

GOOGLE AUSTRALIA PTY LTD

P.34 Chair asked a question on whether the audit includes transfer pricing.

The audit does cover Google's transfer pricing methodology.

P.34 Chair asked a question on what the amount of the ATO's confidential assessment was.

The audit process is confidential and ongoing and we cannot provide any additional detail on the matter at this stage.

P.35 Senator Hume asked for Google Australia's revenue, profit and tax payable for 2014 and 2015, information about any adjustments, and an estimate for 2017.

AUD \$ as per financial report	2016	2015	2014
Revenue	\$1.141b	\$501.8m	\$438.7m
Profit Before Tax	\$121m	\$50.0m	\$58.7m
Income tax expense	\$16.6m	\$2.9m	\$9.5m
Tax payable (Current Tax Expense)	\$33m	\$16.0m	\$11.7m

Google Australia is required to provide detail about its adjustments each year in its public financial statements. As per note 6 in Google Australia's 2016 financial reports (included below), there were only small adjustments for prior year's tax filings done. The adjustments were mainly driven by tax treatment of fixed assets.

6. Income tax expense

	2016 AUD	2015 AUD
(a) Income tax expense		
Current tax	32,887,211	16,018,193
Adjustment for prior year tax	27,848	431,273
Deferred tax (prior year adjustment and current year)	(16,291,092)	(13,588,861)
Total income tax expense	16,623,967	2,860,605
(b) Numerical reconciliation of income tax expense to prima facie tax payable		
Profit before income tax	121,321,874	50,004,738
Tax at the Australian tax rate of 30%	36,396,562	15,001,421
Tax effect of expenses that are non-deductible in determining taxable profit	19,711,408	13,256,762
Concessional deduction/tax offset for research and development	(5,135,048)	(5,160,234)
Tax effect of expenses that are deductible and charged directly to equity	(34,439,543)	(20,000,806)
Adjustments for (over) provision in prior period – deferred tax	62,740	(667,811)
Adjustments for under provision in prior period – current tax	27,848	431,273
Total income tax expense	16,623,967	2,860,605

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N.B. 2016 was the year in which Google Australia became a reseller of Google's Advertising products. Prior to 2016 Google Australia provided sales and marketing services to Google Asia Pacific.

We note 2016 was a year in transition, and for the first eight months of the year Australian Accounting Standards Board ("AASB") standard AASB 118 *Revenue* required us to recognise the revenue net of associated costs. This is covered in more detail on Page 9 of our 2016 financial statement, filed publicly with the Australian Securities and Investment Commission ("ASIC") in April 2017. Our next set of financial statements, for 2017, will represent our first full financial year under the reseller model.

We cannot speculate about our 2017 financial results. Google Australia operates on a calendar financial year and our financial data for 2017 will be filed with ASIC at the end of April 2018 after it has been independently audited. Only Alphabet, Google Australia's ultimate owner, listed on NASDAQ, can provide estimates. This is done through Form 10-Q reports, a quarterly report mandated by the United States Federal Securities and Exchange Commission that is available to all investors.

P.35 Senator Hume asked for an indication of what percentage of Google's global revenue comes from Australia.

Alphabet does not currently provide a public breakdown of revenue on a market-by-market basis, however as of Q2 2017 Alphabet has begun breaking down revenue by region. In this quarter the proportion of Alphabet's revenue from the Asia Pacific region (of which Australia is a part) was 14%, compared with 33% from the Europe, Middle East and Africa region and 47% from the United States.

There was some speculation from the Committee that Australia's share of Google's global advertising revenue should approximately correspond to Australia's share of global GDP. This is not reflected by the experience of our advertising business, where we see a proportionally larger share of revenue coming from more established digital markets like the United States.

We are working to increase the uptake of digital tools in the local market through initiatives like [Digital Garage in Australia](#) and by working directly with our Australian customers, because even though, as the Committee observed, Australian consumers are earlier adopters of technology, investment in new technology by Australian businesses tends to lag global leaders. [Research conducted by AlphaBeta](#) in 2017 showed that from 2010-2015 only 9% of Australia's publicly listed companies were making sustained investments in new technology to increase productivity, compared to 20.3% in the United States. Much of our revenue, including advertising, is driven by business adoption of technology, as products like Search, Maps, and YouTube can be used for free by consumers.

Deloitte Access Economics conducted a [Connected Small Business](#) survey in 2016 that found only 9% of Australian small and medium businesses are operating at an advanced level of digital engagement (which includes use of digital advertising). This is important for Australia economically, because small and medium businesses that are at an advanced level of digital engagement when compared to those at a basic level are:

- 1.5 times more likely to be growing revenue.
- more than 8 times more likely to be creating jobs.
- creating an average of 12 additional jobs per year.

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QUESTIONS ON NOTICE

- 7 times more likely to be exporting.
- more than 14 times more likely to be innovating by offering new products or services.

P.36 Chair asked where revenue from a global business would be recognised if that entity entered into a relationship with a Google business outside Australia, if it then advertised in a way that could be seen by consumers in the Australian market.

If the Australian subsidiary of the global customer contracted with Google Australia to implement the Australian portion of the campaign, the revenue would be recognised by Google Australia. Google Australia would also be remunerated if people employed by Google Australia played a role in the advertising campaign. If Google Australia did not play any role in the campaign, Google Australia could not earn revenue, as tax law does not allow an entity to earn revenue from work it did not do.

Globally, corporate income tax law requires revenue be attributed to the entity where value is created, not the geography where a company's products are consumed. This is not unique to the technology industry. In mining, for example, the majority of revenue is earned in the location where resources are extracted, not the market that has developed the industries that consume those resources.

P.37 Senator Xenophon asked about Google Maps and how the R&D contribution of Google Australia Pty Ltd to Alphabet is recognised.

The technology that led to the creation of Google Maps was developed in Australia, however it has evolved significantly outside of Australia over the course of more than a decade. Google Inc, our United States entity and ultimate parent company at the time, acquired a four-person startup in Sydney named Where 2 Technologies in 2004, including all intellectual property owned by that business. The intellectual property that was acquired from Where 2 Technologies was then developed into the Google Maps product over a number of years. This development was primarily done by Google Inc in the United States where the vast majority of Google's engineers are located. A team of engineers at Google Australia assisted in this process, and continue to this day to contribute to the development of the product. Google Inc pays Google Australia Pty Ltd a service fee for this development work. This revenue was broken out for the first time in our 2016 accounts, and was AU\$220m for that financial year.

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