Ethical Analysis of Amazon’s ‘Legal’ Tax Avoidance

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Abstract: This paper gives an overview of the ethical consequences of Amazon’s strategic tax avoidance, exploring its multifaceted impacts on society, economy and environment. Through a meticulous PESTEL analysis and the application of a comprehensive 7-step ethical decision model, the paper highlights that Amazon makes the most of legal loopholes to minimize tax obligations. It argues for the necessity of measures aimed at enhancing fairness, transparency, and ethical obligations in corporate tax practices, emphasizing the imperative for Amazon to integrate social responsibility and sustainable development. This analysis advocates for combined efforts between corporations, governments and communities to address and optimize current unethical tax practices.

Keywords: Amazon, tax avoidance, ethical business, tax haven, PESTEL Analysis, Seven-Step Decision Model, Tax Reform, Global Tax Policy.

1. Introduction

Based on Amazon’s unethical behavior of tax avoidance, this report conducts an ethical analysis of Amazon by using methods such as PESTEL analysis and the 7-step decision model [1]. It suggests that Amazon should reform its tax policies to ensure fairness and transparency. Additionally, this report recommends cooperating with governments and society to eliminate unethical behavior in tax. These actions will contribute to rebuild public trust and social legitimacy while aligning with principles of sustainable development and corporate social responsibility.

2. Background

With the development of economic globalization, more companies and governments begin to realize the importance of corporate tax. Amazon, which enjoys a high reputation in the field of e-commerce and cloud computing, has attracted considerable attention in the world of tax due to its tremendous scale and complex business networks worldwide [2]. Recently, its efforts to minimize taxes have been regarded as unethical, leading to controversy among the public. While some of these actions may be permitted by law, they undermine tax revenues that are critical for governments to support public welfare and the construction of infrastructure, contradicting social expectations.

2.1. Overview of the Case (5 Ws)

Generally speaking, Amazon, over the past few years, has been accused of using tax loopholes and technical means such as tax heaven to minimize its tax obligation, which attracts controversy and attention in society. In this issue, Amazon, governments, the public and other stakeholders are potentially affected by its tax strategies. These strategies have a global reach, impacting countries and regions such as the US, the UK, Australia and Europe. The timing of this issue coincides with the globalization of the global economy; at this stage, governments have strengthened supervision of taxation, making the tax strategies of multinational companies a focal point [3]. The public and civil society organization also have strongly condemned Amazon’s tax strategy, believing that it shows corporate greed and immorality. Undoubtedly, the primary motive behind Amazon’s adoption of such strategies is to maximize company profits and minimize tax expenses at the same time.

2.2. Overview of Amazon’s Controversial Tax Practices (PESTEL)

There is no doubt that Amazon’s tax avoidance strategies have attracted significant attention from governments worldwide. This may lead to an increased review of current laws and regulations which can help make laws more comprehensive. On the contrary, frequently tax avoidance can strain relations between countries [4]. For instance, as an American corporate, if Amazon fails to meet the tax standard of other countries such as the United Kingdom, relations between these two countries will be damaged. On the social front, Amazon’s unethical behavior damages its reputation as a responsible corporation and has profound impact in multiple aspects which can lead to more social problems such as local boycotts or protests. Economically, by minimizing its tax expenses, Amazon can reinvest money into its own business and gain advantages in fierce market competition. However, in the long term, governments’ revenue will be significantly reduced due to its behavior. As a result, it will bring burden to the overall economy. In the realm of environmental impact, Amazon’s intricate tax avoidance structure results in billions of dollars loss in government finance annually, leading to the reduction of investment in environmental governance and sustainable development [5].

3. Issue Analysis

3.1. Definition of Tax Avoidance

Tax avoidance refers to the use of legal methods and loopholes to minimize tax obligations beyond rational levels (Bovens, 2023). Although different from illegal tax crimes, active tax avoidance is considered unethical because it deprives the government of significant tax revenue for public welfare which is supposed be used for public welfare and infrastructure (Sikka, 2010)[6]. Due to the great loss it causes, investment in environmental governance and sustainable development will decrease accordingly (Dell’ Anno, 2009).
3.2. 3.2 Amazon’s Tax Avoidance Strategy

In the context of economic globalization, the tax strategies of multinational companies have attracted concern of tax regulators (Muzuka & Smith, 2017). Amazon has made use of a range of legal maneuvers and tax loopholes to minimize its income tax, including in its key markets such as the US, the UK and Australia.

Although these practices may be legal, they violate the social expectation that corporations like Amazon should contribute their fair share of tax revenues to support public infrastructure and welfare (Aharony & Geva, 2003). There is evidence that Amazon uses complex corporate structure, shell companies and questionable inter-company payments to avoid taxes in many of the countries where it operates, including Australia, the United Kingdom and internationally (Muzaka & Smith, 2017). Analysis by Consumer (2023) using Amazon’s 2021 financial disclosures show that its main business in UK, the Amazon UK Services Ltd, paid just £492 million in tax on sales of £22 billion [7]. This means the effective rate is just 2% which is far below the UK standard corporate tax rate of 19% in 2021. The low tax payout is achieved by shifting profits gained in UK to Luxembourg, a place regarded as a secret tax haven, through inter-company payments between Amazon Europe and Amazon EU. Experts estimate that its tax avoidance activities have cost governments around the world more than $8 billion over the past decade (Ethical Consumer, 2023). Its tax strategy is regarded as a secret tax haven, through inter-company payments between Amazon Europe and Amazon EU. Experts estimate that its tax avoidance activities have cost governments around the world more than $8 billion over the past decade (Ethical Consumer, 2023). Its tax strategy is rooted in the assumption that legal tax avoidance is inherently ethical and its primary is to maximize shareholder value, even if this means minimizing tax liability. Yet the public expects profitable corporations to pay taxes that commensurate their income. These conflicting worldviews create moral tensions [8].

It is obvious that Amazon’s aggressive tax avoidance behavior is definitely a lack of consideration of its social influence which shows the shortcomings of a powerful company to the society in terms of moral business and it may result in serious consequences. Although its tax strategy may boost short-term profits and shareholder returns, it will simultaneously reduce long-term tax revenues that fund essential services like education, health care, and infrastructure (Muzaka & Smith, 2017). In this case, tax avoidance prioritizes individual corporate interests over collective social welfare. In response to the current situation, local communities and the public at large, Amazon’s practices’ conflict with fundamental principles of justice and fairness (Salvador & Folger, 2009), as well as its duty of caring the communities where it operates, violates the implicit social expectation that fair taxes be paid to promote public welfare and infrastructure. Likewise, deontology theory examines consistency with values such as obligations and duties (Van, 2007), but Amazon’s tax strategy achieves profits by minimizing its responsibilities and commitment to communities. These practices exhibit its self-interested concept with little concern for how tax avoidance may affect other stakeholders which demonstrates that Amazon’s tax strategy is socially irresponsible to its publicly stated commitment to sustainable development and society. Besides that these tactics do harm to its reputation (Schneider et al., 2018)[9].

Overall, the evidence suggests that despite its high revenue, Amazon uses complex structures, profit shifting and questionable practices to actively reduce its tax obligations in various countries. While sometimes these tactics can be legal, they contradict Amazon’s ethical claims and create reputation risks by depriving governments of revenue for public welfare [10].

Given these ethical considerations, Amazon should make substantial changes to its tax policies and practices to align with corporate social responsibility, even if this results in increased expenses and lower profits. Although this transition may bring challenges, Amazon should always prioritizes the social legitimacy and social responsibilities. Paying its fair share of tax is critical to rebuilding public trust and maintaining Amazon’s ethical commitment to society.

4. Recommendations

4.1. Paying Fair and Equitable Taxes

In line with SDG 16 on strong institutions and SDG 17 on partnerships, Amazon should reform its tax policy to meet the widely accepted ethical standard. This involves eliminating profit shifting, tax havens and complex corporate structures barely for the purpose of tax avoidance. Paying fair taxes will help fund public infrastructure and services that benefit Amazon’s customers and communities (ActionAid, 2011). It would rebuild the trust and social legitimacy damaged by tax avoidance [11].

4.2. Transparent Financial Reporting

Out of the consideration of principles of corporate citizenship, Amazon should conduct transparent country-by-country financial reporting on revenue, profits and taxes (ITUC, 2017). This behavior will help Amazon regain public trust and rebuild connections with communities. Besides that, with the readily understandable information showing in its annual tax report, undoubtedly it will bring confidence to investors (Barth & Schipper, 2008). Not only investors, other stakeholders such customers, employees and suppliers also benefit from transparent financial reports.

4.3. Collaboration for Tax Reform

In line with SDG 9 and SDG 8 on economic growth, Amazon should work closely with government and communities to shut down tax loopholes and help to improve the related laws (Business for Social Responsibility, 2014) [12]. Aligned with SDG 17, building partnership with organization such as OCED can have a better understanding of tax system, ensuring that tax reform is fair and equitable. However, different stakeholders may have different interests. Balancing interests of different parties can be challenging and sometimes it may lead to compromise that no one is fully satisfied.

4.4. Responsible Global Tax Policies

To embody the core value of integrity, Amazon should implement responsible tax policies globally, regardless of specific jurisdictional rules (Huseyov & Klamm, 2012). While tax avoidance may not be completely avoided, constantly finding out and fixing such loopholes can build a strong conception of ethical business globally, which highlights the priority of social obligation over financial benefits [13]. Out of the concern for affected parties, Amazon should minimize its effect in time and compensate for its failure in funding public services (Pogge & Mehta, 2016). Compensatory community investments in infrastructure and public services can reduce the loss caused by tax avoidance to some extent, and then uphold corporate citizenship.
obligations. By adopting practices in line with SDG priorities, Amazon can address tax avoidance issue and rebuild public trust all over the world.

5. Conclusion

Given Amazon’s global influence and its constant commitment to sustainability, its behavior of tax avoidance has caused serious ethical contradiction between communities’ expectations for better welfare and companies’ goals for higher profits. Furthermore, Amazon, as a global corporation with great fame, must reform its tax policies and practices to align with its ethical obligation of transparency, accountability and contribution. Paying fair taxes will help fund the public infrastructure and services, demonstrating true corporate citizenship. In today’s highly connected world, even global giants like Amazon should meet the international ethical standard and shall be subject to public supervision. Ethical priorities and SDGs should influence tax strategy as much as laws.

6. Discussion Question

How do multinational companies find a balance between responsibilities to shareholders and commitment to society when implementing tax strategies?

References


