

8

FILED

DEC 28 2016

Missouri Public Service Commission

By Steven Syre

GLOBE STAFF JUNE 24, 2014

Read my tax returns and you will see I lead a pretty uneventful life. I can't tell you how I've disappointed my accountant.

But I recently experienced a kind of Walter Mitty moment when I looked over the details of another set of tax claims from an unlikely source: my electric utility.

What if I tried to pull off the kinds of things National Grid actually did about a decade ago? For starters, I could concoct big international projects with clever names and aggressive financial tactics. I could set up paper companies that didn't really do any business, or employ any people, for that matter. I could move big money and securities between those entities around the world. The entire point would be to avoid paying lots of taxes.

I must say it sounds intriguing, but perhaps not entirely, ah, legit. In fact, the state Appellate Tax Board recently decided the whole business wasn't kosher and ordered National Grid to pay up.

Get Business Headlines in your inbox:

The Globe's latest business headlines delivered every morning, Monday through Friday.

Enter email address

Sign Up



The actions behind this case took place after National Grid, a British company, moved to America more than 15 years ago via the acquisition of two Massachusetts utilities — New England Electric Systems and Eastern Utilities Associates — in quick succession.

Two Sha 8

question years ago and told  
y appealed, and a tax board  
opinion was just recently released. If the wheels of justice turn slowly, the pace to tax adjudication is positively glacial.

But hold on, the case may not be over yet. A National Grid spokesman told me the company was disappointed and is “continuing to consider its options.” He said that National Grid has paid the assessments but isn’t happy about it. The company could go to court to challenge the opinion.

Here’s how it all got started: NationalGrid saw an opportunity that had nothing to do with electricity when it arrived in Massachusetts. As part of its utility acquisition financing, the company found a way to lend itself money and, along the way, charge itself interest.

This arrangement was invented as a kind of arbitrage, exploiting differences in the tax codes in the United States and the United Kingdom. As a result, the interest was paid in America and claimed as a tax deduction. The income from the debt payments showed up in the UK in way that was not subject to taxes.

Nobody can make more than a million dollars of taxable income simply disappear somewhere over the Atlantic without a lot of fancy maneuvering. So National Grid launched Project Mayflower. (Yes, that’s really what a British company arriving on America’s shores in Massachusetts named its plan to avoid taxes.)

Project Mayflower required 33 different steps, according to the tax appellate board’s 64-page decision in the case. Money and debt securities moved around between National Grid entities and eventually — poof! — tax magic.

“The transactions, which National Grid’s tax advisors designed, relied on the use of . . . arrangements that in form operated solely to reduce National Grid’s worldwide tax liability,” the state board wrote.

National Grid wasn’t the only company exploiting the differences between US and British tax laws. But the federal Treasury Department decided to close the loophole with new regulations a few years after National Grid arrived in America.

So what did the utility company do in response? It came up with a new plan to dodge the fix. Project Spam (insert your own joke here) was even more complex, requiring 47 steps. There were other National Grid

† strategies aiming for similar results after that.

Fvt Sha 8

prompted this very long  
because it decided National  
Grid's internal arrangements were not "true indebtedness." Trust me, the details will make your head hurt.

In the global economy, big companies make the most of differences between national tax laws and rates all the time. Last week, the American medical device giant Medtronic Inc. agreed to buy Covidien Ltd., a company run from Mansfield but technically headquartered in Ireland.

Now it plans to move the whole merged operation — legally, at least — to Ireland in search of lower overall taxes.

Today's international business tax strategies make National Grid's old plans sound like a bit of corporate Americana. After all, they came over on the Mayflower.