

Google Australia
Submission
to
Senate Economics References Committee
Inquiry into Corporate Tax
2nd February 2015

Google in Australia

Google is proud to be doing business in Australia. Our employees are passionate about working on new and innovative products that are improving the lives of people here and around the globe.

We invest over \$300 million every year in our Australian operations and of our 1,000 local employees, around 500 are highly-skilled and talented engineers. Our sought-after internship program this year will employ and train about 100 engineering students from Australia's top universities, equipping them with work skills and training.

Our Google Partners program is building a support ecosystem of more than 2,000 'web experts', that aims to train 200,000 small businesses annually across the country. Just as small businesses have an accountant to help them with finances, a 'web expert' can help them capitalise on the benefits of the internet.

Google provides thousands of Australian non-profit organisations with free email and docs services as well as free advertising services on our search platform.

Policy Summary

Google welcomes the opportunity to submit our views to the Senate Economics Reference Committee's *Inquiry into Corporate Tax*.

Governments around the world compete for foreign investment to encourage local growth, development and jobs. They regularly use tax incentives to attract this kind of overseas investment to which companies respond. Globalisation has changed the nature of the world economy, and created a new context for this kind of competition between countries, which is why the OECD is looking at the implications for existing international tax rules.

We support this process. Today's structures have grown up over many years and everyone would benefit from a simpler, more transparent tax system. We believe that coordination at the G20, rather than unilateral action by individual countries, is the best way to do this while maintaining certainty and avoiding government-to-government tax disputes.

The context for policy: the internet and digital economy in Australia

The internet generates some \$50 billion in economic value here in Australia - as much as exports of iron ore or the entire retail sector. It supports 190,000 jobs, many of which are highly skilled, and is enabling sectors to function economy-wide.¹ Australia will benefit from a regulatory environment that nurtures and encourages the local digital economy and these smart jobs now and into the future.

Australians are smart, practical and highly educated and are one of the fastest adopters of new technologies around the world. To support wide adoption, many technology companies have funded their products by carrying advertising rather than by directly

¹ Deloitte Access Economics, 'Connected Continent', 2011, <http://goo.gl/4IO8bV>.

charging users. This means they can be offered for free, or at least at a minimal cost, to everyone. In fact, access to web-based email, social media, mobile operating systems, web-based word processors and a myriad of applications can be accessed by all Australians for free. A child in Western Sydney, Bourke or the Northern Territory has access to the same information through Google's search engine that the Prime Minister does.

The Internet is also transforming how business is done in Australia, from simple productivity improvements in supply management, finance and communication, through to significant gains by expanding geographic markets and creating new channels to reach customers. The Internet is rocket fuel for small businesses, with those that make the most of it two times more likely to be growing, and four times more likely to be hiring people than those that don't.² It has also lowered barriers to doing business, making it easier for small players to compete with the larger competitors.³

The adoption of new technology is a key driver of innovation, which is inextricably linked to Australia's future prosperity. The Internet has enabled the creation, exchange, and implementation of ideas at an unprecedented scale. The local companies that fuel the digital economy have the potential to offer \$109 billion in GDP and add 540,000 jobs by 2033.⁴

People are the key factor, and the most important issue for Australia is creating a tech community of more entrepreneurs, with the right skills. There are only 1500 tech startups in Australia today, and the number of computer science graduates is declining. Despite the importance of technology-related jobs, our young people are still predominantly drawn to 20th century professions like law and accounting.

Google's sizable engineering workforce in Australia allows us to help train the next generation of Australian computer scientists, especially through our internship program, as well as support the local startup ecosystem. Google is a major supporter of Fishburners, Australia's largest tech co-working space for emerging entrepreneurs, and we provide training and support via our Google For Entrepreneurs team; we are also a founding supporter of [StartupAus](#).

The Internet and the digital economy are essential for Australia's future prosperity and its success in global trade. It is for this reason that our government needs to work together with global partners through the OECD.

Multinational corporations and Government tax policy

Globally, Google pays billions of dollars of corporate tax every year, in fact our overall corporate tax rate in 2014 was about 19%, a few percent lower than the OECD average of 25%.

² Deloitte Access Economics, 'Connected Small Business', 2013, <http://goo.gl/jOV5pc>.

³ Nera Economic Consulting, 'Leveling the Playing Field: The Role of the Internet and Mobile Computing in Improving the Efficiency and Competitiveness of Australian Small Business', November 2014, <http://goo.gl/rldDvE>

⁴ PWC, 'The Startup Economy', 2013, <http://goo.gl/HX4Xhl>

Many nations compete for foreign investment, including advanced economies and developing countries. In fact governments around the world create significant tax incentives for multinationals to operate locally in order to attract foreign investment.

According to the OECD, 26 out of its 34 member countries have introduced tax incentives to stimulate innovation and attract foreign investment. These countries and their governments recognise the tremendous benefits that often follow in terms of job creation and economic growth.

- The UK Patent Box policy enables companies to apply a lower rate of Corporation Tax to profits earned after 1 April 2013 from its patented inventions. The relief is being phased in and the lower rate of Corporation Tax to be applied is 10%.⁵ Six other European states—including Spain, Belgium, and France—offer similar incentives.
- In our own Asia Pacific region, Hong Kong offers a corporate tax rate of 16.5%, and Singapore 17%. Singapore also offers further incentives through their Economic Development Board.⁶ The Philippine's Economic Zone Authority offers a 100% corporate tax 'holiday' for 4 to 6 years for new information technology enterprises⁷. And the Malaysia Multimedia Development Corporation (MDEC) creates incentives for global ICT companies to invest in and develop digital and creative solutions in Malaysia.⁸
- Australia incentivises investment through its R&D tax credits. The Australian Government offers a non-refundable 40% tax offset (which is equivalent to a 133% deduction) to a broad base of firms in all sectors, in all sizes, who are conducting eligible R&D. This has been a relatively bipartisan policy over many years.

Around the world these policies are often described as “incentives for innovation” in a politician's home country, yet derided as “sweeteners” or “havens” when commenting on other countries' tax rules.

Google is exactly the kind of innovative, risk-taking company that many governments are seeking to incentivise through their tax regimes. Our success is built on our “intellectual capital”—the technology we have created that powers all our services. In accounting terms these are described as “intangibles”. For example:

- The algorithms that generate our world-class search results;
- The technology behind our auction that determines the price of almost all of our advertising; and
- The specially-designed data centres that deliver information to our users quickly and efficiently.

It's easy today to look at these innovations as a “sure thing”. But Google's success has been built on a series of very big “bets”, that have involved significant risk and have cost billions of dollars. Take Google Search. When Larry Page and Sergey Brin, our founders, launched Google Search there was already a well-established incumbent. We were

⁵ www.gov.uk/corporation-tax-the-patent-box

⁶ www.edb.gov.sg

⁷ www.peza.gov.ph/index.php/eligible-activities-incentives/fiscal-incentives

⁸ www.mdec.my

complete outsiders. It was the same with Gmail, Chrome and Android—and we acquired YouTube for \$1.65 billion when it had almost no revenue and faced significant legal risks. Today we continue to invest heavily in our existing technologies, as well as in new areas like self-driving cars. Last year alone, Google invested \$6.8 billion in R&D, putting us at the very top of the OECD investment league tables.

And of course, not every risky project that we've pursued has paid off. Products such as AdSense for Radio and TV and Knol—products you may not have even heard of—all failed and were subsequently closed. In other cases, we might decide to pause and reset the strategy, as we did recently in the case of Glass. These costs affect our bottom line every bit as much as the returns from risky projects which succeed, and the investments involve substantial risk that must be accounted for. It's important that companies pay the most tax where they take the most risk.

Technology companies are commonly, and incorrectly, singled out during tax debates due to their digital nature. But when we look at the advancement in many other sectors we see how central digital tools have become, blurring the lines between different parts of the economy.

- You probably interact with your bank most often through the Internet and make transactions online.
- When you purchase goods with your credit card, the exchange probably happens on the Internet.
- You probably listen to music and watch movies and TV online rather than using a tape recorder or a beta video player.
- Your newspaper is probably now online and you're likely to be clicking on the ads they show on their site. Their online ad revenue is increasingly becoming a larger part of their business.
- Your hospital is much more likely to now have electronic files rather than storing massive amounts on paper in filing cabinets and your doctor is looking at computerised data sets to understand diseases better.
- Your car is likely to have many more bits or electronic equipment and was probably put together with the help of robots that can constantly analyse efficiency.

The transition to a digitally-enabled economy has made it easier for businesses to deliver services across borders, and this global capability contributes to economic dynamism and growth for businesses of all sizes. The rise of micro-multinationals are seeing small Australian business benefit from overseas sales through the internet. The committee would need to consider the impact of any of its recommendations to a small Australian retailer or manufacturer who has found new consumers overseas.

It is tempting for every government to assume that they will benefit from changes to current international tax structures; however, any new rules in Australia would over time have a similar impact on Australian multinationals operating in overseas jurisdictions. Whether this emerges through co-operative change agreed between countries, or in a series of country-by-country changes, the only way for every country to gain would be to see the same dollar of profit taxed twice. Governments must harmonise tax rules so that digital tools continue to create value in Australia and overseas. Fragmentation along country or industry lines, puts this value at risk.

The OECD is the best venue for discussions about international tax policy

Google does believe everyone would benefit from a simpler, more transparent tax system because it will create certainty for governments and companies alike. The goal of multilateral tax coordination shouldn't be to see one country gain revenue at the expense of another, but to ensure a consistent rules-based approach to taxation, creating certainty for companies operating across borders and predictable revenue streams for government budgets. That is why we have been taking part in and encouraging a broader debate through the Group of 20 leading economies and the Organisation for Economic Co-operation and Development.

The OECD's work in this area is crucial to maintaining tax equilibrium both among OECD members and non-OECD countries that closely follow OECD developments. Any unilateral action is likely to damage agreed international process and is likely to damage business confidence and investment locally as well create government-to-government tax disputes.

The need for a multilateral approach to changes in international tax-policy makes the OECD the best venue for discussions about taxation for multinational companies. The OECD launched its Base Erosion and Profit Shifting review in July 2013, following a formal request from the G20 finance ministers. During the recent G20 meeting held in Brisbane, nations "welcome[d] the significant progress on the G20/OECD Base Erosion and Profit Shifting (BEPS) Action Plan to modernise international tax rules. We are committed to finalising this work in 2015, including transparency of taxpayer-specific rulings found to constitute harmful tax practices."⁹

The OECD has a track record for effective multilateral tax coordination, both in the development of its Model Tax Convention and in its more recent work targeting tax havens. The OECD's final report will be issued at the G20 Meeting in Turkey later this year and will offer a series of possible policy changes.

These arrangements should ensure that double taxation does not occur, which would inevitably cause friction between tax authorities, stifle investment and hinder international trade.

Australian R&D Tax credit

According to the OECD (2014), Australia has a relatively low level of information industry R&D as a share of total business R&D. Although ahead of Turkey, Mexico and a few other countries, Australia ranks 26 out of 32; behind all major developed OECD countries. When firms decide where to invest in ICT projects, the formal skills of local workforces are very important, but Government incentives are also part of the decision.

As mentioned previously, Google invests some \$300 million each year on our Australian operations, which includes employing around 500 engineers. Some of the areas our engineers work on is claimable through the Australian R&D credit. For the last six years Google applied for and received a tax benefit from the tax office for projects being undertaken by our engineers. Importantly for Google, this incentive is only one factor taken into account when we set up our engineering hub in Sydney.

⁹ G20 Leaders Communique, Brisbane Summit, 15-16 November 2014, point 13

We do believe the measure could have more focus by embracing smaller players taking those initial risks when starting up a new business. Google would welcome a discussion on how the credit could be better used to drive innovation and support the startup community.

Conclusion

Google appreciates being invited to comment in the Senate's Inquiry into Corporate Tax. We support international efforts to make the system simpler and more transparent. As nations compete for corporate tax revenue and for investment and growth we believe it is up to policy makers through the G20 process to settle how their respective countries share the tax revenue generated by multinational corporations.