



Senator Sam Dastyari
Chair
Senate Economics Legislation Committee
PO Box 6100
Parliament House
Canberra ACT, Australia

22 May 2015

Re: Inquiry into Corporate Tax Avoidance and Minimisation

Dear Senator

The following is in response to the Committee's request for additional information related to my recent testimony to the Committee.

A. Answers to specific questions asked in hearing

We confirm that, consistent with the evidence provided on 8 April, the Singapore branch of Microsoft Regional Sales Corporation (MRS), a US company, sold approximately AUD2 billion of Microsoft products and services to customers in Australia in the fiscal year ended 30 June 2014.

Microsoft Pty. Limited (MPL), an Australian company, reported revenue of AUD548.9 million in the fiscal year ended 30 June 2014. AUD421 million of this was commission income paid to MPL by Microsoft Operations Pte. Ltd (MO), a Singapore company, for support services and AUD128 million was consulting and product support services revenue billed by MPL directly to Australian customers.

B. To assist the Committee, and to clarify confusion around terms used by various parties in the hearing, we provide the following further background

Microsoft Corporation (MS Corp) owns the intellectual property of the Microsoft group including the intellectual property used in relation to the manufacture and sale of Microsoft products worldwide. The majority of Microsoft's R&D is conducted in the US with all management direction of the R&D function being performed in the US. All worldwide R&D is funded by MS Corp reflecting that all IP is owned in the US.

Microsoft's Australian operations are conducted by MPL. From 1983 until 1994, MPL purchased product from MS Corp for resale into the Australian market.

In 1994, Microsoft changed to a commission agent structure as part of a worldwide reorganization of Microsoft's distribution function in response to customer demand to simplify logistics and contracting with Microsoft.

In 1999, Microsoft created its Singapore manufacturing and distribution hub to serve a growing Asia Pacific (APAC) market for Microsoft products. Singapore was a logical choice of location to serve an APAC region that stretches from India to Australia to Japan, Korea and China. Prior to creation of the Singapore hub, Microsoft products were manufactured in, and shipped from, the U.S. which was both economically and time inefficient when serving regional customers.

MPL was originally a commission agent of MS Corp but with the creation of the Singapore regional operations in 1999 became a marketing agent of Microsoft's Singapore Group (refer below).

As an agent, MPL is responsible for demand generation for Microsoft products and services, channel support, customer support, and consulting services in Australia. It has a limited role of providing support services and has no legal authority to accept customer orders or to sign customer contracts. All software, hardware and online services are billed to Australian customers (including Microsoft's channel partners) by the Microsoft Singapore Group. MPL employs 963 full time equivalent staff.

Microsoft's Singapore Group sells Microsoft products to customers throughout the APAC region, including Australia. Microsoft's Singapore Group consists of four related entities. A Singapore parent company owns MO, the entity responsible for all Microsoft sales into the APAC region, and a Bermudan company, Microsoft Asia Island Limited (MAIL), which has rights in relation to the production and distribution of Microsoft products in the APAC region. The 4th member of the Group is MRS, the company responsible for selling Microsoft products to APAC region customers (including Microsoft's channel partners). Fees for the rights to produce and distribute Microsoft's products and services in the APAC region are paid to Microsoft U.S. and MAIL. MAIL participates in a cost sharing agreement with MS Corp and makes annual payments for these rights which are fully taxable in the U.S.

Microsoft's Singapore Group has a substantial organization in Singapore with 1,865 employees and contractors at 1 April 2015 occupying roughly 175,000 square feet of office space. Microsoft's Singapore Group also owns and operates a regional datacenter occupying an additional 31,000 square feet.

We trust the information above will be useful and informative.

Regards

(not signed as sent electronically)

William J. Sample
Corporate Vice President, Worldwide Tax
Microsoft Corporation