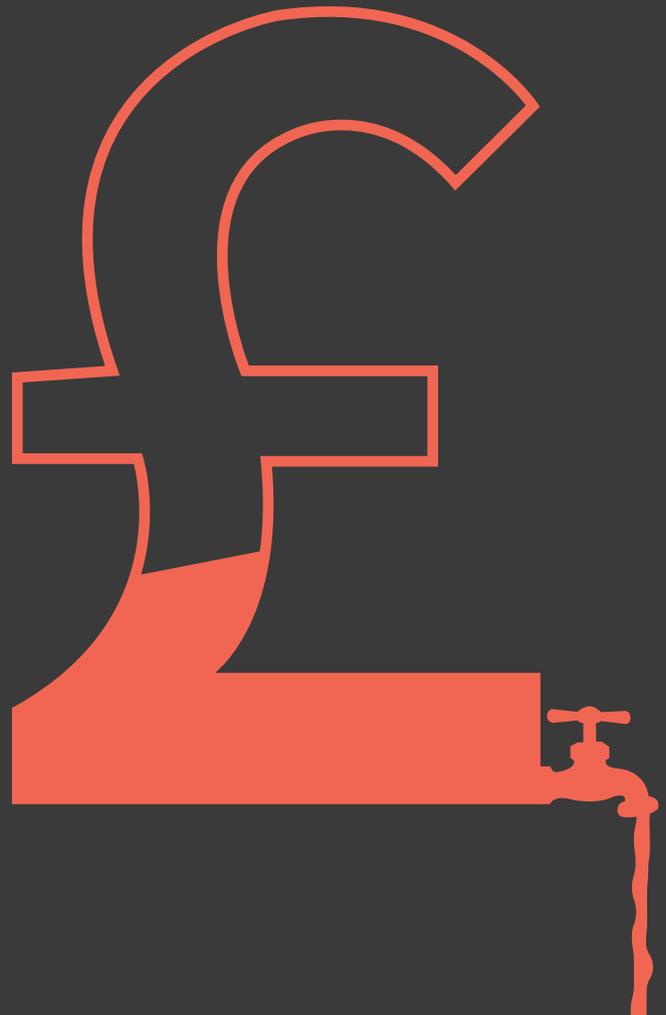


# ALLIANCE BOOTS

## & THE TAX GAP

*The Case for Corporate Tax Reform*



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This report is a joint initiative of **Change to Win**,  
**Unite the Union** and **War on Want**.



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# EXECUTIVE SUMMARY

Alliance Boots has lowered its UK tax bill by over £1 billion since 2007, even while roughly 40% of its UK revenue comes from the UK tax payer.

Corporate tax avoidance costs HM Treasury billions of pounds annually and is an increasingly urgent policy concern for the Government. Several major US corporations have recently faced intense criticism in the UK for their creative tax strategies. But new research shows that Alliance Boots, reportedly the UK's largest private firm, has avoided paying more than £1 billion in taxes since it went private six years ago through taking on excessive debts, profit shifting and corporate restructuring. This corporate behaviour, while legal, is particularly disturbing because Alliance Boots draws an estimated 40% of its UK revenue from health services largely paid for by the tax payer, and is seeking to expand the services that it supplies to the National Health Service.

## Leveraged buyout and excessive debt

Alliance Boots borrowed £9 billion to finance its move to private company status, and deducted financing costs from its UK tax bill.

In 2007, Alliance Boots left the FTSE 100 by becoming a privately held firm in Europe's largest ever leveraged buyout (LBO). The transaction was led by US private equity firm Kohlberg Kravis Roberts & Co. L.P. and the company's Executive Chairman Stefano Pessina, a billionaire resident of Monaco. The LBO was financed largely with £9 billion in borrowings, more than 12 times the company's EBITDA (earnings before interest, tax, depreciation & amortisation).

By taking on this level of debt, private equity-backed firms like Alliance Boots have the potential to erode the tax base in the country where they locate their borrowings. Profits are, in effect, shifted abroad.

## Reductions in UK taxable income

Alliance Boots reduced UK taxable income by £4.2 billion over six years.

While Alliance Boots operates in 25 countries, largely through its wholesaling business, its more profitable retail business is mostly in the UK. Because all or almost all of the LBO debt was located in the UK, Alliance Boots has been able to deduct its finance costs from taxable income in its most profitable market. During the six-year period since the buyout, we calculate that the company was able to reduce its UK taxable income by an estimated £4.2 billion compared to what it would have paid had it not carried any debt, resulting in a tax bill reduced by an estimated £1.12 to £1.28 billion in taxes.

## Tax havens

Alliance Boots has been located in Zug, Switzerland since 2008.

The company and its affiliates have taken advantage of the low tax rates and privacy protections that come with

location in tax havens. In 2008, Alliance Boots relocated to the low-tax canton of Zug, Switzerland, even though the company generates no revenue there. Several Pessina and KKR-related entities with stakes in Alliance Boots operate in other tax havens such as Gibraltar, Luxembourg, and the Cayman Islands. The limited financial disclosure that these tax havens require makes it difficult to determine beneficial ownership of companies that are related to, and in some cases, doing business with Alliance Boots, and how that impacts the tax payment by the company and its owners.

## Policy implications

Significant impacts resulted from loss of revenue to HM Treasury.

At a time when Alliance Boots is trying to sell additional services to the NHS, the lost tax revenue from Alliance Boots has tangible effects on the British public. Using the lower end of our estimate, the Government could have funded more than two years of total prescription charges for all of England with this lost revenue or the starting salary of more than 78,000 NHS nurses for a year—roughly 120 additional nurses per parliamentary constituency.

## Recommendations

UK tax system needs to adapt to changes in finance and business.

As the UK economy continues to struggle and the public suffers from cuts to vital services, there must be more than half measures to regain the funds lost to corporate tax avoidance and aggressive planning measures.

The Government should require companies like Alliance Boots to disclose more information about the locations of their profits and tax bills. It should also place more effective limits on financing arrangements largely designed to avoid taxes. At the same time, Alliance Boots should demonstrate transparency in its commercial book-keeping and take the initiative to offer more disclosure.

## Steps needed include:

- disclosure by Alliance Boots of key tax and financial information;
- HMRC investigation of Alliance Boots tax practices;
- modernisation of taxation of private equity-backed business;
- implementation of registers of beneficial ownership and reform of financial and taxation regulations in British Overseas Territories;
- implementation of measures for greater transparency and accountability in public contractor relationships.

# ALLIANCE BOOTS & THE TAX GAP

## Introduction

As the British economy faces continued uncertainty and as spending on public services suffers from further cuts, the Government's loss in revenue due to corporate tax avoidance is an increasingly urgent policy concern. Complex tax avoidance schemes cost HM Treasury an estimated £32 billion to £120 billion each year,<sup>1</sup> a significant portion of which is attributable to avoidance of the corporation tax. Tax avoidance measures are generally legal but are designed to artificially lower taxable income, for example by shifting profits out of Britain. Although US corporations like Amazon, Google and Starbucks have faced intense criticism over the past year for their tax avoidance schemes, Alliance Boots, reportedly the largest privately owned firm in the UK and parent company of retailer Boots, has not experienced the same level of scrutiny of its creative tax strategies.

New research shows that the ubiquitous high street chemist chain, now a multinational pharmaceutical giant, has lowered its tax bill by more than £1 billion in taxes since it went private six years ago, through taking on excessive debts, profit shifting and corporate restructuring. The bulk of this reduction was due to deduction of finance costs, which is generally not included within definitions of tax avoidance but offers heavily indebted companies an advantage over those funded with a higher proportion of equity. While the practices we document are legal, this corporate behaviour is particularly disturbing from a major health care provider benefiting from public spending. In addition to owning retail pharmacies, Alliance Boots is also a drug wholesaler and increasingly branching out into other health services. All lines of its business draw significant revenue from public health care funds and ultimately the tax payer, which should make Alliance Boots a model citizen. Instead the company has reincorporated in Switzerland and its private equity owners have taken their profits offshore with them.

Alliance Boots Executive Chairman Stefano Pessina has repeatedly defended the company's tax affairs when critics have questioned its low rate of corporate tax in recent years.<sup>2</sup> Since going private the company has not, however, adequately explained to the British public, policy makers and Parliament the impact of its ownership and capital structure on how and where it pays taxes.

The UK tax system has not kept pace with the growing complexity of contemporary commercial arrangements and multinational companies are able to obscure their efforts at tax avoidance and aggressive tax planning. As the Government claims to be curbing abusive tax avoidance, and as Parliament debates how best to do this, there is much that we do not know about the extent and nature of corporate tax planning. For example, Alliance Boots makes available only limited information about its

profitability and tax payments across the more than two dozen countries where it operates. As part of a comprehensive reform and modernisation of the tax system, the government should require companies like Alliance Boots to disclose more information about the location of their profits and tax bills, and place more effective limits on financing arrangements that are largely designed to avoid tax.<sup>3</sup>

## Corporate history: from Nottingham to Switzerland

Boots is an iconic British company with roots reaching back 160 years, but since going private in 2007 it is no longer British-owned nor incorporated in the UK. The first Boots store opened in 1849 in Goose Gate, Nottingham, and the company grew to 1,000 stores by 1933. It had over 1,500 outlets in 2006 when the company merged with European drug wholesaler Alliance Unichem to form Alliance Boots. Today, the company has an annual turnover of more than £22 billion and operates in more than 25 countries, mainly through its wholesale business. It also operates retail outlets in six countries, with the vast majority of its stores located in the UK. Retail is a much more profitable business than pharmaceutical wholesaling, which has led to a lopsided concentration of Alliance Boots' profits where it has stores. In fact, while retail represents only 33% of top line sales, it generates 68% of trading profit, mostly in the UK.<sup>4</sup>

Just one year after Boots and Alliance Unichem merged, the company went private in the largest ever leveraged buyout (LBO) in Europe, led by US private equity firm Kohlberg Kravis Roberts & Co. L.P. (KKR) and Executive Chairman Stefano Pessina, who is a billionaire resident of Monaco. KKR and Pessina set up a holding company in Gibraltar that they used to complete the acquisition of Alliance Boots, for a total buy out price of £12 billion. The company took on more than £9 billion in debt to fund the deal, which led to finance costs wiping out all profits for the year following the transaction.

Despite its 160 year-long history in Nottingham, within months of going private the company chose to reincorporate in the low-tax canton of Zug, Switzerland, although it generates no revenue there.<sup>5</sup> KKR and Pessina have each received approximately £70 million in fees since the deal closed,<sup>6</sup> which were paid to entities that they controlled in countries that are considered 'financial secrecy jurisdictions'<sup>7</sup> the KKR funds that hold the ownership stake in Alliance Boots are located in the Cayman Islands, and finance companies controlled by Stefano Pessina that hold stakes in Alliance Boots or have held debt of Alliance Boots, are located in Luxembourg (see Figure 1).

In 2012, US pharmacy retailer Walgreen purchased a 45% stake in Alliance Boots from KKR and Pessina, with an option to buy the remaining 55% of the company in 2015. The exit payoff for KKR will be very lucrative, with a total

return on the original investment of approximately 220% at June 2012 exchange rates.<sup>8</sup> Pessina is taking his share of the purchase price in the form of Walgreen shares, making him the largest shareholder in Walgreen with approximately 8% of total shares as of July 2013 and potentially 20% after the second step of the deal.<sup>9</sup>

In the US, Walgreen is a pioneer in expanding the reach of pharmacies into medical services traditionally supplied in hospitals, GP practices, and community health clinics, and Alliance Boots has expressed hopes to bring more of these types of services to the UK and the rest of Europe. These services are largely paid for by

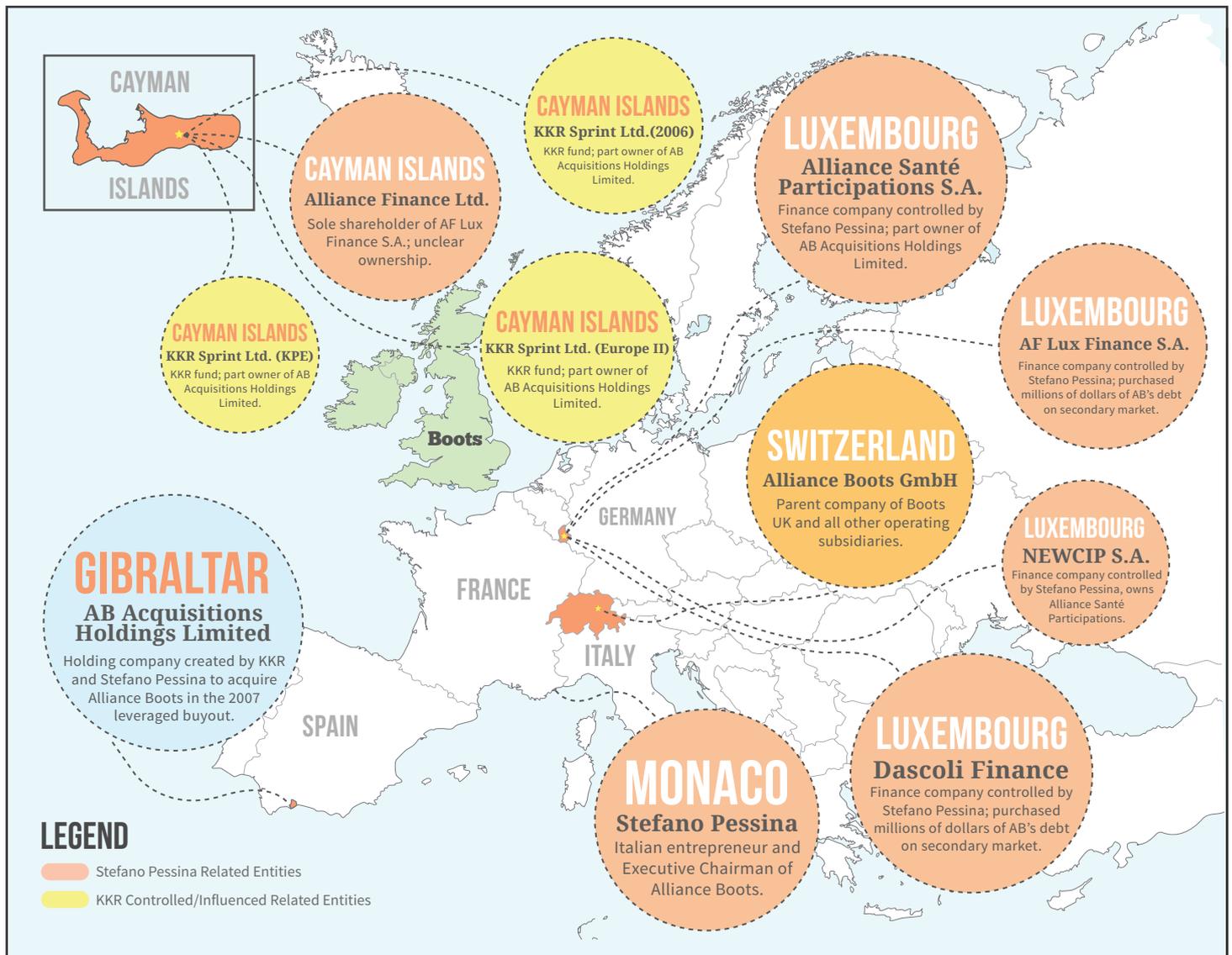
public funds throughout Europe, making Alliance Boots' business ever more dependent on Government spending. In the UK, Alliance Boots is actively seeking opportunities to develop new services through the Any Qualified Provider contract model. Its subsidiary, Alcura, is a clinical homecare provider and participates in NHS contracts that reach into the tens of millions of pounds.<sup>10</sup>

### Tax avoidance by numbers

While Alliance Boots says it has paid its share to HM Treasury, in reality the company has avoided paying a significant amount of tax by transforming its corporate

Figure 1

## Tax Haven Locations of Alliance Boots Related Entities



structure, relocating to tax havens and loading up on debt in the UK, its most profitable market. The year before its leveraged buyout, Alliance Boots had a tax expense of £181 million in its pro forma income statement, or 28% of trading profit.<sup>11</sup> In the six years since going private, the company deducted large interest payments and other finance costs from its taxable income, resulting in a cumulative net tax credit of over £130 million. Throughout this period, the company was profitable on an operating basis.<sup>12</sup>

Based on a review of corporate financial filings and publicly available data, Alliance Boots appears to have located all or most of its debt in the UK. This results in the company deducting the finance costs of its global, LBO-related borrowings from its UK trading profit.<sup>13</sup>

During the six year period since the buyout, we calculate that the company was able to reduce its UK taxable income by an estimated £4.2 billion compared to what the company would have paid had it not carried any debt. This income would have been subject to tax if Alliance Boots had not taken on debt, and the Treasury

would be richer by between £1.12 billion and £1.28 billion (see Figure 2).<sup>14</sup> Even with the same high level of borrowings, if Alliance Boots had allocated its debt and finance costs proportionately among countries where it generates profits, we calculate that its taxable income in the UK would have been an estimated £609 million more over the past four years, the period in which the company was profitable after deduction of finance costs. If this income had been taxable, it would have generated a corporation tax payment to HMRC of between £155 million and £159 million.<sup>15</sup> This disproportionate deduction of finance costs from the company's most profitable market has the function of shifting profits out of the UK and thus eroding the UK tax base.

For the taxable income that was not wiped out by finance costs in recent years, Alliance Boots has had an underlying effective tax rate below the statutory rate in the countries where it primarily operates.<sup>16</sup> For the group's consolidated operations across all markets, the company reported its underlying effective tax rate as 18.9% in fiscal year 2013, 18.8% in 2012, and 19.3% in 2011.<sup>17</sup> The rate of taxes actually paid is even lower.

Figure 2

## Alliance Boots Tax Shield

(In millions of £s)

- UK taxable income before deduction of finance costs\*
- Finance Costs
- UK taxable income after deduction of finance costs\*\*

2008	2009	2010	2011	2012	2013	Total
£ 610	£ 672	£ 728	£ 774	£ 826	£ 903	<b>£ 4,513</b>
£ 853	£ 1,052	£ 708	£ 700	£ 514	£ 373	<b>£ 4,200</b>
£-243	£-380	£ 20	£ 74	£ 312	£ 530	<b>£ 313</b>

- Tax expense before deduction of finance costs\*\*\*
- Tax expense after deduction of finance costs\*\*\*

2008	2009	2010	2011	2012	2013	Total
£ 171 to £210	£188 to £249	£180 to £204	£201 to £221	£198 to £217	£207 to £213	<b>£1,170 to £1,290</b>
£-84 to £-68	£-141 to £-106	£5 to £6	£19 to £21	£75 to £82	£122 to £125	<b>£8 to £47</b>
<b>Total Tax Avoided: £1,123 to £1,282</b>						



\*UK trading profit is estimated based on reported company figures. Alliance Boots does not disclose trading profit by geographic region for the wholesale division so it is estimated here based on share of total revenue applied to total trading profit for the division. Thus, we arrived at the figure for total UK trading profit by using the following formula:

$$\left[ \text{UK trading profit: Health \& Beauty} \right] + \left[ \left( \frac{\text{UK wholesale revenue}}{\text{Total wholesale revenue}} \right) \times \text{Total wholesale trading profit} \right]$$

\*\*Based on a review of corporate filings and publicly available data, Alliance Boots appears to have located all or most of its debt in the UK, meaning all finance costs would be deducted from UK taxable income.

\*\*\*The range is based on Alliance Boots' weighted average standard tax rate reported for each fiscal year and the UK corporate tax rate for each calendar year.

Taxes paid as a percentage of trading profit were 9.01% in 2013, 6.95% in 2012, and 5.61% in 2011. The difference between the effective tax rate and tax actually paid was due to a variety of credits, net operating loss carry forwards, and other factors.

Considering how profitable the UK business is for Alliance Boots, HM Treasury gets a disproportionately low share of the company's global tax payments. In the company's 2013 fiscal year, the UK generated an estimated 71% of the entire Alliance Boots trading profit but only 56% of all the tax it paid. In 2012, this disparity was even greater as the UK generated an estimated 69% of trading profit but only 31% of tax paid. While some of these differences are due to one-off credits, the disparities bear closer scrutiny and taxpayers deserve greater disclosure.

#### *Inadequate disclosure*

Alliance Boots currently releases some information about trading profit by geographic segment for its retail division, broken down by UK and international operations; it releases no trading profit figures by geographic segment for its wholesale division. The company has not disclosed profit figures on a country-by-country basis, nor has it disclosed what it paid in taxes on a country-by-country basis.<sup>19</sup> Additionally, while the company has disclosed some basic information about transactions with related parties since the LBO, it has not disclosed whether it has a policy on related party transactions and how executives have personally benefited, including through favourable tax arrangements.<sup>20</sup>

Also absent from public disclosures is information on the proportion of Alliance Boots' revenue that comes from government health spending. We estimate that approximately 40% of Alliance Boots' UK revenue comes, ultimately, from UK taxpayers for services that are mainly paid for by the NHS, including prescription drugs and dispensing costs.<sup>21</sup> However, this is only a rough estimate, and does not include revenue from the company's expansion into additional healthcare services that are funded by the NHS, such as clinical homecare and audiology. Neither the company nor the Government discloses complete information about the revenue received by large private providers, which makes it very difficult to judge whether Alliance Boots and other providers are paying appropriate taxes on the profits generated from the receipt of public monies.

When major corporations like Alliance Boots do not disclose complete information on their taxes and related issues, the Government and the public are unable to assess fully the impact of aggressive tax planning measures.

## **Policy implications**

When companies take on excessive debt, the potential social costs are high. In this case, Alliance Boots took on 12.6 times EBITDA (earnings before interest, tax, depreciation and amortisation) worth of debt in 2007. Excessive debt and accompanying large interest payments increase the risk that a company will default and seek bankruptcy protection. Alliance Boots' tax avoidance measures raise questions beyond this general critique of leveraged buyouts. In particular, the company's aggressive use of tax planning measures raises concerns about erosion of the British tax base and use of financial secrecy jurisdictions.

#### *Base erosion*

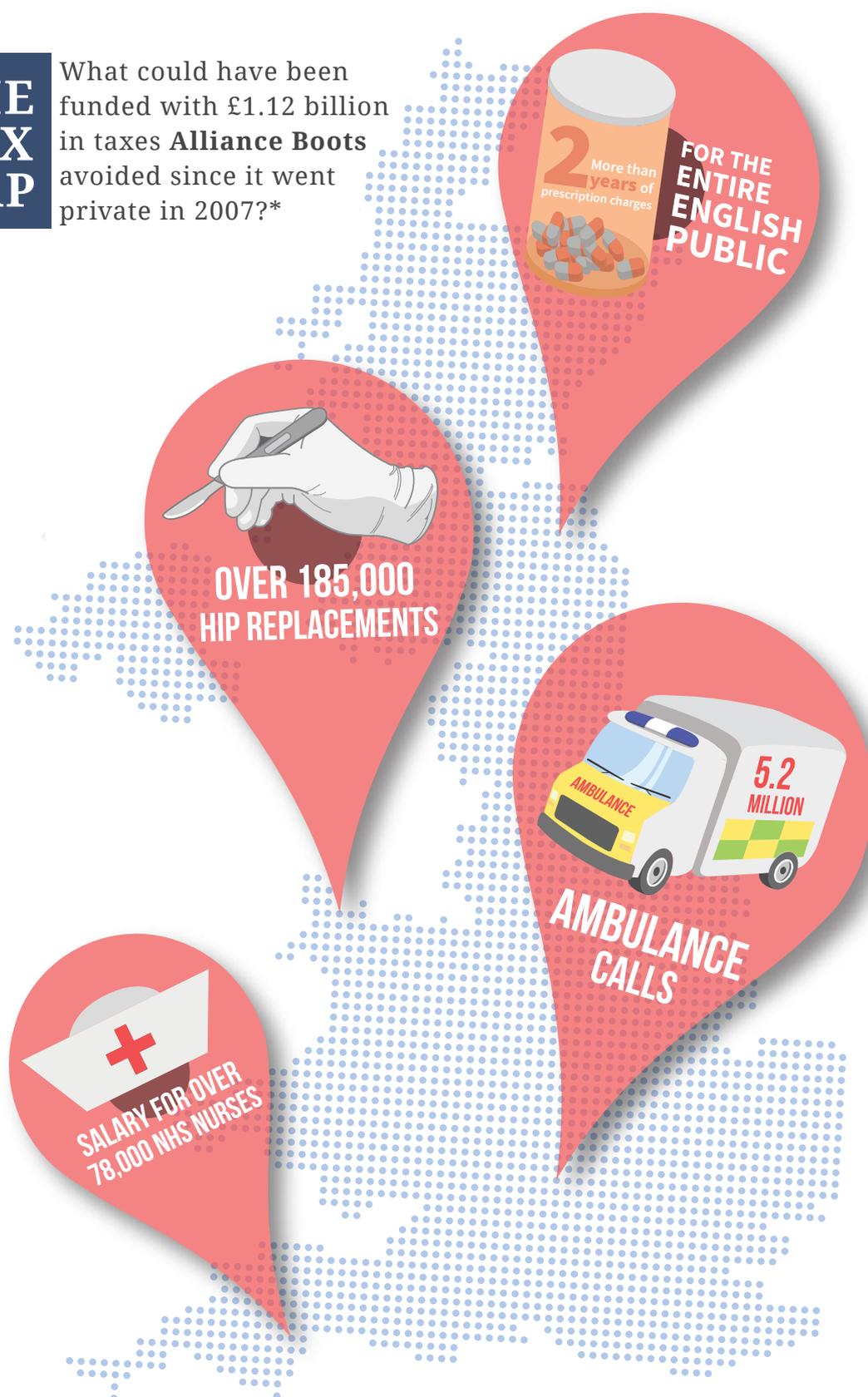
By taking on significant debt, companies erode the tax base in countries where a higher share of corporate profit is located. When a multinational enterprise locates its debt in the UK, as Alliance Boots did, it may deduct all of the finance costs associated with that debt from its taxable income in the UK. The House of Lords Select Committee on Economic Affairs' recent report, *Tackling corporate tax avoidance in a global economy: is a new approach needed?*, identifies the tax deductibility of interest payments as a method used by multinational enterprises to erode the British tax base.<sup>22</sup> To truly address corporate profit shifting it may be necessary to move to a global, unitary system of taxation, which would prevent companies from allocating profits as they choose; however, there are also intermediate approaches, such as that outlined by the Organisation for Economic Co-operation and Development (OECD) in its report *Addressing Base Erosion and Profit Shifting*. The report identifies the incentive for companies to over-leverage and characterise payments as deductible interest in high tax jurisdictions, which contributes to the erosion of tax bases in countries where the majority of operations are located and profits are generated.<sup>23</sup>

Alliance Boots' erosion of its British tax base has significant repercussions for HM Treasury, and the lost tax revenue has tangible effects on the British public. In the years since the economic crisis, the financial viability of some NHS trusts has come into question, and the NHS has instituted job cuts and reduced training. If Alliance Boots had not deducted its finance costs, the Treasury would be richer by an estimated £1.12 billion to £1.28 billion. Even taking the lower end of that range, those tax payments could have funded more than two and a half years of total prescription fees for all of England. It is also equivalent to the starting salary of more than 78,000 NHS nurses for a year – roughly 120 additional nurses per parliamentary constituency, and more than the total number of nurses estimated to be cut from the NHS between 2010 and 2015, according to the Royal College of Nursing (see Figure 3).<sup>24</sup>

Figure 3

## THE TAX GAP

What could have been funded with £1.12 billion in taxes **Alliance Boots** avoided since it went private in 2007?\*



### SOURCES

- Prescription fees in England were £473 million in 2009/10. Office of Health Economics, "NHS patient charges, UK, 2009/10."
- A hip replacement costs £6,032 for 2013/14. Department of Health, "Payment by Results in the NHS: tariff for 2013 to 2014."
- Ambulance call outs cost £216 in the highest cost constituency. Public Accounts Committee, "Transforming NHS Ambulance Service," p9.
- The starting salary for a nurse is £14,294. Agenda for Change, "Pay rates from April 1, 2013."

\*Calculations based on the conservative lower end of our estimated range of £1.12 to £1.28 billion in total tax avoided through the company's deduction from UK trading profit of finance costs related to its LBO.

In addition to depleting the Treasury's revenue, base erosion can undermine the public's faith in good governance. According to the House of Lords' report, "flagrant avoidance also saps trust in the tax system as a whole. Sustained effective taxation depends on consent, which requires taxes to be broadly accepted as fair."<sup>25</sup> The fairness of the tax system is undermined here, where the company has a significant advantage over its plc counterparts, who cannot deduct dividend payments to their equity financiers from taxable income. A recent analysis by the *Financial Times* of several private equity-owned businesses, including Alliance Boots, concluded that due to reliance on debt financing and the ability to deduct interest payments, these companies "have been able to pay less tax than their listed competitors."<sup>26</sup> This disadvantages small and medium-sized businesses, as well as larger businesses that have acted within the spirit of the tax framework and not engaged in aggressive avoidance measures, tax planning measures and corporate structuring. For instance, Alliance Boots' competitor Celesio AG, which is a publicly listed drug wholesaler and owns the Lloyds pharmacy chain, reported an effective tax rate of 48.9% in 2012 and 56.7% in 2011.<sup>27</sup>

#### *Financial secrecy jurisdictions*

The company and its affiliates have taken advantage of the low tax rates and privacy protections that come with location in financial secrecy jurisdictions (FSJs), which are more commonly known as tax havens. As noted above, the company relocated in 2008 to the low-tax canton of Zug, Switzerland. In its assessment of global financial secrecy jurisdictions, the Tax Justice Network (TJN) ranked Switzerland number one on its financial secrecy index, noting the country's weak tax laws and high banking secrecy.<sup>28</sup> The holding company and special purpose vehicle that carried out the 2007 leveraged buyout, AB Acquisitions Holdings Limited, is located in Gibraltar, a British Overseas Territory also identified by TJN as a tax haven and a FSJ.<sup>29</sup>

Stefano Pessina, the Executive Chairman of Alliance Boots, is himself a resident of Monaco, a country with no income tax and a high secrecy score on TJN's financial secrecy index.<sup>30</sup> Pessina controls companies located in Luxembourg, which is ranked third by TJN on its index of financial secrecy jurisdictions. TJN has called Luxembourg "one of the world's top secrecy jurisdictions" and notes that the country "works actively and aggressively to defend financial secrecy, in the face

of European efforts to promote transparency."<sup>31</sup> Another Pessina-related entity is based in the Cayman Islands, a British Overseas Territory. The Cayman Islands rank second on TJN's financial secrecy index.<sup>32</sup> KKR funds hold 27.5% ownership of Alliance Boots, following the Walgreen transaction. As of June 2012, the funds controlling this equity stake were all organised under the laws of the Cayman Islands. Additionally, corporate disclosures reveal that prior to the 2012 transaction, other KKR funds, some based in Luxembourg and Guernsey, held control. Guernsey, a British crown dependency, is also classified as a FSJ, and does not tax company profits.<sup>33</sup>

Alliance Boots' owners' extensive use of FSJs has distinct consequences for oversight and fair collection of tax in the UK.

First, the limited disclosure requirements of these jurisdictions means that it is difficult (if not impossible) to determine beneficial ownership of companies that are related to, and in some cases, doing business with Alliance Boots. Regardless of the company's intentions in relocating to Switzerland, the decision to do so limits scrutiny and public oversight. Given the size of the company and its significant revenue from public funding sources, there is a public interest in challenging this lack of transparency and reliance upon FSJs.

Additionally, by locating in low-tax jurisdictions, the company and related parties are able to shift profits from higher tax jurisdictions like the UK, as detailed above. If the KKR funds and Pessina and his controlled entities had been located in the UK, dividend payments and capital gains would have been taxed in the UK at normal rates. However, because these parties are based in tax havens, they substantially reduced the taxes paid on income from their ownership stake and on capital gains from their sale of a stake in Alliance Boots to Walgreen.

Alliance Boots has a long history within the UK, and derives most of its profits there. Through complex financial manoeuvres, it has avoided paying its fair share of taxes, at a time when it seeks to sell more services to the taxpayer-funded National Health Service. Unfortunately, the practices employed by Alliance Boots are all too common. As the UK economy continues to struggle and the public suffers the government's cuts to vital services, there must be more than half measures to tackle the enormous revenue lost to corporate tax avoidance.

# RECOMMENDATIONS

## 1. Disclosure by Alliance Boots of key tax and financial information

As one of the largest private companies in the United Kingdom, deriving significant revenues from the public purse, and with a long history as a trusted brand, Alliance Boots should adhere to the highest standards of disclosure and the spirit of British tax law.

- Alliance Boots should disclose comprehensive financial data for each country of operation. Transparency International and other NGOs have urged multinational companies to disclose figures on a country-by-country basis: “In the absence of country-by-country reporting, the local public is unaware of how much profit such operations generate and what, if any, special arrangements their governments may have entered into with multinational companies.”<sup>34</sup>
- Alliance Boots and its private equity owners should disclose complete information on the beneficial ownership of related parties located in tax havens, along with how much income they receive and the tax treatment of that income.
- Alliance Boots should disclose complete information about its UK taxes, in line with the recommendation from the House of Lords’ report that large companies operating in the UK should make public disclosure of tax returns.<sup>35</sup>

## 2. Investigation of Alliance Boots tax practices

HM Revenue & Customs should investigate Alliance Boots’ aggressive use of tax planning measures and whether the company’s advisers or advisers to the LBO were under any obligation to report avoidance schemes.

## 3. Modernisation of taxation of private equity-backed businesses

The Government should consider how to ensure that private equity-owned companies pay their fair share of corporation tax. Business and financial practices have developed in ways unforeseen when the existing corporation tax regime was last revised. It is time to bring the system up to date. The Government should reform the tax laws governing the treatment of debt and equity. Two types of reforms have the capacity to greatly reduce the exploitation of the debt interest deduction by heavily leveraged multi-national entities.

## ■ Strengthen thin capitalisation rules

Thin capitalisation rules apply to companies whose capital is made up of a significantly higher proportion of debt than equity. Some countries, including Germany, France, and Canada, have strengthened their thin capitalisation rules to limit the amount of interest that may be deducted by heavily geared companies. Under such rules, a company may only be allowed to deduct interest equal to a certain percentage of its EBITDA, or interest on debt of up to a certain multiple of that company’s equity.<sup>36</sup> The Government should consider implementation of a more broadly defined thin capitalisation rule that would reduce the current abuse of the debt interest deduction.

## ■ Equalise treatment of debt and equity

In order to level the playing field for companies that finance operations primarily through equity rather than debt, the government could harmonise the tax treatment of debt and equity. The House of Lords’ report supports this measure, suggesting that “the revenue cost of partial relief for equity finance could be offset by a reduction in the rate of relief for debt finance.”<sup>37</sup> The Government should move quickly to evaluate the efficacy of equalising the tax treatment of debt and equity, potentially through the elimination of the interest deduction.

## 4. Implementation of beneficial ownership and reform of taxation in the British Overseas Territories

The Government should introduce a rigorous public system of documentation and disclosure of beneficial ownership in the UK and require regulatory reform of the Overseas Territories – such as Gibraltar and the Cayman Islands.

- The UK Government has launched a consultation on proposals for a register of the beneficial owners of UK companies.<sup>38</sup> Ensuring that a rigorous public register is introduced is vital in order to be able to assess the true beneficiaries of the kinds of related party financial transactions used by Alliance Boots. Additionally, the UK should require that directors of companies be natural persons (i.e., not corporate entities).

- The Government has acknowledged its power to introduce legislation for the Overseas Territories<sup>39</sup> and should therefore introduce legislation to reform the territories so that they are no longer FSJs and cannot be used to facilitate corporate secrecy and profit shifting.

## 5. **Transparency and accountability for public contracts**

The Government should consider ways of making awards of public services and NHS contracts more transparent through methods such as disclosure of contracts above a specified minimum and an annual statement by companies of the amount of revenue derived from public sector contracts, where this is above a specified minimum annual amount. Additionally, the Government should consider excluding companies that do not pay an appropriate level of tax from consideration for public contracts.

- The Government has already proposed that companies seeking government contracts “self-certify” that they have complied with tax obligations.<sup>40</sup> These provisions should be implemented in a robust form that includes contracts with local NHS trusts to provide services.
- The Government should ensure that the enforcement mechanisms associated with procurement rules have teeth and that there is sufficient funding to enable enforcement.
- The Government should consider how else to enhance accountability and transparency for public contractors, including greater disclosure requirements that enable the public to see how much corporations profit from Government contracts and how much tax they pay on those profits.

For more information on efforts to address tax avoidance, visit [WarOnWant.Org](http://WarOnWant.Org)

For more information on the privatisation of the NHS and how Alliance Boots stands to benefit, visit [NHSforSale.Info](http://NHSforSale.Info)

# ENDNOTES

1. HM Revenue & Customs, *Measuring Tax Gaps 2012: Tax gap estimates for 2010-11*; Tax Research UK, *Tax Briefing: Why HM Revenue & Customs have got the Tax Gap wrong*, June 2010.
2. *Financial Times*, “Alliance Boots chief defends tax payments,” 15 May 2013; Simon English, *The Evening Standard*, “Alliance Boots defends its tax switch to Switzerland,” 3 November 2010; *The Guardian*, “From the high street to a tax haven,” 8 February 2009.
3. Tax evasion involves using means that are clearly illegal to lower taxes paid. Tax avoidance is use of means that are lawful to lower taxes paid, although some avoidance schemes fall into a legal grey area. We use a broad definition of tax avoidance that includes base erosion and profit shifting schemes, such as excessive gearing.
4. Alliance Boots 2013 Annual Report.
5. The LBO occurred in June 2007; around March 2008, the company relocated to Switzerland, according to Swiss company register documents.
6. Alliance Boots 2008-2013 financial statements.
7. This report uses the term financial secrecy jurisdiction, which the Tax Justice Network has defined as a jurisdiction that “provides facilities that enable people or entities to escape or undermine the laws, rules and regulations of other jurisdictions elsewhere, using secrecy as a prime tool.” These jurisdictions are also referred to as tax havens.
8. Paul Hodgkinson, *Wall Street Journal*, “KKR Makes Money Back on Alliance Boots Sale,” 19 June 2012.
9. Securities and Exchange Commission, Form 4, filed by Stefano Pessina, 15 July 2013. Securities and Exchange Commission, Form 8-K, filed by Walgreen Co., 19 June 2012.
10. Information obtained from NHS Supply2Health database and Tenders Electronic Daily (TED), Supplement to the Official Journal of the European Union.
11. Alliance Boots Preliminary Results for the year ended 31 March 2007.
12. Alliance Boots 2008-2013 financial statements.
13. Bloomberg Reference Data, Identifier BL 0891160, loan details.
14. Estimates based on Alliance Boots 2008-2013 financial statements. The estimated range of avoided tax payments is based on Alliance Boots’ weighted average standard tax rate reported for each fiscal year and the UK corporate tax rate for each calendar year.
15. Estimates based on Alliance Boots 2010-2013 financial statements.
16. Alliance Boots disclosed a weighted average standard rate of 23.6% in FY2013 and 26.3% in FY2012. Annual Report 2013. Additionally, the largest countries where Alliance Boots operates have the following corporate tax rates: Germany 30.2%, France 34.4%, Spain 30%, United Kingdom 23%. OECD Tax Database, Corporate and capital income taxes, “Basic (non-targeted) corporate income tax rates,” Table II.1.
17. Alliance Boots 2011-2013 financial statements.
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20. Luxembourg-based entities controlled by Stefano Pessina bought up hundreds of millions worth of Alliance Boots debt and received income in the form of interest payments.
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