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Etsy under fire over Irish tax practices

Leslie Hook in San Francisco

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Etsy, the online crafts marketplace, has come under pressure from an American tax group over its Irish tax practices, joining the ranks of US tech companies accused of tax avoidance.

The issue stands as an early test of Etsy's commitment to its certification as a "B Corp", which hinges on criteria including social and environmental impact, and whether this certification is compatible with its obligations to return shareholder value.

The Brooklyn-based company went public in April, becoming the most high-profile public company that also had B Corp status. In its prospectus Etsy emphasised its values and described a culture that included employees delivering cafeteria compost by bicycle to a local farm.

B Corp certificates are awarded by a non-profit organisation to companies that meet certain standards of social impact, accountability and transparency. Etsy warned in its prospectus that its business could be adversely impacted if it lost its B Corp certification.

However the company's values have come under fire after Americans for Tax Fairness, a policy group backed by foundations and unions, published a letter Tuesday morning accusing the company of tax avoidance practices. "Etsy's tax dodge is standard operating procedure among our country's giant multinational corporations. We hope it will not be acceptable as a B Corp standard," said the letter.

The tax structure in question is Etsy's transfer of some intellectual property assets to its Irish subsidiary, part of a broader tax reorganisation made in January. Chief executive Chad Dickerson defended Etsy's practices: "We chose the structure that was most straightforward and in line with

our value of transparency,” he wrote in a blog post. “We pay taxes at the local rate in the US, Canada, Ireland, UK, France, Germany and Australia. We’re not offshoring or using a double Irish structure or any other elaborate tax scheme. This is a simple structure.”

The debate over Etsy’s tax bill is somewhat hypothetical because the company has never reported any profits. In the six months ended June, Etsy reported \$120m in revenues, of which a fifth were outside the US, and a net loss of \$43m. Etsy has around 40 employees in Dublin, and 750 employees worldwide.

Tax lawyers said Etsy’s practices were not unusual. Edward Kleinbard, professor at the University of Southern California’s Gould School of Laws, said such transfers of intellectual property to Ireland by multinationals “in general are motivated entirely by tax reduction agendas”.

“Etsy has a special concern that it is a B Corp designed to advertise to the world that it has morals that are ‘higher than the marketplace’,” he added. “So to argue that it is compliant with marketplace standards does not seem to me to be really responsive to the higher standards it holds for itself.”

Etsy is halfway through a re-certification process that will determine whether it can maintain its B Corp status after its public offering. The questionnaire that Etsy (like any B Corps) must answer as part of the process includes the question: “Has the company reduced or minimised taxes through the use of corporate shells or structural means.”

Jay Coen Gilbert, a co-founder of B Lab, which runs the B Corp certification process, said the non-profit had not yet reached a decision on whether Etsy’s tax strategy would be disqualifying. The review process is “designed to look at the whole business”, balancing positive impacts and negative practices, Mr Gilbert wrote in an email.

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