



Whopper of a Tax Dodge: How Burger King's Inversion Could Shortchange America

“[W]e don't expect our tax rate to change materially . . .
this transaction is not really about tax. It's about growth.”

Burger King CEO Daniel Schwartz, Aug. 26, 2014 M&A Call

On December 12 Burger King will complete a corporate inversion by buying Tim Hortons, a Canadian doughnut company, and become a subsidiary of a newly-combined multinational fast-food company located in Canada.

A report from Americans for Tax Fairness estimates that Burger King and its largest shareholders could dodge between \$400 million and \$1.2 billion in U.S. taxes over the next four years. At the same time, U.S. taxpayers provide an estimated \$356 million a year – \$1.4 billion over four years – subsidizing Burger King's low pay and meager benefits through public assistance programs. [The full report is available here.](#)

Key Findings

- **3G Capital is Already Avoiding Taxes at Burger King**

3G Capital, the private equity firm controlled by three Brazilian billionaires which owns 69 percent of Burger King, already uses aggressive tax planning to reduce the burger chain's tax bill in some of its largest markets, including the United States. As a result, Burger King has one of the lowest effective worldwide tax rates of any major American fast food company – 27.5 percent in 2013. It has structured its international operations around subsidiaries located in tax havens and it dodges taxes by loading costs onto its U.S. operations to minimize its U.S. taxable income. Over the last three years, Burger King's “permanently reinvested” offshore profits on which it currently avoids paying U.S. taxes have more than doubled to \$499 million in 2013, while the company's capital expenditures outside North America plummeted to just \$2.4 million in 2013.

- **Burger King's Corporate Inversion Creates Substantial Tax Avoidance Opportunities**

By renouncing its U.S. corporate citizenship and becoming a subsidiary of a new Canadian company, Burger King and its owners will be able to dodge an estimated \$400 million to \$1.2 billion in U.S. taxes over the next four years. It could do this by shifting profits overseas and routing them to Canada instead of the United States, thus avoiding nearly \$400 million in U.S. taxes. It also appears to have structured the inversion transaction to shield its majority owners from as much as \$820 million in U.S. capital gains taxes. It could employ the following tax avoidance strategies:

- ***Burger King Could Dodge \$117 Million in U.S. Taxes on its Existing Offshore Profits***

The newly merged company should be able to avoid paying income taxes on the \$499 million in profits that Burger King has “permanently reinvested” offshore in 2013, and on which it has not yet paid U.S. taxes. By keeping those earnings abroad, which will be much easier with the inversion, the company could avoid approximately \$116.8 million in U.S. taxes it would have to pay if the funds were brought to the United States.

- ***Burger King Could Avoid \$275 Million in U.S. Taxes on Future Foreign Earnings***

We estimate that Burger King may be able to avoid as much as \$275 million in U.S. taxes from 2015 to 2018 – an average savings of \$69 million a year. This calculation is based on analysts’ earnings forecasts from Barclays, Morgan Stanley, Piper Jaffray, Stephens and UBS. As a subsidiary of a Canadian company, Burger King would be able to avoid these taxes because Canada has a tax system that does not tax many profits generated in foreign countries, unlike the United States, which taxes companies’ overseas earnings when they are brought back to the United States. This amount of taxes avoided could grow considerably as Burger King continues its expansion in overseas markets.

- ***Burger King's Owners Could Avoid up to \$820 Million in U.S. Capital Gains Taxes***

Burger King has proposed a unique structure for its merger with Tim Hortons that could allow Burger King's shareholders to avoid substantial capital gains taxes. The report examines the top three holders of Burger King stock and finds that the deal structure could enable them to avoid as little as \$10 million -- an extremely conservative estimate -- or as much as \$820 million. These estimates vary widely, in part, because it's not possible to identify everyone with a stake in the top three holders or their country of residence.

- **Taxpayers Already Spend an Estimated \$356 Million a Year Subsidizing Burger King's Low Pay and Meager Benefits**

That's because Burger King workers are paid so little that many of them rely on public benefits such as Medicaid, the Children's Health Insurance Program, food stamps, the federal Earned Income Tax Credit and basic household income assistance under Temporary Assistance for Needy Families (TANF).

- **Burger King is the #1 Burger Chain Serving Members of the U.S. Armed Forces**

Burger King is the predominant hamburger chain on U.S. military bases. It serves troops everywhere from the biggest bases in America to dangerous combat zones in Afghanistan. Over the next five years, Burger King will generate an estimated \$875 million in revenue on military bases. The armed forces will pay an estimated \$35 million to Burger King in royalties and will spend an estimated \$17.5 million marketing the Burger King brand to service members and their families. If sales continue at the current rate, Burger King could receive more than \$150 million from its military restaurants over 15 years. Burger King's decision to become a Canadian company will mean that while U.S. military families support Burger King by buying its food, Burger King will no longer support service members by paying its fair share of taxes.

Together, these findings suggest that tax considerations have played a major role in Burger King's proposed corporate inversion, which would enable it to shed obligations to U.S. taxpayers, even as it benefits substantially from taxpayer support.

Burger King's Menu for Dodging up to \$1.2 Billion in U.S. Taxes

\$117 MILLION

Estimated amount of taxes Burger King may dodge on the \$499 million in profits it has offshore.

\$275 MILLION

Estimated amount of taxes Burger King may avoid on its future earnings over 4 years.

\$820 MILLION

Estimated amount of U.S. capital gains taxes Burger King's largest shareholders may avoid with a corporate inversion.

\$356 MILLION A YEAR

Estimated amount taxpayers spend a year subsidizing Burger King's low pay and meager benefits.

\$150 MILLION+

Estimated amount of revenue and marketing support Burger King will receive over 15 years from its dominant role serving members of the U.S. Armed Forces.