

Google - Final Question on Notice 22 May 2015

Question

The committee notes that you have provided responses to questions on notice in relation to some of these issues but would like to give you the opportunity to reconcile all of the evidence that your company has provided with all the statements made by the Commissioner of Taxation and the Australian Taxation Office.

Commissioner Chris Jordan

“Google stated that their Australian revenue from advertising is booked in Singapore and tax is paid in Singapore. Whilst it is true that some tax is paid in Singapore, we believe it is a very small amount, as the revenue booked in Singapore is moved to a tax haven, Bermuda, through a series of licensing fee payments. This means the majority of profits made in Australia end up in Bermuda where no tax is paid. This scenario was also recently covered in media reports, and it would be our view that these reports were on the money in terms of the structures and arrangements that we see.”

Answer

The Commissioner has acknowledged in his statement to the Senate that ‘it is true that some tax is paid in Singapore.’ Google APAC paid US\$4 million tax to the Singapore Government in 2013. Any revenues invoiced by Google Asia Pacific to Australian customers are accounted for in full in its financial statements and its corporate tax return and therefore goes through the tax system in Singapore. Google Australia paid AU\$11.7 million in corporate tax to the ATO for 2014. These figures have been widely reported.

To clarify the Commissioner’s statement, the only profits made in Australia, by reason of them resulting from activity which occurs in Australia, are the profits made by Google Australia, on which Australian tax is paid.

To satisfy any doubt we are laying out here our international structure.

Google Inc., is the parent company of the entire Google group, and Google Ireland Holdings is an Irish company tax resident in Bermuda.

- These two companies share the costs of developing the vast majority of Google’s intellectual property.
- Google Ireland Holdings has the non-exclusive right to monetise Google’s intellectual property in the APAC region.
- Google Ireland Holdings has licensed this right to Google Netherlands Holdings BV which then sub-licenses the right to Google Asia Pacific Pte Ltd, which is Google’s regional HQ based in Singapore.

As Google’s regional HQ, Google Asia Pacific is responsible for contracting with customers in the APAC region, including Australia.

- Australian customers contract directly with Google Asia Pacific and that revenue is booked there.

- Google Asia Pacific pays a royalty for the intellectual property to Google Netherlands Holding BV.

Google Asia Pacific has engaged Google Australia to provide various services, including marketing services. In exchange Google Australia receives an arm's length remuneration for the services it performs.

Importantly, Bermuda has no bearing on the corporation tax Google Australia pays. If our entity in Bermuda did not exist, it would not change the amount of corporation tax payable in Australia. Further, the Irish Government has recently changed its corporate residency rules such that all companies incorporated in Ireland are by default tax resident in Ireland, thus phasing out the ability for Irish incorporated entities to be tax resident in countries outside of Ireland, such as Bermuda. This shows progress being made at an international level.

On a consolidated basis Google Inc. incurred a tax expense of \$3.3 billion and paid an effective tax rate of 19% on its profits for 2014 - which is not far off the OECD average effective tax rate.

Our structure reflects a number of incentives created by governments to attract local investment, including but not limited to an attractive corporate tax system.

- To manage our global advertising operations effectively, we need multi-lingual sales and support staff—and Ireland makes that possible by attracting immigrant workers from across Europe. We employ 4,500 people in Ireland, and they speak over 40 languages and support sales in over 100 countries.
- Singapore is also a great recruiting hub. To manage our Asian advertising operations effectively, we need multi-lingual sales and support staff—and Singapore's time zone coverage, immigration laws, quality of life and multicultural talent pool make that possible. We employ 1100 plus employees in Singapore who
- Speak over 50 languages and support our operations right across the Asia-Pacific region.