**GREENS / EFA COMMENTS TO INDITEX’s RESPONSE ON THE “TAX SHOPPING” REPORT**

**Inditex’s response to ‘Tax Shopping: Exploring Zara’s Tax Avoidance Business’ report**

* Inditex complies with prevailing tax legislation in all the 93 markets in which it operates.

*Greens / EFA comment: We never said the contrary. Unfortunately, corporate tax avoidance is legal and this is why the Greens / EFA Group campaigns to change the European legislation.*

* The Inditex Group's effective tax rate was between 22% and 24% from 2011 to 2015, depending on the results of the group’s various companies and the corporate tax rates in each country. By way of example, the statutory corporate tax rate in Spain stands at 25% compared to 20% in the UK, 28% in Germany, 16% in Romania, 20% in Russia, 12.5% in Ireland, 19% in Poland, 25% in China, 33.33% in France, 29% in Greece, 27% in Italy, 25% in Austria and 20% in Turkey.

*Greens / EFA comment: The effective corporate tax rate of a company is not the most adequate way of knowing whether a company really pays taxes where it has its economic activity. The overall group effective rate provides an average but does not give information for each country, nor does it explain why Inditex pays royalties to a Dutch subsidiary, have its e-commerce activity in Ireland or has its purchase branch in Switzerland. We thank Inditex for reminding us the statutory corporate tax rate for the above mentioned countries.*

* The report refers to the period between 2011 and 2015. Over that time Inditex contributed more than €4.4 billion of corporate income tax worldwide.
* During that same period, it contributed €2.2 billion of revenue to the Spanish state, which represents over 2% of the country's total corporate tax revenue collection.

*Greens / EFA comment: the report refers to the period 2011-2014. Inditex seems to indicate it pays a lot of taxes and we never said the contrary. It still doesn’t contradict our findings that they use avoidance techniques to pay less.*

* Inditex adopts a highly responsible tax policy in all the markets in which it operates
* All Group companies are fully transparent and details on each can be found in the Annual Report.

*Greens / EFA comment: We can accept this statement but unfortunately, Inditex is not leading the way when it comes to tax reforms. One way to implement their so-called responsible behaviour on tax policy would be to commit to implement public country-by-country reporting as soon as possible. They could also commit to do a screening of their policy according to UN guidelines on businesses.*

* Transactions between Group companies are audited regularly by the tax authorities in each country.
* The Inditex Group is vertically integrated. It is active in every step of the garment industry value chain (design, manufacturing, distribution and sale). Each step in the value chain is carried out in multiple countries and each of these countries has its own tax law. Inditex Group works with over 400 companies and all transactions are carried out on an arm's length basis, in keeping with prevailing tax legislation in each country and the OECD's Guidelines on transfer pricing.

*Greens / EFA comment: unfortunately, Inditex does not comment on our findings that the company is structured with retail activities everywhere (and low profit margins) and non-retail activities mostly in low tax jurisdictions (and with much higher profit margins).*

The report claims that Inditex has saved €585 million using “an aggressive tax avoidance policy in Netherlands, Ireland and Switzerland”. Inditex believes believe that the report is based on erroneous premises that lead it to mistaken conclusions.

By way of illustration, on account of their significance and without purporting to be exhaustive, Inditex notes the following:

* The report makes a grave error by claiming, for example, that the Spanish state has foregone €218 million of tax revenue in the form of industrial property rights. Indeed, Spanish companies do not pay for their industrial property rights, rather they generate operating profits therefrom.

*Greens / EFA comment: There are several ways to interpret this statement.*

* *Either Inditex implies that royalties are paid from Spanish branches but it doesn’t mean less revenues collected in Spain. Spain is the country where Inditex is headquartered. So ultimately, the headquarter gets the dividends of any business activity (outside Spain), including those coming from the trade mark by ITX Merken (in the Netherlands). In this case, it would be true then that Spain can tax dividends (coming from the Dutch branches) but they would not collect as much as if there were no royalty payments at all.*
* *Or they mean that Spanish subsidiaries do not pay royalties to ITX Merken. As mentioned in the report, we have found data about royalty payments paid by Italian branches to ITX Merken. ITX Merken only has royalties as income so we assumed that other branches of Inditex in other countries were also paying royalties for the use of the brand. If Spanish branches do not pay royalties to ITX Merken, it would mean that royalty payments from other countries would be much higher - 2 to 3 times higher - to explain the level of income from ITX Merken. This is highly doubtful.*

*Only full transparency on royalty payment by Inditex would allow us to verify this. In addition, the Inditex criticism would only affect the calculation of missing taxes for each countries, not the overall amount, which Inditex didn’t comment on.*

* The report makes another serious mistake when it states that ITX Merken acquired the aforementioned rights for €1.47 billion, thereby eluding to the payment of €84 million of tax to the Spanish authorities. The truth, on the other hand, is that the full €1.47 billion is subject to taxation in Spain at the statutory tax rate (30% and subsequently 28% during the period covered by the report). Indeed, this transaction alone generated over €360 million of tax revenue for the Spanish tax authorities.

*Greens / EFA comment: We are glad to see that Inditex confirms our findings. ITX Merken has acquired the brand rights for €1.47 billion. We never said that this payment didn’t generate tax revenue in Spain. We noticed that given the fact that the brand rights are located in the Netherlands, ITX Merken gets some tax advantage (deductible amortisation) - which it wouldn’t get in Spain if the brand rights were located there - and that resulted in €84 million less in tax paid. Both Inditex comments and ours are compatible.*

* ITX Fashion. At present, this company oversees the e-commerce business in three countries: Japan, the US and Canada. As previously stated each country's online business ultimately gets folded into each market's business structure, in line with the Group's strategy of integrating its offline and online businesses.

*Greens / EFA comment: we see no criticism of our findings here. Inditex confirms what we say in the report: this subsidiary deals with e-commerce activity outside the EU.*

• ITX Financien. Several entities engage in financing the Group companies, depending on country risk, currency and operating criteria. They all, notably including ITX Financien, comply rigorously with market standards.

*Greens / EFA comment: we see no criticism of our findings here. It’s a pity that Inditex didn’t comment on some subsidiaries registering net income without any employee.*

• ITX Trading. The Group purchases merchandise from suppliers, manufacturers and traders. To do so it has specialist buyers. These professionals carry out their remit in different jurisdictions and belong to different companies, giving rise to intragroup transactions that are conducted in line with local legislation and OECD guidelines.

*Greens / EFA comment: we see no criticism on our findings here. It is a pity that Inditex didn’t on why ITX Trading is located in Switzerland when most of the product design is done in Spain and manufactured in countries like Bangladesh and Morocco.*

*Para más información:*

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