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EU to probe Ikea's complex tax-driven structure

Flat-pack retailer is thought to have set up multi-pronged empire in order to preserve control and lower its dues

RICHARD MILNE — OSLO
ROCHELLE TOPLENSKY — BRUSSELS

Tax has long been at the heart of the complex business structure behind flat-pack furniture empire Ikea.

In 1973, founder Ingvar Kamprad moved himself, his family and many administrative functions from Sweden to Denmark in protest at high taxes.

A decade later, he split up his empire, with parts located in the Netherlands, Luxembourg and Liechtenstein to escape a wealth and inheritance tax regime in Sweden that he has described as "unsuitable for private ownership".

That complex structure is now under scrutiny as the European Commission investigates the tax treatment from the Netherlands of Inter Ikea, the latest in a succession of high-profile EU probes into large multinational groups including Apple, Starbucks and Amazon.

This particular probe was sparked by a report by the Greens in the European Parliament, who alleged that Ikea used intercompany loans to avoid more than €1bn in taxes in Europe between 2009 and 2014.

Back in the early 1980s, Mr Kamprad split his flat-pack furniture empire in two and created a franchise system: Inter Ikea would look after the brand and concept while Ikea Group would be the main retailer. The central business arrangement worked this way: in order to use Inter Ikea's trademarks and concept, Ikea Group pays a fee of 3 per cent of its annual revenues.

Both companies were owned by foundations — the one atop Inter Ikea was located in Liechtenstein and the Ikea Group one was in the Netherlands.

The European Commission's investigation centres on two Dutch tax rulings that it claims enabled Inter Ikea to cut its tax bills significantly by using intercompany transactions.

"All companies, big or small, multinational or not, should pay their fair share of tax. Member states cannot let selected companies pay less tax by allowing them to shift their profits elsewhere. We will now carefully investigate the Netherlands' tax treatment of Inter Ikea," said Margrethe Vestager, EU competition commissioner.

From 2006 to 2011, Inter Ikea paid an annual licence fee to a sister company II Holding, located in Luxembourg and which held certain intellectual property rights related to the Ikea concept. Those royalties were not taxed due to a special scheme Luxembourg had offered since 1929.

That scheme was ruled illegal by the commission in 2006 under state aid rules and was closed at the end of 2010. The next year, Inter Ikea changed its structure by buying the intellectual property rights from II Holding using a loan from its Liechtenstein parent.

The interest rate on the €5.4bn loan, according to Inter Ikea's latest annual report, is 6 per cent. That cuts Inter Ikea's Dutch tax ball as it was allowed to deduct the interest payments from its taxable profits, says the commission.

The commission wants to investigate both the acquisition price and the level of the interest rate to see whether it "reflect[s] economic reality". Inter Ikea's annual report notes that it has another intercompany loan — €3bn, used to finance a deal to buy assets from Ikea Group in 2016 — at just 2.5 per cent.

Ikea's structure has long been seen as complicated and secretive, even from the inside.

"It makes Ikea's building instructions seem simple by comparison," quips one former executive.

The private group has only relatively recently started publicising its annual reports and revealing profit numbers.

The ultimate owner of Inter Ikea — the Interogo Foundation in Liechtenstein — was only revealed in 2011 by a Swedish investigative journalist who alleged that tax purposes were behind the secrecy. In response, Mr Kamprad published an essay called "we are open about the way we are structured" and confirmed that tax pressures were involved in his pursuit of giving Ikea what he called "eternal life".

Ikea's founder desperately wanted to avoid taking the company public and losing control. So he decided to give up formal ownership of Ikea Group and Inter Ikea to two foundations — whose sole purposes are

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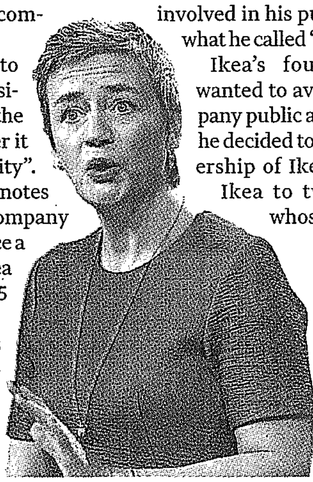
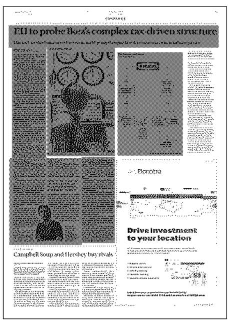


Margrethe Vestager says the EU will 'carefully investigate the Netherlands' tax treatment of Inter Ikea'



to invest in the businesses and secure their longevity, according to Mr Kamprad — while retaining some influence through board positions for his family.

Mr Kamprad insisted in 2011 that both groups paid taxes according to the relevant laws around the world. But he added: "We have always viewed taxes as a cost, equal to any other cost of doing business.

"An optimised tax structure allows us the flexibility to use funds that have already been taxed in one market in new markets for further business development without the additional burden of double taxation".

Inter Ikea responded to the opening of the state aid investigation by noting that the issue is between the commission and the Netherlands. "The way we have been taxed by national authorities has in our view been in accordance with EU rules. It is good if the investigation can bring clarity and confirm that," it added.

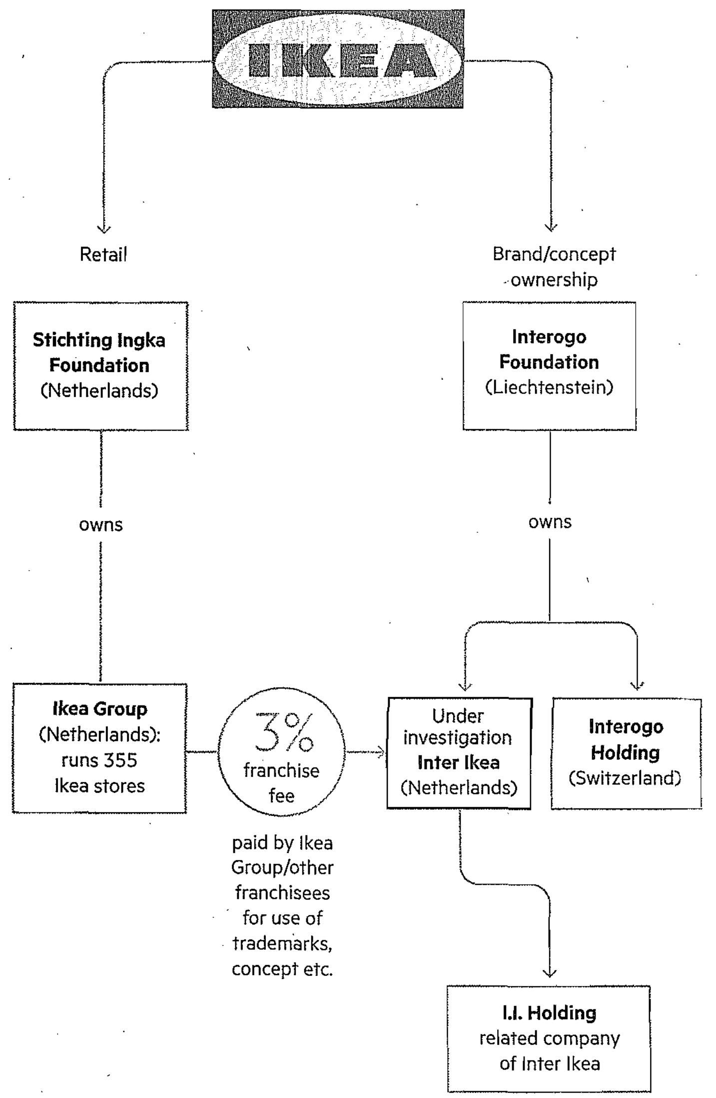
Since 2013, the European Commission has looked at more than 1,000 tax deals between member states and multinational companies.

Inter Ikea noted in its 2016-17 annual report: "In recent years there has been increased attention from both governments and media on taxation of multinational companies.

We have been actively monitoring and addressing these developments by implementing a group-wide tax control framework and simplifying the group tax structure. The increasing requirements on multinational companies with regard to transfer pricing and transparency are high on the agenda."

Structure of a retail empire

Ownership breakdown



FT graphic Sources: FT research; company statements

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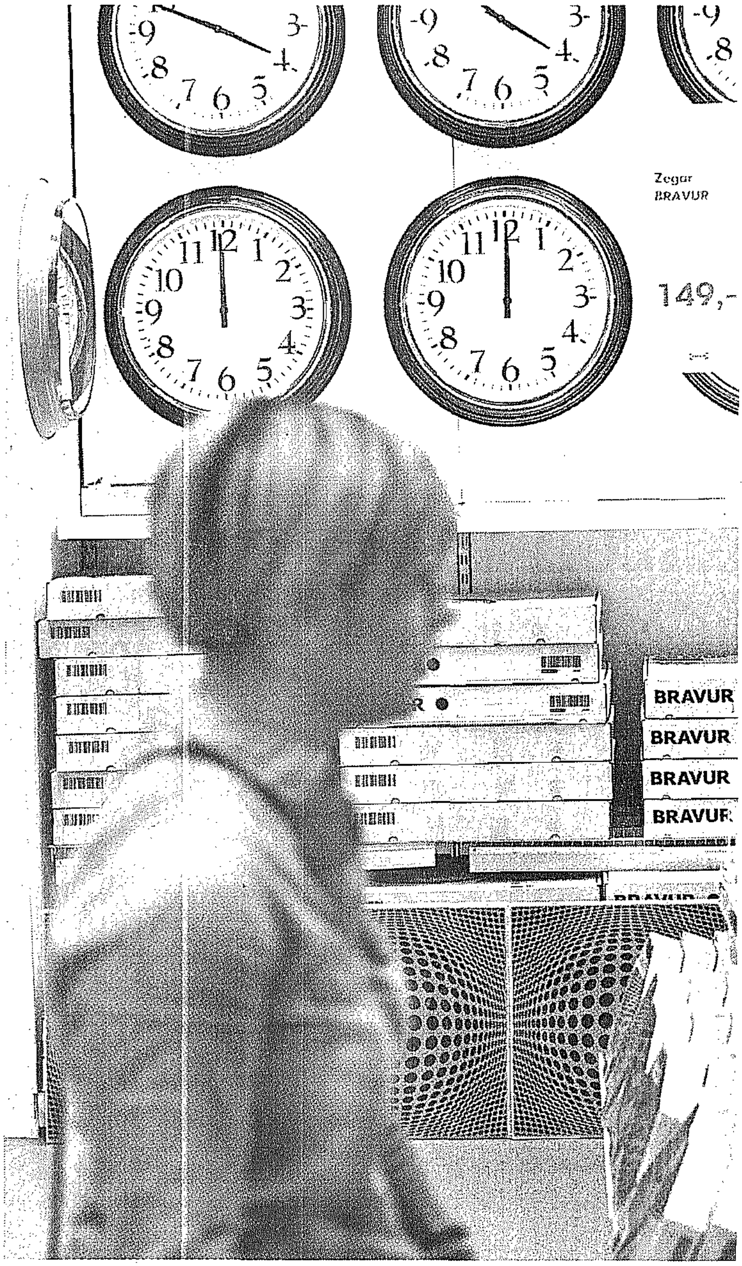

Ikea is alleged to have used intercompany loans to avoid tax – Bartek Sadowski/Bloomberg