A review of Vodafone Group Plc CbCr data

Working paper

Tommaso Faccio (ICRICT and Nottingham University Business School)

Alex Cobham (Tax Justice Network)

June 17, 2018

ABSTRACT

Vodafone Group Plc is the first large multinational not subject to the requirements of the EU CRD IV rules[1] to have voluntarily published country by country data in their *Vodafone Group Plc – Taxation and our total economic contribution to public finances 2016-2017*[2]. Whilst the data included falls short of the country-by-country data that the group will soon file with tax authorities across the world as part of the OECD Country-by-Country reporting guidelines[3], of the EU proposal for a directive on corporate tax transparency country-by-country reporting[4] and of the data advocated by tax justice campaigners[5], this data finally provides country by country data on revenue and taxable profits, corporation tax payments, employees and assets of the multinational. A review of this illustrative data shows a significant misalignment between the group's allocation of profits and various indicator of real economic activities (e.g. sales, employees and assets), with significant profits allocated to countries with low effective tax rate. In this paper, we show how a move to taxation by formulary apportionment would reallocate nearly all profits away from countries located in low tax jurisdictions towards other countries. A move to formulary apportionment (equally weighted three-factor formula) would also be beneficial to low and lower income countries.

[1] Article 89 of the Capital Requirements Directive (Directive 2013/36/EU or 'CRD IV') provides for countryby-country reporting (CBCR) by financial institutions.
[2] https://www.vodafone.com/content/dam/sustainability/pdfs/vodafone_2017_tax.pdf
[3] http://www.oecd.org/tax/beps/guidance-on-country-by-country-reporting-beps-action-13.htm
[4] https://ec.europa.eu/info/publications/proposal-directive-corporate-tax-transparency-country-country-reporting_en
[5] https://www.taxjustice.net/topics/corporate-tax/country-by-country/

CONTENTS

KEY FINDINGS

- A review of Vodafone Group Plc's ("the group", "Vodafone") CbCr data shows that 15.3% of group taxable profits are allocated to low and lower income countries, 27.2% of group profits are allocated to upper middle-income countries, 19.3% are allocated to high income countries and **38.1% are allocated to Luxembourg and Malta.**
- This is in line with estimates by Zucman et al. (2018)[6] which show that that close to 40% of multinational profits are shifted to low-tax countries each year.
- Group companies are subject to effective tax rates above 10% in all but two of the top 10 countries which show taxable profits: Luxembourg (effective tax rate 0.34%) and Malta (effective tax rate 7.26%).
- Luxembourg and Malta are the only two countries for which profit before tax is higher than revenue. Entities in these two countries are responsible for the provision of services and funding to other group companies. Significant profits are allocated to group entities located in these two countries.
- This illustrative data reinforces the argument that the current system of international tax rules results in a misalignment between the group's allocation of profits and the group's indicator of the real economic activities (e.g. sales, employees and assets). This is particularly detrimental for developing countries, as they rely on corporation tax receipts much more than developed countries.
- **The adoption of formulary apportionment for taxing multinationals (with sales, employees and assets as equally weighted allocation factors) would increase the global distribution of Vodafone Group Plc's profits attributable to low and lower income countries from 15.3% to 23.2% (equivalent to about €147m of extra taxable profits, based on 2016/2017 profit data). This figure increases further to 25% if the apportionment is based on sales and employees only but reduced to 18.1% if the apportionment is only based on sales.**
- This is in line with estimates by the IMF (2014)[7] which show that the tax base of advanced economies is likely to benefit whichever factor is used, whilst emerging and developing economies clearly gain only if heavy weight is placed on employment.
- Profit reallocation according to the proposed EU Common Consolidated Corporate Tax Base would result in a significant reallocation within EU member states of Vodafone Group Plc's profits in the EU. Clear losers would be Luxembourg and Malta (but also Italy, where the current effective tax rate is less than 15%).

[6] Zucman, G., Tørsløv, T and Ludvig, W. (2018) 'The Missing Profits of Nations, *NBER Working paper* No. 24701

[7] IMF (2014). IMF Policy Paper: Spillovers in International Corporate Taxation

INTRODUCTION

Tax avoidance by multinational enterprises is a global problem. A major part of global cross-border trade happens between related parties in multinational enterprises. This type of trade is susceptible to abusive exploitation of gaps and loopholes in domestic and international tax law that allow for 'profit shifting' from country to country, with the intention of reducing the taxes paid on profits. A lack of transparency makes this kind of tax avoidance difficult to quantify.

Enhancing transparency in the way transnational enterprises report and publish their accounts would help tackle tax avoidance at very low cost. Despite publishing their accounts as if they are unified entities, transnational enterprises are not taxed in this way. Each business entity within a transnational enterprise is taxed individually, making it difficult to establish an overview of what is happening within a group of companies for tax purposes. This would be different if reporting was done on a 'country-by country' basis. Public country-by-country reporting (CbCr) is the publication of a defined set of facts and figures by large MNEs, thereby providing the public with a global picture of the taxes MNEs pay on their corporate income and the allocation of profits across the group's entities.

Vodafone Group Plc ("the group", "Vodafone") is the first large multinational not subject to the requirements of the EU Capital Requirements Directive 4 (CbCr for credit and investment firms - introduced in 2013), to have voluntarily published country by country data in their *Vodafone Group Plc – Taxation and our total economic contribution to public finances 2016-2017*[8] report. Whilst the data they have included falls short of the country-by-country data that the group will soon file with tax authorities across the world as part of the OECD Country-by-Country reporting guidelines[9], of the EU proposal for a directive on corporate tax transparency country-by-country reporting[10] and of the data advocated by tax justice campaigners[11], this data *does* finally provide country by country information on revenue and taxable profits, corporation tax payments, employees and assets of the multinational.

A review of the group's data allows the identification of:

- the countries the group operates in, and the scale of operations in each country.
- the allocation of group taxable profits across the different countries in which the group operates.
- the potential risk of base erosion and profit shifting activities and the use of low tax countries by the group. Base erosion and profit shifting (BEPS) refers to tax avoidance strategies that exploit gaps and mismatches in tax rules to artificially shift profits to low or no-tax jurisdictions. This is facilitated by the lack of public data on multinationals' activities for each of the countries in which they operate.
- the misalignment between the current taxable profit allocation and the indicator of real economic activities (sales, employees and assets) between different countries.
- the potential impact of a move to unitary taxation of multinationals (in this case Vodafone Group Plc) by identifying which countries will benefit from:
    1. Global formulary apportionment; and
    2. The EU proposal for a Common Consolidated Corporate Tax Base.

[8] https://www.vodafone.com/content/dam/sustainability/pdfs/vodafone_2017_tax.pdf
[9] http://www.oecd.org/tax/beps/guidance-on-country-by-country-reporting-beps-action-13.htm
[10] https://ec.europa.eu/info/publications/proposal-directive-corporate-tax-transparency-country-country-reporting_en
[11] https://www.taxjustice.net/topics/corporate-tax/country-by-country/

LIMITATIONS OF THE REPORT

- Country by country data is only provided in the current format for the financial year 2016/2017 review, so it is not possible to compare changes to previous years where corporation tax was included in direct tax contributions and was not identified separately.
- No review was carried out of the individual group entities' financial statements. We have therefore not identified details of the tax paid by the individual group entities and of intra group transactions.
- The analysis does not intend to show whether or not Vodafone Group Plc is following current international tax rules, or whether the group has artificially transferred profits from one jurisdiction to another in order to minimise tax payments.

VODAFONE CBCR DATA

The Qualitative Data:

*Vodafone Group Plc – Taxation and our total economic contribution to public finances 2016-2017*report[12] includes the following data for each of the countries in which the group operates:

I. **Revenue**
II. **Profit before tax (defined as total taxable revenue in each country minus allowable expenses)**
III. **Direct revenue contribution: taxation**
IV. **Direct government revenue contribution: non-taxation mechanism**
V. **Indirect government revenue contribution**
VI. **Capital investment**
VII. **Direct employment**
VIII. **Number of legal entities by country**
IX. **Names of legal entities by country**

The definition of each of the above items is included on p26 of the report.

The Descriptive Data

Vodafone's report also provides descriptive information on the activities performed by the group in each country in which they operate.

[12] https://www.vodafone.com/content/dam/sustainability/pdfs/vodafone_2017_tax.pdf

CURRENT ALLOCATION OF GROUP PROFITS

Top 10 countries data

Overall taxable profits (profits before tax) for the group amount to €1,867m on revenue of €57,062m, a profit margin of 3.2%. The tables below show the group's revenue and profit before tax for the top 10 countries in which they operate, ranked by revenue and profit before tax respectively.

Table 1 Group's revenue (top 10 countries)

	COUNTRY	TURNOVER	PROFIT BEFORE TAX	Employees	Assets	Corporation tax	Effective tax rate
	€m	2016/17	2016/2017	2016/2017		2016/2017	2016/2017
1	GERMANY	10619	-636	15714	1925	89	-13.99%
2	UK	7536	-504	17951	1491	-89	17.66%
3	INDIA	6847	-338	23836	1313	340	-100.59%
4	ITALY	6249	686	7339	881	87	12.68%
5	SPAIN	4983	-74	5188	748	0	0.00%
6	SOUTH AFRICA	4187	1077	5213	544	359	33.33%
7	TURKEY	3053	-59	3410	336	61	-103.39%
8	NETHERLANDS	1867	-7	3601	303	-15	214.29%
9	EGYPT	1334	268	8381	208	110	41.04%
10	NEW ZEALAND	1311	47	2965	144	19	40.43%

Table 2 Group's taxable profit before tax (top 10 countries)

	COUNTRY	TURNOVER	PROFIT BEFORE TAX	EMPLOYEES	Assets	Corporation tax	Effective tax rate
	€m	2016/17	2016/2017	2016/2017	2016/2017	2016/2017	2016/2017
1	LUXEMBOURG	187	1450	325	17	5	0.34%
2	SOUTH AFRICA	4187	1077	5213	544	359	33.33%
3	ITALY	6249	686	7339	881	87	12.68%
4	KENYA	810	293	1729	126	118	40.27%
5	EGYPT	1334	268	8381	208	110	41.04%
6	MALTA	86	124	347	14	9	7.26%
7	NEW ZEALAND	1311	47	2965	144	19	40.43%
8	ROMANIA	774	39	4197	146	6	15.38%
9	CZECH REPUBLIC	507	32	1694	92	4	12.50%
10	TANZANIA	386	29	556	62	23	79.31%

The effective tax rate in the above tables is calculated as *corporate tax/profit before tax.*
The above data highlights the following patterns:

- Strong correlation between revenue and number of employees, with the top 3 revenue countries also top for number of employees.
- A number of countries which account for significant revenue are loss making in the period under review.
- Effective tax rates above 10% in all but the two top 10 countries ranked by reported taxable profits: Luxembourg and Malta.

Data for Luxembourg and Malta show that:

- These are the only two countries for which profit before tax is higher than revenue.
- These are the only two countries with an effective corporation tax of below 10%.
- These are the top two countries on a profit per employee basis. Luxembourg is the country with the highest amount of taxable profits (€1,450m), with only 325 employees. South Africa, the country with the second highest amount of taxable profits (€1,077m), has 5,213 employees, more than 10 times the number of employees in Luxembourg. Malta, in 6th position, has taxable profits of €124m and 347 employees.

Our analysis does not suggest that transactions fail to follow current international tax rules or that the group has artificially transferred profits from one jurisdiction to another to minimise tax payments. In order to be able to do that, we would need to review the individual group entities' accounts in Luxembourg and Malta.

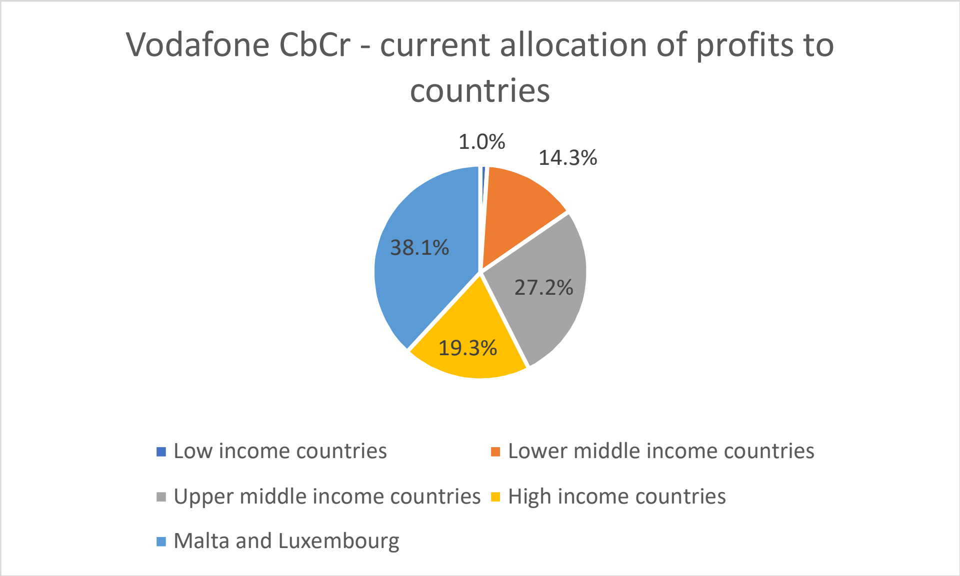
However, our analysis demonstrates that the current international tax rules allow multinationals to structure themselves so that significant profits are allocated to their operations in low tax jurisdictions, as is the case with Vodafone Group Plc, in Luxembourg and Malta. The current system of international tax rules therefore results in a misalignment between the group's allocation of profits and the group's indicator of the real economic activities (e.g. sales, employees and assets).

This is particularly detrimental for developing countries, as they rely on corporation tax receipts more heavily than developed countries. Based on the World Bank's classification[13] of low income, lower middle income, upper middle income and high-income countries, the current allocation of profit across the group is as follows:

- 1% of group profits are allocated to low income countries.
- 14.3% of group profits are allocated to lower middle-income countries.
- 27.2% of group profits are allocated to upper middle-income countries.
- 19.3% of group profits are allocated to high-income countries.
- 38.1% of group profits are allocated to Malta and Luxembourg.

[13] https://datahelpdesk.worldbank.org/knowledgebase/articles/906519

Graph 1: Group’s global profit distribution



TAXATION OF MULTINATIONALS UNDER FORMULARY APPORTIONMENT

Under the current global system, multinational firms determine their profits separately in each tax jurisdiction in which they operate. A system that apportion profits by formula would allocate a firm's worldwide income across countries based on allocation factors which reflect real economic activities (e.g. sales, employees, assets).

Domestic corporate taxes will be paid on the share of the worldwide income that is allocated to each jurisdiction.

Formulary apportionment would remove the current artificial incentive for multinationals to shift reported income to low-tax locations because taxable profits would be allocated by a measure (or measures) of their real economic activity in each location. These measures are far more difficult to manipulate for tax purposes than the division of profits among separate entities within a firm.

The European Union has recently decided to relaunch a project for a Common Consolidated Corporate Tax Base (CCCTB)[14], a single set of rules to calculate companies' taxable profits in the EU based on formulary apportionment. With the CCCTB, cross-border companies will only have to comply with one, single EU system for computing their taxable income, rather than many different national rulebooks, and will be able to offset losses in one Member State against profits in another. The consolidated taxable profits will be shared between the Member States in which the group is active, using an apportionment formula. Each Member State will then tax its share of the profits at its own national tax rate.

The data published by Vodafone Group Plc allows us to determine the impact of an allocation of profits using formulary apportionment. An analysis of the impact of the reallocation of profit using formulary apportionment on individual countries or group of countries[15] is presented below.

The data highlights the following pattern:

- **Formulary apportionment based on sales, employees and assets equally weighted[16] would increase the global distribution of Vodafone Group Plc's profits attributable to low and lower income countries from 15.3% to 23.2% (graph 2). This figure further increases to 25% if the apportionment is based on sales and employees only, but is reduced to 19% if the apportionment is only based on sales (graph 3 and 4).**
- Profit reallocation according to the proposed EU CCCTB (sales, employees and assets equally weighted[17]) would result in a significant reallocation within EU member states of Vodafone Group Plc's profits in the EU. Clear losers would be Luxembourg and Malta, which would lose approximately 99% and 97% of their current profit allocation (Graph 5).

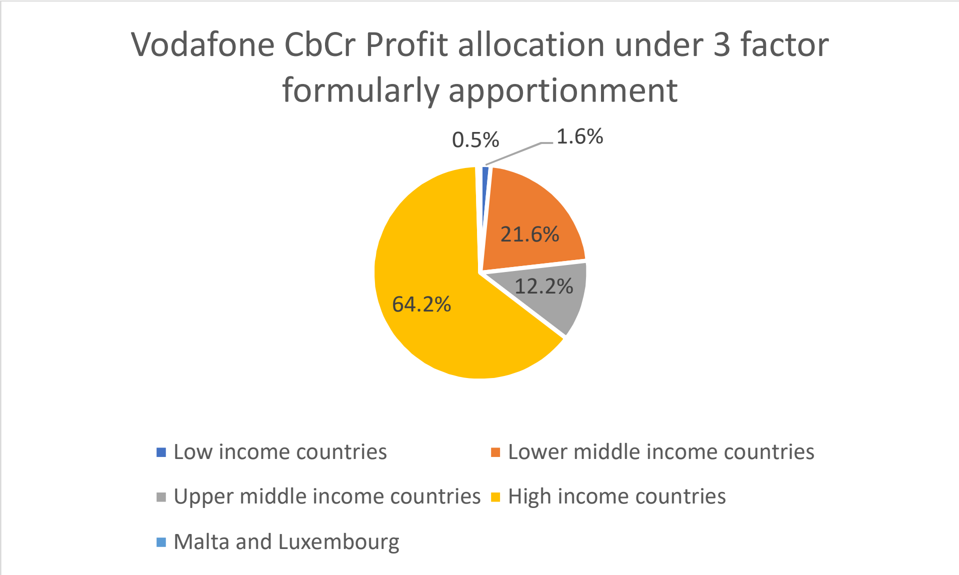
[14] https://ec.europa.eu/taxation_customs/business/company-tax/common-consolidated-corporate-tax-base-ccctb_en

[15] Ranked by income based on World Bank classification, https://datahelpdesk.worldbank.org/knowledgebase/articles/906519-world-bank-country-and-lending-groups

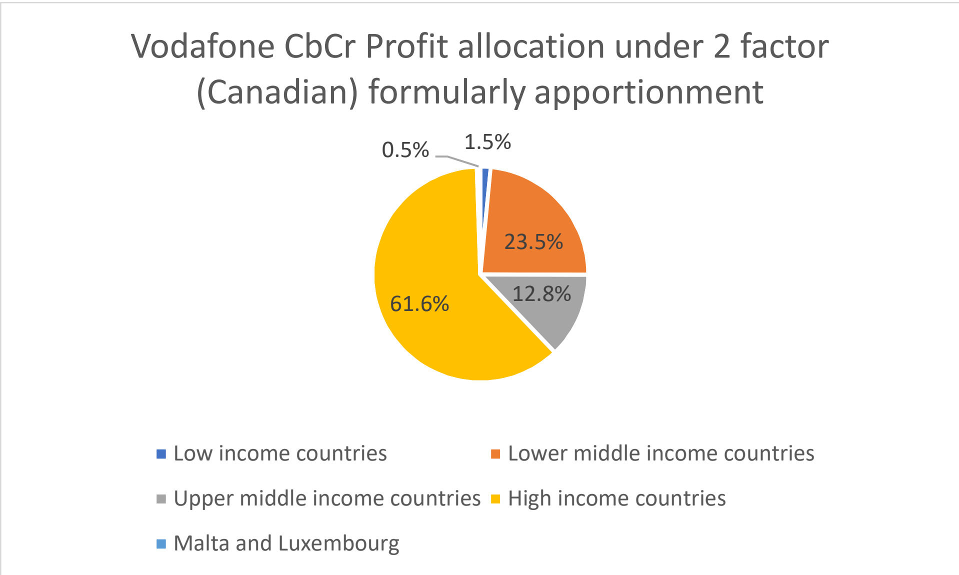
[16] For the purposes of this calculation, the "employees" factor is based on the number of employees for each country, as no payroll data is provided in the cbcr data of Vodafone Group Plc

[17] For the purposes of this calculation, the "employees" factor is based on the number of employees for each country, as no payroll data is provided in the cbcr data of Vodafone Group Plc

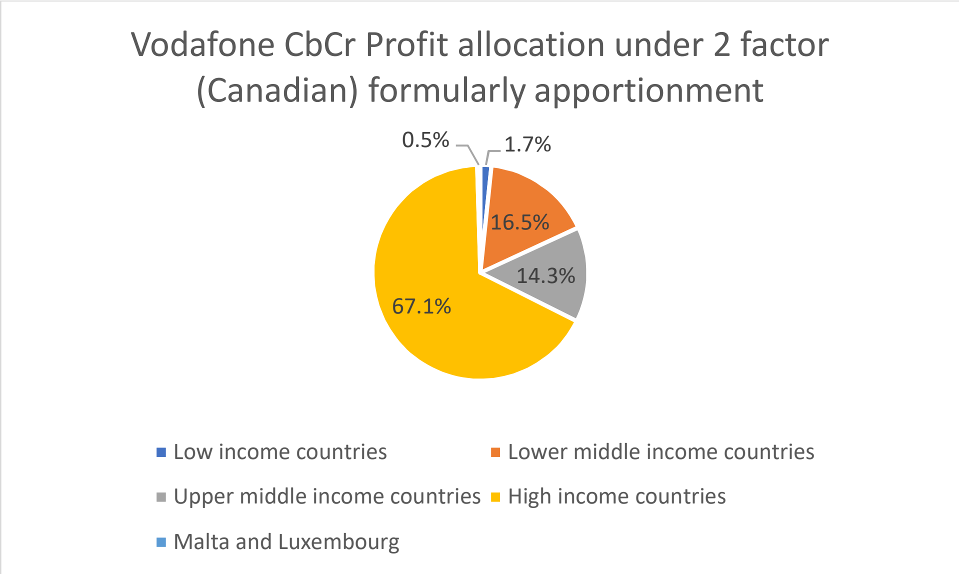
Graph 2 – Vodafone Group Plc - Profit allocation using formulary apportionment (equally weighted sales, employees and assets)



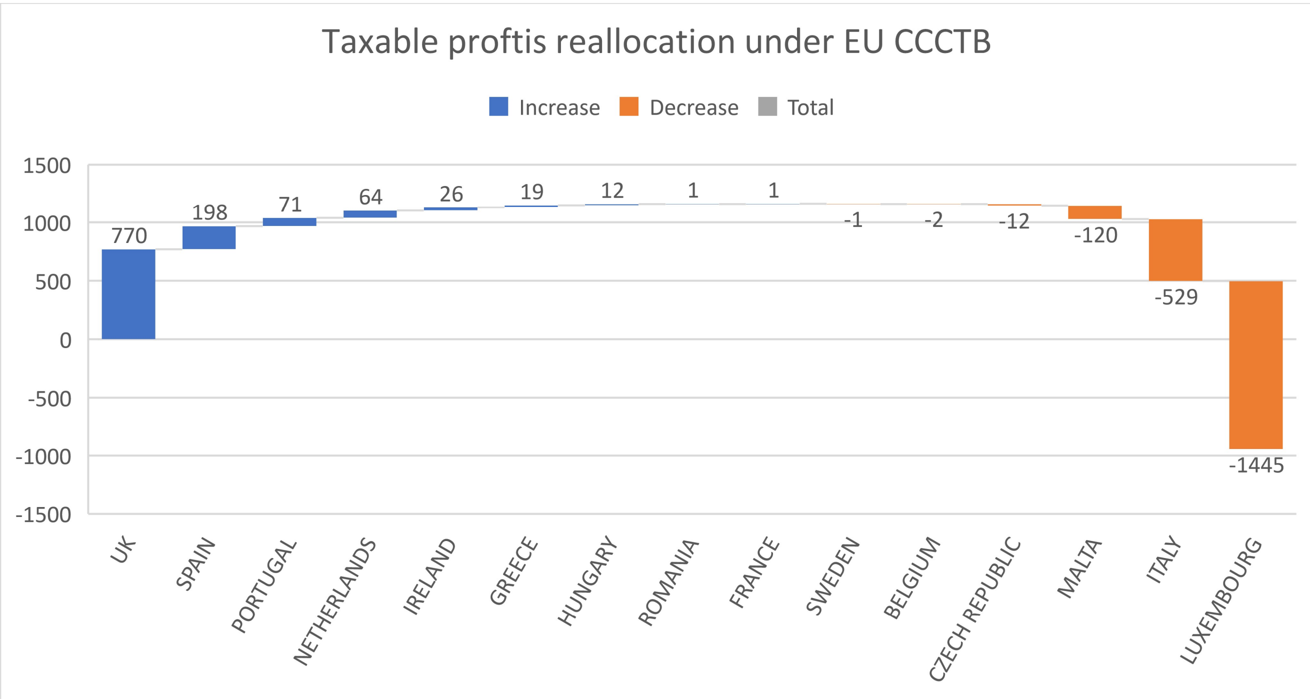
Graph 3 Vodafone Group Plc – Profit allocation using formulary apportionment (sales and employees only factors) – impact on group of countries



Graph 4 Vodafone Group Plc – Profit allocation using formulary apportionment (sales only factor) – impact on group of countries



Graph 5 - EU Profit allocation using formulary apportionment (equally weighted sales, employees and assets) – impact on EU member states



The following information is provided in the Vodafone's report to justify the current allocation of profits to Luxembourg.

Vodafone's activities in Luxembourg

Significant information is provided in the Vodafone's report to justify the allocation of profits to Luxembourg (see below). However, it is worth noting that:

- Vodafone benefits from significant historic losses in Luxembourg, which offset profits allocated to Luxembourg's entities, so that limited corporate taxation is paid in Luxembourg.
- The UK tax authority HMRC challenged the use of some of these entities, which resulted in a settlement which included a payment of over £1bn by Vodafone.
- UK Controlled Foreign Companies rules, which allow interest income received by Vodafone's financing subsidiaries in Luxembourg to be potentially subject to taxation in the UK at the reduced rate of 4.75% are being investigated by the European Commission under State Aid rules.

Information provided in the Vodafone CbCr report on Luxembourg (extract from p13 onwards)

Luxembourg

One country that has been the focus of public and political scrutiny in recent years is Luxembourg. Vodafone has a significant presence in the country, and our subsidiaries there play a central role in managing some of the most important aspects of Vodafone's global operations, including centralised procurement, financing and roaming.

Our subsidiaries in Luxembourg are not 'brass plate' companies. They are substantive entities that carry out extensive activities that are critical to our businesses worldwide. We employ more than 300 people in Luxembourg.

Their responsibilities include:

• management of the financing of many of our international operating companies and joint ventures, providing internal loans on a commercial 'arm's-length' basis to reflect the costs of borrowing from an external bank, in line with international best practice;

• negotiation and implementation of international roaming agreements with over 700 partners that enable Vodafone customers to communicate when travelling across more than 200 countries;

• leadership, management and day to day operations of our global purchasing function – the Vodafone Procurement Company (VPC) – negotiating and administering more than €14 billion of global supplier contracts; and

• our start-up incubator hub, Tomorrow Street, created in partnership with the Luxembourg government, to lead on innovation.

In common with many other EU member states, Luxembourg's tax legislation is scrutinised and approved by the country's parliament. The tax principles its laws are based on are largely in line with those of many other member states, including a standard corporation tax rate that (at 26.0%) is higher than the corporate tax rate in a number of other EU member states.

Tax losses and Luxembourg

As is the case in many member states, Luxembourg tax law also includes features that are particular to that country and were designed to shape the local tax regime to incentivise inward investment. One *of those features is particularly significant from Vodafone's perspective. Under long-established Luxembourg tax rules, a reduction in the book value of a company's investments (an impairment or writedown of goodwill) that has been verified by independent auditors and the local tax authorities is recognised as a tax loss that can be offset against future profits. This would occur, for example, if a multinational group with a subsidiary in Luxembourg acquired another business but then saw the value of that acquisition reduced as a result of deteriorating market conditions or performance. The difference arising between the acquisition cost and the newly reduced value of the acquired business – and therefore the loss experienced by shareholders – is treated as a loss for tax purposes and can be offset against profits. While it may be a 'paper loss' up until the point where the company seeks to realise the asset, for the company's shareholders it is unquestionably a loss nevertheless. Similar rules were in place in Germany when Vodafone acquired the Mannesmann conglomerate in 2000. That acquisition was followed by the dotcom crash, wiping tens of billions of euros off the value of the former Mannesmann business, resulting in significant losses for the Luxembourg subsidiary involved, and ultimately for all of Vodafone's shareholders.* ***Under the standard Luxembourg tax code, we are able to offset those historical losses against profits realised within our Luxembourg subsidiaries****. There are two additional points of note:*

• the Luxembourg government recently introduced changes to the tax regime that have placed a time limit on how long losses incurred after 1 January 2017 can be utilised, although this does not affect Vodafone's losses dating back to the Mannesmann acquisition; and

• under UK CFC rules, a proportion of profits from our Luxembourg subsidiary's global financing activities are also taxable in the UK.

European Commission Illegal State Aid investigation (extract from p15)

In October 2017, the European Commission announced it had commenced a formal state aid investigation into certain aspects of the UK's CFC rules. The investigation will focus on the 'Group Financing Exemption', which essentially subjects profits from overseas financing to UK tax at an effective rate of up to 4.75%. The investigation will consider whether this exemption, allowed under the UK tax rules, constitutes illegal state aid. At this stage, it is too early to judge the Commission's intentions. As we were party to litigation in relation to our Luxembourg financing activities under the previous CFC rules and as an interested party who could potentially be impacted by any outcome of the investigation, we welcomed the opportunity to submit observations to the Commission. We shared our view on issues including European and UK law, comparable legal and factual situations, proportionality and appropriate reference points. As explained earlier in the Report, we undertake no artificial tax avoidance activities in respect to our Luxembourg financing activities (or any other subsidiary or activity). Our Luxembourg entities are properly established and carry out genuine economic activities. We therefore do not believe that questions of artificiality arise in any analysis of our business.

Why does Vodafone pay little or no Corporation Tax in the UK (page16)

As explained in Corporate responsibilities and obligations, all governments seek to adjust their tax regimes to stimulate investment and encourage job creation. The UK is no different in this regard.

Vodafone makes large investments in the UK. We spent over €1.4 billion in 2016-17 building and upgrading the networks and services relied upon by our 17.6 million customers. In addition, since 2000 we have paid the UK government more than €10 billion for our 3G and 4G radio spectrum licences. We raised the money for those licences from UK banks and capital markets; together with capital borrowed for other Group purposes, we pay more than €600 million a year in interest costs to UK banks and financial institutions.

We invested **€1.4 billion** in building and upgrading our UK network and services

The UK government allows companies to claim tax relief on the capital investments they make in their UK operations. These capital allowances are a standard feature of the tax regime in many countries as they provide an incentive for private capital to fund the development of infrastructure that would otherwise have to be built by the state with funding sourced through public borrowing.

The UK government also provides tax relief to all businesses to reflect the interest costs paid on the debt a business raises to fund investment. Debt interest relief has the important effect of stimulating investment by businesses in the UK; it also supports growth and job creation within the UK banks and financial institutions that provide the funding.

We have paid more than **€10 billion** to the UK government for spectrum licences since 2000

Capital allowances and debt interest relief are long-established cornerstones of UK government policy on corporate taxation. If a company chooses to invest – and borrow – heavily in the UK, those allowances and relief have the effect of reducing considerably its typical UK Corporation Tax payments. This consequence has been fully understood by successive UK governments over many years. It is also worth noting that these governments have reduced the UK Corporation Tax rate to 19% (one of the lowest rates in the EU) and it is due to fall further, to 17%, by 2020.

These are political choices, made by UK governments of varied political persuasions over generations. The intention is to support business growth, encourage skills creation and bring greater employment opportunities to millions of people. Governments work on the assumption that while Corporation Tax receipts will be lower as a result of the allowances and reliefs available, incentivising corporate investment will increase the total tax take over time as more people enter the workforce and productivity increases.

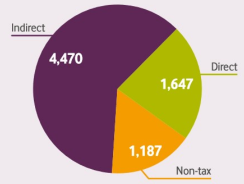
As we explained earlier, Corporation Tax is charged on profits, not revenues. For Vodafone, the UK remains an expensive and highly competitive country in which to do business; it is also one of our least-profitable markets anywhere in the world.

We paid **€194 million** in 2016-17 in direct tax contributions

Vodafone UK made an operating loss of €542 million in 2016-17. This loss arises before we deduct the interest costs on our UK debt (in excess of €600 million in 2016-17) and the full capital allowances from our UK capital investment programme (more than €1.4 billion spent in 2016-17). It is also worth reiterating that our overseas financing subsidiaries have no bearing on our UK Corporation Tax position; as we state in our Tax Principles, we do not artificially transfer profits to minimise tax payments to the UK Exchequer.

As explained earlier in this Report, UK Corporation Tax accounts for around 25% of the total taxes paid by UK businesses. In 2016-17, we paid the UK government €130 million, in cash, in direct taxes of all kinds. We also paid the UK government €64 million in cash for non tax items including spectrum and collected €860 million in indirect taxes on the government's behalf.

UK contributions by type over the last five years



The HMRC Vodafone Controlled Foreign Company settlement (p17)

In 2010, Vodafone and HMRC concluded a long-running legal dispute focused on a specific point of UK and European tax legislation with a full and final settlement of €1.25 billion. The background to this settlement is highly complex. It was focused on an area of law whose application was unclear and which successive UK governments agreed needed to be rewritten. It involved nine years of legal argument, three court cases and two independent appeals, followed by a detailed HMRC review and settlement in 2010. That settlement was then followed by a National Audit Office (NAO) inquiry in 2012, assisted by a former High Court judge, Sir Andrew Park. The NAO report concluded that the HMRC/ Vodafone settlement was a good outcome for the UK taxpayer and that if Vodafone had chosen to continue litigation instead of settling with HMRC, "there was a substantial risk that the Department [HMRC] would have received nothing".

The dispute focused on the UK tax authorities' interpretation of Controlled Foreign Companies (CFC) legislation and began when Vodafone bought the Mannesmann conglomerate in Germany in 2000. The acquisition was largely for shares and involved no borrowings or loans from Vodafone's UK business. Importantly, there was no reduction in Vodafone's UK tax contributions as a consequence, and the dispute was not related in any way to the tax liabilities arising from our UK operations. We therefore questioned the UK tax authorities' application of the rules on both factual and legal grounds, in common with a number of other companies who had also challenged the UK's approach to CFC legislation. Vodafone's subsidiary in Luxembourg is the main financing company for our many operations around the world (see our Luxembourg section).

The UK tax authorities argued that, had those financing activities been established and undertaken in the UK, they would have attracted tax in the UK, and that therefore tax should be payable under UK CFC provisions. Vodafone argued that, as a matter of European law, we were freely entitled to establish activities wherever we chose, and that as a matter of fact, these were neither artificial arrangements nor did they have any impact on Vodafone's UK tax liabilities. The underlying facts were scrutinised by the UK tax authorities and the points of law involved were examined in detail by *the European Court of Justice, the UK High Court and the UK Court of Appeal, prior to the decision to reach a settlement. Subsequently, the UK Government sought to address a number of inconsistencies and flaws in UK CFC legislation, clarifying the UK's approach to this complex area of international taxation in new rules that took effect in January 2013. For more information on the European Commission's investigation into certain aspects of the UK's CFC rules see here.*