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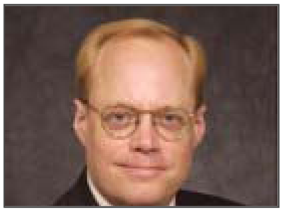

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Alibaba Is The New Amazon In Taxes (Just Ask Yahoo)

Alibaba raised $21.8 billion in its record-breaking IPO. Its staggering market capitalization bests companies like Facebook, eBay, and Amazon. Alibaba may not yet be a big player in the U.S., but it literally dominates many businesses in China. Alibaba's websites Tmall and Taobao are rough counterparts to Amazon.com and eBay. When it comes to payment, eBay may have PayPal, but Alibaba has Alipay.

Alibaba is no-loss producing start-up either. It had $8.5 billion in sales and $3.8 billion in net income for its year ended in March 2014. The year before that, Alibaba had $5.4 billion in sales and $1.4 billion in profits. Amazon's profits pale by comparison. Alibaba breaks the mold.

Although Alibaba went public on the NYSE, Alibaba.com went public in Hong Kong in 2007. It went private again in 2012. But this time its U.S. IPO looks different. And it may even out-Amazon Amazon and eBay, with tax as well as non-tax advantages.

Jack Ma (Photo credit: Wikipedia)

Alibaba is a Cayman Islands company, yet it derives most of its revenue in China. Some licenses and Internet operations are held in separate entities. But far more unusual is its hybrid partnership structure. Only about 13% of Alibaba's shares were listed on the NYSE. And there is an Alibaba Partnership that ties up a simple majority of the members of Alibaba's board.

Alibaba does not charge listing fees and has no warehouses to keep inventories. As the company's network of users grows, the value of the system to everyone increases too. Alibaba brings together thousands of merchants who join a network. Alibaba provides a platform to showcase the products those merchants provide.

In effect, Alibaba brings the world and China together. It is a revenue sharing model rather than a listing model. Semantics or not, it seems to be more palatable for merchants joining the network. The larger the network, the greater the shared benefits for all.

Although many may feel envious of Alibaba founder Jack Ma, there's some envy directed toward Yahoo too. After all, Yahoo paid $1 billion for a stake in Alibaba in 2005. Yahoo's profit appears to be between $8.3 billion to $9.5 billion in Alibaba's IPO, and will still own a 15 percent stake in the company worth $37.7 billion. Yahoo already sold about 140 million Alibaba shares, but Yahoo's CEO Marissa Mayer hasn't said yet how Yahoo will use the cash.

That may come up as Ms. Mayer unveils Yahoo's financial results and talks about taxes and Alibaba. How Yahoo will handle taxes from its stake in Alibaba is important. So is the question of what Yahoo will do with its healthy profit on its Alibaba investment. The profit Yahoo has already taken on its Alibaba gain could fuel acquisitions, though some of the money presumably will go for taxes.

Yahoo may have gained $9 billion by selling Alibaba stock, but the taxes will hurt unless they can somehow be shielded. In that sense, Yahoo could learn a thing or two from Alibaba. Alibaba's offering materials suggested that its operating companies get favorable tax treatment in China. How favorable?

Qualified high and new technology businesses can pay only 15%, we are told. In fact, some software companies only have to pay 10%. There are also tax holidays for qualified software enterprises. These aren't short tax holidays either. You get a two-year tax exemption that commences when the company first becomes profitable, and a 50% tax cut for the following three years.

These kinds of perks should sound good to any U.S. tech company. And it doesn't just stop with income taxes. Amazon has largely given up the ghost on its sales tax strategy, now collecting taxes in some 23 states. Alibaba's network approach may win out there too.

Jack Ma started Alibaba in 1999 in his apartment in Hangzhou, China. The pop after the IPO made him briefly the richest man in China, but even if he is dethroned, he is still one of the richest people in the world. He'll probably plan his taxes carefully.

Contact me at Wood@WoodLLP.com. This discussion is not intended as legal advice, and cannot be relied upon for any purpose without the services of a qualified professional.