analysis of Microsoft Round Island One’s most recent available financial statements suggests that the dividends it received from another Microsoft subsidiary, which Microsoft asserted had been “taxed in full in Ireland”, likely came from Microsoft Ireland Research. This latter subsidiary “made a return of capital of \$10bn to the company during the financial year” in 2020.<sup>72</sup> As evidenced below, Microsoft Ireland Research is at the core of Microsoft’s global operations.

## Microsoft Global Finance (Ireland; tax resident in Bermuda)

Only six global subsidiaries are listed in Microsoft's annual report (10-K). Microsoft Global Finance is one such subsidiary. That report shows it incorporated in Ireland. It is only revealed in Microsoft Global Finance's Irish filings that "the company is tax resident in Bermuda, no tax is chargeable on income."<sup>73</sup> Microsoft's annual report to its global shareholders makes no disclosure of the subsidiary being "tax resident" in Bermuda.

This Irish company, tax resident in Bermuda, undoubtedly has an impact on Microsoft's tax payments in jurisdictions all around the world. Microsoft Global Finance's principal activity is "investment trading and treasury management" and it "also operates as an "In-House Cash Centre" to other Microsoft entities, facilitating cash flow requirements and supporting the settlement of inter-group balances."<sup>74</sup> Microsoft Global Finance's profits, "after tax", were \$728 million in 2020. While no tax was paid, operating profit of \$2.352 billion, down from the previous year, was reduced by \$1.680 billion in interest payable and similar charges.<sup>75</sup> It appears that the total of \$1.680 billion in interest charges were on "inter-group payables".<sup>76</sup>

Microsoft Global Finance is a crucial nexus in Microsoft's web of subsidiaries. Global financial flows and massive investment holdings centre on this Bermuda-resident, Ireland-headquartered company that lacks a single employee. Not reported in the earnings of the Microsoft Global Finance was an additional "fair value gain on investments" in other comprehensive income of \$4.742 billion, bringing the company's total equity as of 30 June 2020 to \$9.270 billion.<sup>77</sup> The company had no employees and only one subsidiary, Microsoft Round Island Three Ireland Limited, but total investments valued at \$107 billion, primarily debt instruments and including nearly \$97 billion in U.S. government securities, as of 30 June 2020.<sup>78</sup> Microsoft Global Finance was also owed \$4.9 billion by other Microsoft entities and owed \$105 billion to other Microsoft entities, due within one year.<sup>79</sup>

**\$142**  
**BILLION** IN OFFSHORE PROFITS  
MICROSOFT SECURED AN AVERAGE TAX RATE  
ON THOSE OFFSHORE PROFITS OF JUST  
**3.3%**

### Sir John Rogerson's Quay, a modern-day centre for money stashers

The wealthy 17th century merchant and property developer, Sir John Rogerson, was reportedly known for simply refusing to repay his loans.<sup>80</sup> Today, in the street named after him, hundreds of companies share a registered address: 70 Sir John Rogerson's Quay, Dublin. Among those companies are several Microsoft subsidiaries: Microsoft Ireland Research, Microsoft Ireland Operations Limited, LinkedIn Ireland Unlimited Company, LinkedIn Technology Unlimited Company, and more.

The companies' shared address is no coincidence. Irish tax structures have long been used by large U.S. IT giants, including Microsoft, to avoid or dramatically reduce global tax payments. The same address is that of the companies' solicitors: Matheson. This Irish law firm specialises in assisting U.S. multinationals, particularly tech and pharmaceutical giants, with tax and intellectual property issues in relation to corporate structures in Ireland.<sup>81</sup>

Also registered at 70 Sir John Rogerson's Quay is Matsack Trust Limited, which was named in the Paradise Papers and is company secretary to the above-listed Microsoft subsidiaries.<sup>82</sup> Matsack Trust Limited provides company secretarial advisory services for Matheson and in 2013 was a director of 1,427 companies, including the Irish subsidiary of Electronic Arts (which has also been accused of avoiding taxes), a major competitor to Microsoft in the production of video games.<sup>83</sup>



### LinkedIn Ireland Unlimited Company (Ireland)

A second company in Ireland, one of the few disclosed to Microsoft's shareholders in its annual report (10-K), is LinkedIn Ireland Unlimited Company. The company's principal activity is "the operation of the world's largest professional network on the Internet with nearly 740 million members in over 200 countries and territories".<sup>84</sup> The company reported an after-tax profit of \$104 million in 2020, down from \$225 million in 2019 on which it paid a \$200 million dividend.<sup>85</sup> A \$250 million dividend was declared to Microsoft Ireland Research, the immediate parent company, in 2021.<sup>86</sup> While 2020 profits were lower, revenue increased by \$483 million, with total turnover of \$3.243 billion.<sup>87</sup> Profits were higher in 2019, partly due to "the disposal of intellectual property to Microsoft Operations Puerto Rico, LLC", which generated \$46.5 million in profit.<sup>88</sup>

LinkedIn Ireland Unlimited Company's filing states that the "analysis of turnover and profit by segment and geographical area as required by the Companies Act 2014 is not included as the directors believe that such disclosure would be seriously prejudicial to the business on the Company."<sup>89</sup> It is not clear how the disclosure would harm the company other than raising questions about its tax payments, or lack thereof, in many of the 200 jurisdictions around the world or the 17 countries in which it has subsidiaries.<sup>90</sup> The company received interest payments for related parties of \$36.3 million in 2020, down from \$148.8 million in 2019.<sup>91</sup>

For comparison, the company's **income tax expense of \$20.7 million** in 2020 **was lower than the \$28.9 million in social security costs** for the 1,810 employees and directors in 2020.<sup>92</sup> While its 2020 reported profits in Ireland are relatively low, it reported a short-term interest-bearing loan of \$7.045 billion, due within one year, from Microsoft Global Finance.<sup>93</sup> Global financial transactions would appear to significantly reduce taxable profits and tax payments by LinkedIn in Ireland and around the world.

### LinkedIn Technology Unlimited Company (Ireland)

Another LinkedIn company in Ireland, LinkedIn Technology Unlimited Company, separately owned by Microsoft Ireland Research reported a loss in 2020 that was largely "due to a \$1.9m exceptional withholding tax charge on royalty income from prior years in respect of transactions involving German-registered intellectual property".<sup>94</sup> In 2020, LinkedIn Technology Unlimited Company had a receivable of \$99.9 million, a loan to Microsoft Global Finance, was still owed and due within one year.<sup>95</sup> In 2020, the company's investments in subsidiaries were valued at nearly \$70 million, including 100% of LinkedIn CN Limited, a holding company in the Isle of Man, and interest of 0.001% or less in marketing subsidiaries in India, Brazil and Mexico.<sup>96</sup>

### LinkedIn... to the Isle of Man

Two other LinkedIn companies are currently active and incorporated in the Isle of Man, LinkedIn Worldwide and LinkedIn International, but annual returns from the Isle of Man provide no information on how these entities fit into Microsoft's global structures or what purposes they may serve. At the end of 2020, these two Isle of Man entities were listed as holding companies, 100% owned by Microsoft Ireland Research.<sup>97</sup> LinkedIn CN Limited is presumably the holding company for LinkedIn's operations and investments in China.



## CASE STUDY: AUSTRALIA (AND BACK TO IRELAND)

Relatively strong tax transparency requirements in Australia makes this a valuable case study of Microsoft's alleged global profit shifting. The Australian Taxation Office annually discloses tax payments made by the largest corporations operating in the country. This data clearly exposes Microsoft's low tax payments and low profit margins at the national level compared to global reporting.

**Table 5: Financial data publicly reported on Microsoft's subsidiaries in Australia**

Financial year		Total income	AU\$ millions Taxable income	Tax payable	Estimated profit margin %
2019-20	MICROSOFT DATACENTER (AUSTRALIA) PTY LIMITED	901	49	15	5
	MICROSOFT PTY LTD	4,225	320	89	8
	COMBINED	5,126	369	104	
2018-19	MICROSOFT DATACENTER (AUSTRALIA) PTY LIMITED	647	45	13.5	7
	MICROSOFT PTY LTD	2,986	235.5	71	8
	COMBINED	3,633	281	84	8
2017-18	MICROSOFT DATACENTER (AUSTRALIA) PTY LIMITED	397	98	29.5	25
	MICROSOFT PTY LTD	2,281	204	61	9
	COMBINED	2,678	302.5	91	11

Source: Australian Tax Office Corporate tax transparency data

In Australia, Microsoft's primary subsidiary is Microsoft Pty Ltd, which is owned by both Microsoft Ireland Research (MIR; over 99% of stock) and Microsoft Ireland Operations Ltd (MIOL; less than 1%);<sup>98</sup> MIOL is also owned by MIR, registered at the same address in Dublin, with the same Matsack Trust as company secretary.<sup>99</sup> MIR was owned by Microsoft Luxembourg USA Mobile S.a.r.l., incorporated in Luxembourg – which was listed as a subsidiary of MIOL in its 2020 annual report. However, as discussed above, MIR is now owned by Microsoft Round Island One, incorporated in Ireland, but tax-resident in Bermuda and owned via a Bermuda holding company.

### Microsoft Ireland Research (Ireland)

MIR's 2020 turnover in Ireland was entirely from royalties, with additional income from dividends and transactions relating to other global Microsoft subsidiaries. MIR had income from royalties of **\$33.5 billion** in 2020 and **\$25.8 billion** in 2019 but reported income tax expenses of only \$1.8 billion (2020) and \$1.2 billion (2019).<sup>100</sup> Among the charges that reduced its profits were about \$6.5 billion per year in research and development costs.<sup>101</sup> MIR's tax expenses were significantly lower, as a share of the reduced profit before tax, than the already low Irish statutory corporation tax rate of 12.5%.<sup>102</sup>

MIR's 2020 annual report lists 18 subsidiaries, including two in the Isle of Man, one in Singapore, but do not include the Australian company.<sup>103</sup> Along with Bermuda, Ireland, the Netherlands, and Luxembourg, the Isle of Man and Singapore are frequently used as tax havens by multinationals. MIOL and three LinkedIn Irish subsidiaries, registered at the same Dublin address, are also listed as 100% subsidiaries of MIR and all serviced by Mathesons and Matsack Trust.<sup>104</sup>

### Microsoft Ireland Operations Ltd (Ireland)

MIOL's states that its "principal activity is the marketing, selling and distribution of Microsoft hardware and software products and services for the EMEA and APAC region."<sup>105</sup> In 2021, it reported a \$9.5 billion increase in revenue to \$56.2 billion due to "increases across all lines of business, intelligent cloud, more personal computing and productivity and business processes."<sup>106</sup> Operating profit and profit after tax increased by \$662 million and \$438 million, respectively, to \$3.1 billion and \$2.7 billion.<sup>107</sup>

As with the LinkedIn company in Ireland, discussed above, MIOL's filing also states that "revenue is not analysed by geographical market as in the opinion of the directors the disclosure of this information would be seriously prejudicial to the interests of the company."<sup>108</sup>

As in previous years, gross profits were dramatically reduced by other operating expenses which are not explained and with no separate disclosure of related party transactions. The financial statements, despite the massive scale and global reach of operations, are prepared under a "Reduced Disclosure Framework (FRS 101)".<sup>109</sup> In 2021, gross profits of \$50.9 billion were reduced by operating expenses of \$45.8 billion.<sup>110</sup> In 2021, \$28.8 billion was owed by related parties and due within one year and \$13.8 billion was owed to related parties.<sup>111</sup>

In 2021 revenue from "Services and others" increased by almost \$8.7

billion, far more than the \$790 million increase in product revenue.<sup>112</sup> The “Cost of stock recognised as expense”, reduced operating income by \$4.2 billion in 2021.<sup>113</sup> After the end of the financial year, “the company approved funding of \$5bn for its subsidiaries.”<sup>114</sup> Subsidiaries include two other Irish entities and one each in Luxembourg, the Netherlands and Hong Kong.<sup>115</sup> These costs of stock – presumably shifting funds to other jurisdictions by buying shares in Microsoft group companies – and funding of subsidiaries, are massive in comparison to total staff costs of \$349 million or income tax expenses of \$401 million in 2021.<sup>116</sup> Even in subsidiaries with employees, it appears that the shell games and potential profit shifting still dominate. Significant related party payments appear to shift profits to where they are taxed the least or not at all. Ireland’s tax rate of 12.5%, compared to 30% in Australia, may still be too high for Microsoft.

### Microsoft Pty Ltd (Australia)

Microsoft Pty Ltd revenue in 2021 was over AU \$5 billion, with profit before tax of AU \$231 million and income tax expense AU \$91 million.<sup>117</sup> The 2021 results represent a substantial decline in profit margin compared to previous years for which the ATO has data (see table 5 above). The calculated profit margin for 2021 would be around 4.5%, a large difference from the global profit margin of 42.3%.

Microsoft engages in extensive related party transactions which could facilitate profit shifting to other jurisdictions.<sup>118</sup> These include interest payments, purchases of goods and services, commission payments, deferred costs and debts. In 2021, **Microsoft purchased over AU \$3.4 billion in goods and services from related parties.** Such purchases are at prices set by the company and cannot be independently verified with reference to “market” rates. As at the reporting date, Microsoft owed over AU \$1 billion to related parties and was due over AU \$628 million from related parties.<sup>119</sup> Related party purchases of this Australian subsidiary represent nearly 70% of AU \$5 billion in total revenue for the year. Are these related party purchases potentially shifting significant profits offshore to avoid tax in Australia?

Additionally, Microsoft’s primary Australian subsidiary reported over AU \$1.1 billion in deferred costs payable to related parties in 2021.<sup>120</sup> Microsoft paid dividends of AU \$220 million and had a further AU \$154 million in unrecognised amounts for dividends.<sup>121</sup> These transactions may go a long way in explaining Microsoft’s low profit margins and low tax payments in Australia. This pattern of apparent aggressive tax avoidance could be repeated in other countries worldwide. However, due to better enforcement by the Australian Taxation Office compared to other jurisdictions, Microsoft may pay a higher rate of tax in Australia than in many other countries.



## CASE STUDY: NEW ZEALAND

New Zealand presents another example. Microsoft New Zealand ('Microsoft NZ') is 100% owned by Microsoft Ireland Research. In 2021, Microsoft NZ reported total revenue of NZ \$774 million, with cost of sales at NZ \$639 million, and a profit before tax of NZ \$21 million. This implies a profit margin under 3%, a tiny fraction of Microsoft's global profit margins, which were above 42% in 2021 and consistently well above 30%.

As in Australia and in other countries, Microsoft NZ engages in extensive related party transactions, which can be a vehicle for shifting profits offshore. Significant expenses and revenues are between related parties. This makes an analysis of genuine money flows and actual profits earned in New Zealand extremely difficult for any outsider, including tax authorities, to determine. Microsoft NZ reported related party receivables of NZ \$38 million and related party deposits of NZ \$103 million, as well as deferred costs to related parties of NZ \$146 million.<sup>122</sup> Trade payables to related parties were NZ \$105 million.<sup>123</sup> NZ \$80 million of its revenues (more than 10% of the total) were commissions from related entities.<sup>124</sup>

In 2021, Microsoft NZ paid income tax of NZ \$8.5 million<sup>125</sup> and reported deferred tax assets of NZ \$9.3 million.<sup>126</sup> Microsoft NZ reports one significant subsidiary – Open Cloud New Zealand Limited – which performs research and development for Microsoft and receives a commission.<sup>127</sup>

Microsoft's substantial offshore related party transactions in New Zealand and Australia, which significantly reduce taxable income, appear to continue despite settlements with tax authorities. In 2019, it was reported that Microsoft New Zealand settled a "long-running tax investigation with Inland Revenue over international transfer pricing" for NZ\$24.7 million.<sup>128</sup> This followed a settlement for A\$39 million in Australia in 2017, covering a period from 2010 to 2013. The Australian settlement came on the same day that Microsoft appeared before a public hearing as part of an ongoing Senate inquiry into corporate tax avoidance.<sup>129</sup> The Australian and New Zealand cases appear to have involved shifting revenues to Singapore. However, since 2019 it would appear that related party transactions in these two countries, and perhaps others, are shifting profits back to Ireland instead.



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# Luxembourg, Singapore, the Netherlands... where else?

Microsoft's web of subsidiaries extends from Ireland to known secrecy jurisdictions around the world. Billions in financial flows between holding companies in Ireland, Luxembourg, Singapore, the Netherlands, Bermuda, and other jurisdictions raise serious questions about where profits are genuinely generated and what taxes, if any, are paid where.

## Luxembourg

One Luxembourg subsidiary, Microsoft Luxembourg S.a.r.l., reported a profit of €2.7 million in 2021 and continued "as a marketing entity to assist Microsoft Ireland Operations Limited in marketing Microsoft product to end users in Luxembourg."<sup>130</sup> However, Microsoft Luxembourg International Mobile S.a.r.l., another Luxembourg subsidiary with zero employees, has several questionable major global financial transactions. Beginning in 2014, Microsoft Corporation contributed an amount of \$5.580 billion of bonds issued as share premium.<sup>131</sup> At the end of 2021, this Luxembourg entity held a 70% interest in Nokia KKFT, a Hungarian company, valued at \$40 million, after recording an impairment of \$591 million in 2018.<sup>132</sup> The Luxembourg entity entered into a loan agreement with Microsoft Asia Island Limited, incorporated in Bermuda, for a maximum amount of \$9.5 billion in 2014, some of which was repaid in 2017, but in December 2021, "the loan agreement was transferred... to MS Singapore Holdings Ltd ("MSHPL")."<sup>133</sup>

## Singapore

### Microsoft Singapore Holdings Pte Ltd

At the end of the 2020 financial year, Microsoft Ireland Research reported a 100% subsidiary named "Microsoft Singapore Holdings Ltd", incorporated in Singapore, and its only subsidiary in Singapore.<sup>134</sup> Despite a variation in the company name, it is presumed that a company registered as Microsoft Singapore Holdings Pte Ltd is the Singapore company involved in the Luxembourg-Bermuda transaction mentioned above. The 2021 filings of Microsoft Singapore Holdings Pte Ltd report that it is "a wholly owned subsidiary of Microsoft Ireland Research, incorporated in Ireland."<sup>135</sup> Both filings indicate share capital of the Singapore company at 1,086,500 ordinary shares.

Subsidiaries of this Singapore company were Microsoft Operations Pte Ltd and Microsoft Payments Pte Ltd in Singapore, MSPR Holdings II B.V., an investment holding company in the Netherlands, and Microsoft Asia Islands Limited, an investment holding company in Bermuda.<sup>136</sup> This Bermuda company is the

one in the Luxembourg transaction discussed above. However, subsequent to the end of the financial year, a board resolution (8 November 2021) approved the voluntary liquidation of the Bermuda subsidiary. The Dutch company was also liquidated after the end of the financial year and the Singapore parent was expected to receive \$37.3 million “arising from the completion of liquidation.”<sup>137</sup>

Microsoft Singapore Holdings Pte Ltd, a company with zero employees, reported profits from dividend income of \$22.350 billion in 2020 on which it had an **income tax expense of only \$15**. Dividend income in 2021 dropped to \$3.3 million with an **income tax expense of \$22**.<sup>138</sup> Dividend income is non-taxable income. Although not disclosed, the majority of the dividend income was likely from Microsoft Asia Islands Limited in Bermuda, not approved for voluntary liquidation, given the billions in loans which it was owed.

### Microsoft Singapore Investments Pte Ltd

The 2021 filings of another Singapore incorporated company with zero employees, Microsoft Singapore Investments Pte. Ltd., report that it “is a subsidiary of Microsoft Asia Island Limited, incorporated in Bermuda.”<sup>139</sup> This company reports that on 14 February 2020, an interim dividend of \$1 billion “was paid to shareholders, in respect of the year ended 30 June 20 (sic).”<sup>140</sup> This Singapore company reported profits of \$1.130 billion in 2020 and income tax expense of zero.

Profits were driven by “Other income” of \$1.108 billion, “arising from the liquidation of a subsidiary” and interest income of \$22 million. Profits in 2021 were below a quarter million.<sup>141</sup> It also reported that \$7.5 billion was repaid in 2020, which was “previously recorded as deemed capital contribution” and “was an amount payable to shareholders for payment made on behalf of the Company to subscribe to the shares of a subsidiary.”<sup>142</sup> Given the immediate ownership, the shareholder referred to is presumably Microsoft Asia Islands Limited in Bermuda. No subsidiaries are listed in the 2021 filing. This Singapore company’s remaining asset was almost entirely made up of a receivable from an undisclosed related company of \$130 million.<sup>143</sup> Microsoft Singapore Investments Pte. Ltd. is now dormant and “undergoing a voluntary liquidation”, but “previously an investment holding company.”<sup>144</sup>

## The Netherlands

Microsoft International Holdings B.V. (MIHBV), a holding company in the Netherlands, also has zero employees and several questionable major global financial transactions. Its 2021 financial statements have limited current information but reveal that in 2008 MACS Holdings Limited, another Microsoft subsidiary in Bermuda, contributed its investment in Norway company to MIHBV.<sup>145</sup> In 2017, MIHBV received a promissory note of \$2.895 billion from Microsoft Global Finance “to settle MIHBV’s share of the pooled cash investment. MIHBV then endorsed the note to Microsoft C-O Holdings Coöperatief U.A. [presumably the same company mentioned above and referred to as “MSFT C-O Holdings Cooperatief U.A.”] in partial repayment of a note payable. The note payable to Microsoft C-O Holdings Cooperatief U.A. of \$5.904 billion plus unpaid interest of \$143 million was reduced by the same amount (\$2.895

billion) of the promissory note from Microsoft Global Finance.<sup>146</sup> “The remaining balance of the note... [\$3.151 billion] was settled by a capital contribution from Microsoft C-O Holdings Cooperatief U.A. to MIHBV.”<sup>147</sup>

MIHBV is wholly owned by Microsoft C-O Holdings Cooperatief U.A. in the Netherlands and part of the same consolidated group “for corporate income tax purposes”.<sup>148</sup> **These types of “cooperative” structures in the Netherlands have a long history of use for tax avoidance purposes by multinationals.** This Dutch “cooperative” has not filed any financial statements in the Netherlands since 2016.<sup>149</sup> Prior to 2011, MIHBV was owned via MACS Holdings Limited in Bermuda.<sup>150</sup>

Microsoft’s Dutch subsidiaries, including the “cooperative” and its subsidiaries, are owned through Microsoft B.V., also in the Netherlands. Microsoft B.V., as of March 2021, is owned by Microsoft Ireland Research Limited in Ireland, but “was previously wholly owned by MBH Limited, a company in Bermuda.”<sup>151</sup> While Microsoft B.V. appears to directly service end users in the Netherlands, its subsidiaries are clearly involved in broader international transactions. It owns the remaining 30% of the Hungarian company Nokia KKFT mentioned above and 99.78% of “Microsoft Gulf FZ LLC, seated in Dubai UAE”.<sup>152</sup> In recent years, Dubai is increasingly used as a financial centre and tax haven by many multinationals.

Microsoft B.V. had current receivables from related parties of €484 million, of which the vast majority (€434m) was from Microsoft Global Finance, but also €42 million from Microsoft Ireland Operations Ltd and €2.2 million from Microsoft Ireland Research in “commission income”.<sup>153</sup> While Microsoft B.V. did report €23 million in payables related to income tax, presumably on profits on sales in the Netherlands, these payments were less than a third of the amount paid in other taxes and social security contributions for its 1015 (average FTE) Dutch employees in 2021.<sup>154</sup>

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## Secret subsidiaries and regularly rewoven webs

The perpetual shifting of global corporate structures and billions in debt and equity make it virtually impossible for tax authorities and others to follow. Financial flows between the jurisdictions reviewed above, and subsidiaries in places like Bermuda that provide even more secrecy, cloud any attempts to independently verify where Microsoft’s profits are genuinely generated rather than artificially shifted to reduce tax obligations.

The Institution on Taxation and Economic Policy’s 2017 report *Offshore Shell Games* found that lax reporting laws in the U.S. exacerbates tax haven abuse. Corporations have significant leeway in disclosure of foreign subsidiaries, “allowing them to continue to take advantage of tax loopholes without attracting governmental or public scrutiny.”<sup>155</sup>

In contrast to the vast number of undisclosed and virtually hidden Microsoft structures and global subsidiaries, Microsoft’s annual report (10-K) lists just six subsidiaries: two in the U.S. and four in Ireland. Microsoft’s

extensive network of global subsidiaries, with ownership and financial flows weaving in and out of tax havens, appears to be constantly changing. The more complex and dynamic the global corporate structure, the harder it is for tax authorities to collect and enforce domestic corporate income tax payments where profits are genuinely earned from end users, Microsoft's massive customer base, including governments.

**Table 3: Six Subsidiaries disclosed in Microsoft's global accounts**

Name	Where Incorporated
Microsoft Ireland Research	Ireland
Microsoft Global Finance	Ireland
Microsoft Ireland Operations Limited	Ireland
Microsoft Online, Inc.	United States
LinkedIn Corporation	United States
LinkedIn Ireland Unlimited Company	Ireland

Source: Microsoft annual report (10-K), 2021

## An untrustworthy recipient of government funds?

TaxWatch UK recently criticised tech companies, including Microsoft, for failing to properly collect value-added taxes (VAT) in African countries, depriving these nations of much-needed revenue.<sup>156</sup> Tax Watch said corporations should be required to register for VAT if local sales are significant. In response, Microsoft said it was 'fully compliant' with all local laws where it operates. Indonesia recently added Microsoft, among other tech companies, to its VAT-liable list.<sup>157</sup>

Microsoft's history of monopoly behaviour raises additional concerns about its growing presence in the operation of government. Microsoft's very advantage in the market for IT contracts with government can be traced to its past monopoly position in the market for Intel-compatible PC operating systems.<sup>158</sup> The company was sanctioned in a landmark antitrust case in the early 2000s for using this position to disadvantage rival software developers.<sup>159</sup> Indeed, Microsoft is currently under investigation by China's State Agency for Market Regulation for possible violations of the Anti-Monopoly Law.<sup>160</sup>

Microsoft's dominance in office software give it a platform to expand into additional IT services to governments. While it now faces some competition, there are ongoing monopoly risks associated with contracts to provide such services. The U.S. Department of Agriculture argued in 2021 that it would take at least four years to migrate data to a different software provider, defending its sole-source procurement order from Microsoft when challenged by a Google reseller.<sup>161</sup>

With the rise of cloud computing, and the proliferation of IT products and services in the daily operations of government, IT contracts give private companies more and more access to the public sector – and to citizens and residents’ personal information, including health data. Companies with a track record of abusing market position, and of failing to pay a fair share in corporate taxes, should not be allowed to extract massive profits from the public sector.

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## Recommendations

If Microsoft is to benefit from the substantial potential profits that come with government contracts it must demonstrate improved transparency and show it contributes its fair share towards much needed public services.

There is a proliferation of digital service taxes across the world in an effort to collect some tax revenue from growing and highly profitable multinationals. The digital service taxes and awareness of the scale of tax avoidance schemes by global tech giants has also driven efforts at the global level, through the OECD, to reform the global tax system. These efforts are a small step in the right direction but do not go far enough.

A first step to changing corporate behaviour is **far greater transparency**. The European Union has now legislated a requirement for large multinationals to begin to publicly report profits, revenues and taxes paid in member states and in an incomplete list of tax haven jurisdictions. As part of its commitment to reduce tax avoidance, the new government in Australia has committed to public country by country reporting for multinationals.<sup>162</sup> Legislation requiring public country by country reporting for multinationals has passed the US House of Representatives and rule-making is being considered by US federal regulators.

However, governments at all levels around the world can require transparency from Microsoft and other multinationals **as a condition of any future government contracts**. Greater transparency is essential if Microsoft and other multinationals are to be held accountable on taxation obligations. While there is sufficient evidence to raise serious questions, there is insufficient evidence to properly analyse Microsoft’s complex multinational structure and its tax liabilities in specific jurisdictions.

If governments are going to continue supporting and relying upon Microsoft for the provision of increasingly prevalent cloud computing services and other IT products and 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.<sup>163</sup> 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.

## Endnotes

<sup>1</sup> “The Silicon Six and their \$100bn global tax gap”, Fair Tax, <https://fairtaxmark.net/supporters/silicon-six-end-the-decade-with-100-billion-tax-shortfall/>

<sup>2</sup> Paul Kiel, “The IRS Decided to Get Tough Against Microsoft. Microsoft Got Tougher”, ProPublica, January 22, 2022, <https://www.propublica.org/article/the-irs-decided-to-get-tough-against-microsoft-microsoft-got-tougher>

<sup>3</sup> See recent case of pharmaceutical giant Amgen Inc. Joseph Walker and Richard Rubin, “Amgen Fights IRS Over \$10.7 Billion Tax Bill”, The Wall Street Journal, August 1, 2022, <https://www.wsj.com/articles/amgen-fights-irs-over-10-7-billion-tax-bill-11659346202>

<sup>4</sup> Rupert Neate, “Microsoft’s Irish subsidiary posted £220bn profit in single year”, The Guardian, June 3, 2021, <https://www.theguardian.com/world/2021/jun/03/microsoft-irish-subsidiary-paid-zero-corporate-tax-on-220bn-profit-last-year>

<sup>5</sup> Microsoft Global Finance, Annual Report and Financial Statements for the Financial year Ended 30 June 2020, Companies Registration Office Ireland, <https://www.cro.ie/>, p30. As of 2 September 2022, this was the most recent accounts available.

<sup>5</sup> Microsoft Singapore Holdings Pte. Ltd., Financial Statements Year ended 30 June 2021, ACRA Register, <https://www.tis.bizfile.gov.sg/>, p9.

<sup>6</sup> As discussed in this report, there is a troubling lack of transparency about the extent and value of Microsoft’s government contracts. However, it is reasonable to assume that Microsoft provides IT and other services to governments in almost every country. According to the market research firm Gartner, Microsoft 365 with Microsoft Office continues to dominate the market for enterprise productivity suites, despite competition from Google Workspace. Microsoft’s marketing promises to “Empower every government agency and person on the planet to achieve more”, and features stories about its work with governments from Kenya to Belgium. It was reported in 2017 that governments across Europe are increasingly dependent on Microsoft software, a problem that is likely to extend to other countries. Even in China, where a central government notice in 2015 required a move away from Microsoft Windows, government agencies bought over 3,000 copies of the operating system in 2020. Craig Roth, “Market Share for Office Productivity Published”, Gartner, August 2, 2022, <https://blogs.gartner.com/craig-roth/2022/08/02/market-share-for-office-productivity-published/>; Már Másson Maack, “Europe is living under Microsoft’s digital killswitch”, TNW, May 10, 2017, <https://thenextweb.com/news/europe-is-living-under-microsofts-digital-killswitch/>; John Xie, “China’s Computers Run on Microsoft Windows: Are They Vulnerable to US Pressure?”, VOA, June 9, 2020, [https://www.voanews.com/a/east-asia-pacific\\_voa-news-china\\_chinas-computers-run-microsoft-windows-are-they-vulnerable-us/6190826.html](https://www.voanews.com/a/east-asia-pacific_voa-news-china_chinas-computers-run-microsoft-windows-are-they-vulnerable-us/6190826.html); “Microsoft 365 and government”, Microsoft, <https://www.microsoft.com/en/microsoft-365/government/>; “Microsoft for Government”, Microsoft, <https://www.microsoft.com/en-us/industry/government/>; see also posts such as “Microsoft to Partner with Kenya and Governments Across Africa to Transform Education for Millions of Students”, Microsoft, August 2, 2021, <https://news.microsoft.com/en-xm/2021/08/02/microsoft-to-partner-with-kenya-and-governments-across-africa-to-transform-education-for-millions-of-students/>.

<sup>7</sup> Natalie Olivo, “IRS Budget Boost May Increase Transfer Pricing Scrutiny”, Law360, August 29, 2022

<sup>8</sup> “Australia: Proposal for increased public reporting of tax and country-by-country information”, KPMG, August 12, 2022, <https://home.kpmg/us/en/home/insights/2022/08/tnf-australia-proposal-for-increased-public-reporting-of-tax-and-cbc-information.html>

<sup>9</sup> On increasing profit share see “Gartner Says Worldwide IaaS Public Cloud Services Market Grew 41.4% in 2021”, Gartner, June 2, 2022, <https://www.gartner.com/en/newsroom/press-releases/2022-06-02-gartner-says-worldwide-iaas-public-cloud-services-market-grew-41-percent-in-2021> On profitability of the market, see in relation to Amazon: Jordan Novet, “Amazon’s cloud business grows almost 37%, but slows from last quarter”, CNBC, April 28, 2022, <https://www.cnbc.com/2022/04/28/aws-earnings-q1-2022.html>

<sup>10</sup> Matthew Gooding, “China’s cloud providers eye emerging markets for next phase of growth”, TechMonitor, June 18, 2021 [updated June 30, 2022], <https://techmonitor.ai/technology/cloud/future-of-chinese-cloud-providers-huawei-tencent-alibaba-aliyun>

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<sup>163</sup> “Topic Standard Project for Tax”, Global Reporting Initiative,

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Microsoft was presented with key allegations in this report and offered an opportunity to respond. The company’s response was as follows:

***‘Microsoft is fully compliant with all local laws and regulations in every country in which we operate. We serve customers in countries all over the world and our tax structure reflects that global footprint.’***

– Microsoft spokesperson



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