Evolution of Global Supply Chain Networks

Jayashankar M. Swaminathan
Session Overview

• Introduction
• Tax Efficient Supply Chains
• Duty Drawbacks and Implications
• Supply Chain Linkages in the US
• Discussions
Supply Chain Networks

• Highly Localized and Vertically Integrated
• Offshoring and Outsourcing Trend
• Modularity in Products and Supply Chains
• Buyer-Supplier Relationships
• Near shoring as well as On shoring
• Tax efficient Operating Models
Tax Efficiency and Global Supply Chains

Jayashankar M. Swaminathan
Overview

• Multinationals and Corporate Taxes
• Principal Operating Company
• Implications for Global Supply Chains
Corporate Taxes Worldwide

Global Average Corporate Tax

- 2006: 28%
- 2007: 27%
- 2008: 26%
- 2009: 25%
- 2010: 24%
- 2011: 23%
- 2012: 22%
- 2013: 21%
- 2014: 21%

Global Average Corporate Tax
## Corporate Taxes Worldwide

### Corporate tax rates table

<table>
<thead>
<tr>
<th>Location</th>
<th>2013</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Argentina</td>
<td>35</td>
<td>35</td>
</tr>
<tr>
<td>Australia</td>
<td>30</td>
<td>30</td>
</tr>
<tr>
<td>Bahamas</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Belgium</td>
<td>33.99</td>
<td>33.99</td>
</tr>
<tr>
<td>Bermuda</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Brazil</td>
<td>34</td>
<td>25</td>
</tr>
<tr>
<td>Cayman Islands</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>China</td>
<td>25</td>
<td>25</td>
</tr>
<tr>
<td>Denmark</td>
<td>25</td>
<td>24.5</td>
</tr>
<tr>
<td>Finland</td>
<td>24.5</td>
<td>20</td>
</tr>
<tr>
<td>France</td>
<td>33.33</td>
<td>33.33</td>
</tr>
<tr>
<td>Germany</td>
<td>29.55</td>
<td>29.58</td>
</tr>
<tr>
<td>India</td>
<td>33.99</td>
<td>33.99</td>
</tr>
<tr>
<td>Ireland</td>
<td>12.5</td>
<td>12.5</td>
</tr>
<tr>
<td>Japan</td>
<td>38.01</td>
<td>35.64</td>
</tr>
<tr>
<td>Korea, Republic of</td>
<td>24.2</td>
<td>24.2</td>
</tr>
<tr>
<td>Mexico</td>
<td>30</td>
<td>30</td>
</tr>
<tr>
<td>Netherlands</td>
<td>25</td>
<td>25</td>
</tr>
<tr>
<td>Russia</td>
<td>20</td>
<td>20</td>
</tr>
<tr>
<td>Singapore</td>
<td>17</td>
<td>17</td>
</tr>
<tr>
<td>Tanzania</td>
<td>30</td>
<td>30</td>
</tr>
<tr>
<td>Thailand</td>
<td>20</td>
<td>20</td>
</tr>
<tr>
<td>Turkey</td>
<td>20</td>
<td>20</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>23</td>
<td>21</td>
</tr>
<tr>
<td>United States</td>
<td>35</td>
<td>35</td>
</tr>
</tbody>
</table>
Multinationals and Taxes

BUT NOBODY PAYS THAT
G.E.’s Strategies Let It Avoid Taxes Altogether

By DAVID KOCJNIEWSKI
Published: March 24, 2011 | 975 Comments

EU tax inquiry into Apple, Starbucks and Fiat

Switzerland and EU draw a line under corporate tax row

By Reuters | 1 Jul, 2014, 04.55PM IST | 0 comments | Post a Comment
Fortune 500 companies, including Apple, have more than $1.6 trillion in profits parked offshore, according to multiple recent studies. By keeping that money overseas, companies are able to avoid paying U.S. taxes on the profits.

In the US, for example, corporate tax generated 32.1% of all federal taxes in 1952. Today that proportion has fallen to a puny 8.9%.
Zug-Switzerland
Principal Operating Company

- A foreign subsidiary located in a tax favorable country
- Acts as a master services provider
- Subcontracts to low cost providers or other subsidiaries
- Owns or licenses the relevant IP
- Takes on major risks of the business
"Apple Inc established an offshore subsidiary, Apple Operations International, which from 2009 to 2012 reported net income of $30bn, but declined to declare any tax residence, filed no corporate income tax return and paid no corporate income taxes to any national government for five years."

So Irish-based Apples Sales International generated around $74bn (£48.5bn) in profits but "may have paid little or no income taxes to any national government on the vast bulk of those funds".
Thoughts

• What are the implications in terms of research for supply chain management?
• What is our role in influencing or educating firms in this worldwide phenomenon?
• Are the tax accountants missing some important elements in their perspective?
Thoughts

• Research Implications
  – Centralization vs. Localization
  – Location/Configuration Decision
  – Risk Management
  – Transfer Payments and Supplier Contracts
  – Buyer Supplier Evolution
  – Network or Industry Level
  – Unit of Analysis- Decision vs. Entity
Comments