


Advocacy Group Urges Etsy to Change Tax Structure

By

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Advocacy group Americans for Tax Fairness on September 1 called for online craft retailer Etsy Inc. to be stripped of its benefit corporation status if the company doesn't abandon its recent tax structure change.

In an August 28 letter  to B Lab, the nonprofit organization that certifies companies for B corporation status, Frank Clemente of Americans for Tax Fairness asked the organization to "make Etsy's B corporation designation contingent upon its elimination of the use of its subsidiary in Ireland to dodge taxes."

"Etsy is now one of those corporations ducking out on its obligations to the nation that made its success possible," Clemente wrote. "When corporations do not contribute their fair share of taxes, other businesses and individual taxpayers have to make up the difference."

Etsy CEO Chad Dickerson wrote a blog post on August 31 to "set the record straight about the new global tax structure."

"As a global company, it is smart business practice for us to have an efficient tax structure," Dickerson said. "To put it simply, we want our taxation to reflect our actual business. So, we are now paying taxes for our international operations (those outside of the Americas) in Ireland, where our international headquarters is located, as well as the other countries in which we operate."

B corporations are required to act in a socially responsible manner, but the designation does not affect a company's tax status. Companies elect to be taxed as a C corporation or an S corporation.

Etsy is based in New York City. New York is one of 31 states with benefit corporation laws on the books. Typically, legislation creating the B corporation designation has been low cost or cost neutral, and in some situations has raised a small amount of revenue for states, according to B Lab.

Etsy was certified as a B corporation in 2012. In January it announced a tax restructuring, undertaken so that its Irish subsidiary wouldn't be required to report all its financial data.

"We file our tax returns and pay our taxes in many states and countries, but we don't publish those filings for everyone to read," Dickerson wrote in the blog post. "This is a standard business practice and not unique to Etsy."

In April Etsy announced its initial public offering and a change in leadership, prompting a

recertification with B Lab. Part of the recertification process includes a questionnaire that asks the company if it has "reduced or minimized taxes through the use of corporate shells or structural means."

Clemente wrote that Etsy has reduced its tax obligations through its tax restructuring.

Matt Gardner of the Institute on Taxation and Economic Policy told Tax Analysts that being certified as a B corporation is primarily a marketing tool for companies and a way to demonstrate that they are interested in something other than maximizing profits. B Lab's certification process provides a mechanism to judge whether companies are living up to their socially responsible goals, Gardner added.

"What makes Etsy's growth and its IPO exciting is that it's the first real test of whether a benefit corporation model can work for *Fortune* 500 corporations," Gardner said. "I hope that it can."

Both Gardner and professor Omri Marian of the University of California at Irvine School of Law said Etsy has aggressively marketed itself as a transparent, socially sustainable company unlike other large multinational corporations. However, based on the information available about Etsy's Irish subsidiary, it seems clear that Etsy is not being transparent and that it is similar to other multinational corporations that dodge U.S. taxes, Gardner and Marian said.

"The best outcome would be for B Lab to make Etsy stop using this subsidiary as a tax haven as a part of its recertification," Gardner said. "That would be a powerful statement of the strength and integrity of the B corporation movement. It would send a strong signal to public corporations that tax avoidance imposes real costs on the rest of us."

Jay Gilbert of B Lab wouldn't comment on the status of Etsy's recertification until it is complete, saying only that "corporate tax loopholes are both important and controversial, and therefore, they require a formal process to arrive at a good answer."