Questions on Notice to Google Australia - Senate Economics Reference Committee
Inquiry into Corporate Tax Avoidance

1. Specific question post inquiry

Question

How much advertising revenue does Google collect from Australians? If it is not possible to provide a figure for Australians per se, a figure for revenue from Australian IP addresses would suffice.

Answer

Google Australia's revenues as disclosed in 2013 filings were $358 million -- this represents payments made to Google Australia by other Google entities (Google APAC and Google Inc) for provision of local services.

Google Inc does not break out revenue by country source, unless revenue from that country exceeds 10% of total revenue. Google is subject to US disclosure laws, and discloses figures in compliance with those laws. As disclosed in their 2014 annual filing, Google Inc's global revenues were $66 billion, 57% of which came from outside the United States.

Consistent with US disclosure rules, we seek to share financial figures for Google Inc universally to all market participants at the financial reporting time. Our current reports don't break Australia's number out separately. These filling rules are similar to Australian based companies disclosure in overseas markets.

The OECD is currently working through a 15 point plan to help deal with multinational tax issues. One of these points deals with transparency, especially around increased disclosure for companies. Another one of these points deals with country to country reporting rules, especially about the amount of information that be accessed by shared between tax authorities. Final recommendation are due to be considered around these arrangements at the G20 meeting later this year in Turkey.

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2. Google's Global Structure

Question

Senator Milne: …. I want to now move on to Google. Perhaps you could explain to me what the double Irish sandwich with Dutch associations is since it is the thing that Google is particularly accused of. Nobody is going to accept the explanation that you have a simple tax structure so let us understand how starting from here we end up in Bermuda.
Ms Carnegie: .... <u>I can explain to you what I do know about Google's tax, but I will have to take on notice if you want to get into detailed international tax discussion.</u>
The intellectual property of Google globally is owned by Google Inc., which is a US based company. Google Inc. then basically shares the cost and the risk of taking that intellectual property to market with another entity called Google Ireland Holdings. That is a company that is based in Ireland. There are then two operating companies underneath that structure. One of them is called Google Ireland Limited and the other one is called Google Asia Pacific. Google Australia, as I said, basically provides sales and marketing support services to Google Asia Pacific and also provides R&D services to Google Inc. That broadly speaking is how we go to market.
Coming back to your question, I acknowledge there is a lot more complexity to the Google global tax structure than that. None of that other structure impacts the tax that Google pays in Australia. <u>I can take on notice and come back and explain what goes on more explicitly in Ireland and other places but, to be frank, I do not have those details today.</u>

Answer

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 our 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 sublicenses the right to Google Asia Pacific., which is our 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 it's 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.

Please note, under this tax structure Google Inc incurred a tax expense of $3.3 billion and paid an effective tax rate of 19% on its profits for 2014.

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3. Work done by third party in pricing payments to Google Australia

Question

Senator MILNE: And the costs associated with what Singapore charges you for the cost of those services, which gets the money transferred to Singapore, which is a low-tax jurisdiction. Is that correct? And who determines those costs?
Ms Carnegie: The costs for the services we provide are determined by going to an external party who, on an annual basis, looks at what an agency or an external company would charge for similar services.
Senator MILNE: Who is the external agent?
Ms Carnegie: <u>I actually do not know the answer to that. I can come back to you on notice on that. But that is how Google Australia revenue and profit are determined.</u>
Senator MILNE: Yes. So the tax is paid in Singapore, not in Australia.

Answer
Google engages Ernst & Young to assist with this process

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4. Australian based revenues & US disclosure laws

Question

Senator Xenophon: Ms Carnegie, you cannot tell us how much money goes from Australia's operations to Bermuda, for instance, via a circuitous route?
Ms Carnegie: No. Again, because of US disclosure laws, I cannot declare what our revenue is—the revenue that goes directly from Australia to Singapore and that is taxed there. I cannot disclose that, but I can say that it does all go through Singapore and it is taxed in Singapore. It is a

similar model, for example, to what an Australian multinational—pick someone like a Rio Tinto—does to its global revenue. For example—
Senator XENOPHON: Sorry to interrupt. The chair made the point that you are covered by parliamentary privilege. There is nothing to stop you from answering this question.
Ms Carnegie: Senator, I think this is going back to some of the issues we have that we need the OECD to help us to address. As I understand it, I am actually in—
Senator XENOPHON: You need them to help you, or you just need to pay—
Ms Carnegie: No. As I understand it, I would be contravening US disclosure laws if I declared what the revenue is in Australia.
CHAIR: I do not think that is correct but, anyway, it does not matter.
Ms Carnegie: I will take it on notice. But again, to be clear, if you look at someone like a Rio Tinto—
Senator XENOPHON: We will be looking at Rio Tinto.

Answer
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.

Google Australia's revenues as disclosed in 2013 filings were $358 million -- this represents payments made to Google Australia by other Google entities (Google APAC, Google Ireland and Google Inc) for provision of local services.

Google is subject to US disclosure laws, and discloses figures in compliance with those laws. As disclosed in their 2014 annual filing, Google Inc's global revenues were $66 billion, 57% of which came from outside the United States.

- Google Inc is required to break out revenue by country source when the country source is over 10% of our overall revenue. Consistent with US disclosure rules, we seek to share financial figures for Google Inc universally to all market participants at the financial reporting time. These filling rules rules are similar to Australian based companies disclosure in overseas markets.
- Our current reports do not break Australia's number out separately as we do not raise more than 10% of our revenue in the Australian market.

The OECD is currently looking at these disclosure rules and will have final recommendations for the meeting of G20 nations later this year

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5. Recognition of Australian based revenue – by an Australian entity v overseas entity

Question
Senator Canavan: I do not want to put you in too uncomfortable a position next to your alternative, Apple, there, but it seems to me that the iTunes store I just used is not that much different from the AdSense ad I just clicked on. Both of them have been created by companies away from Australia, yet Apple is reporting its income here and you are not. My question is: how much discretion do you have under the current law to make those judgements yourself, rather than the ATO saying you must report that here or that over there? Is it your choice as a company basically to say: 'That is our arrangement. We book it to an overseas entity'?
Ms Carnegie: It is a great question. To be frank, it is not one that I have asked, so I would like to take it on notice. I think it is a good question, and I will come back and give you an answer to that.

Answer
Our structure allows us to be competitive, and also abides by the laws in every country in which we operate. Naturally, there may be other structures that would also be legal. It also reflects incentives provided by different countries which generally include access to talent, security of a nation, governance structures and tax arrangements.

Google bases its regional headquarters in Singapore and is called Google Asia Pacific. This entity has the rights to contract with customers in the APAC region - over 30 countries - which includes Australian advertisers.

Singapore is 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.

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6. Financial data: taxable income and gross revenue for the last 5 years

Senator XENOPHON: And you do not disclose those either, do you,
Mr King? Mr King: We do disclose those. We reported revenues last year in Australia of $6 billion.
Senator XENOPHON: How much of that went overseas?
Mr King: We reported all of our revenue and all of our costs, and we—
Senator XENOPHON: No. I asked you how much of that went overseas.
Mr King: Our net profit was $250 million.
Senator CANAVAN: Thank you very much for giving us the figure for, I believe, the last financial year—that is $6 billion, is that right? I get a taxable income margin of 4.1 per cent, which is $250 million on $6 billion. It seems low. I know you have got other costs and you do not necessarily have all that much value added here in this country, but it still seems a relatively low margin. Could we get those figures for, say, the last five years for your organisation?

Question

Senator Canavan: Ms Carnegie and Mr Sample, is there any possibility of doing the same for your organisations and your entities—your taxable income and your gross revenue. Obviously then it is a simple calculation to get the taxable income margin.
Ms Carnegie: Yes, Senator.
(5 year requirement originated from the discussion between Mr King and Senator Canavan)

Answer

Reporting Period	FY 2013 (tax year 2014)	FY 2012 (tax year 2013)	FY2011 (tax year 2012)	FY2010 (tax year 2011)	FY2009 (tax year 2010)
Gross Revenue (per Statutory Financial Statements)	$358m	$269m	$201m	$151m	$110m
Accounting profit /(loss) before tax (per Statutory Financial Statements)	$46m	$27m	$(4)m	$(2)m	$(4)m
Tax paid for the financial year (current tax expense)	$7.1m	$6.2m	$0.8m	$7.4m	$5.9m

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7. Development of Google Maps

Question

Senator MILNE: Ms Carnegie, where is the intellectual property for Google Maps now held?
Ms Carnegie: It is located in the US.
Senator MILNE: Where was it developed?

Ms Carnegie: Google acquired a start-up—that had about four people—from Australia. We acquired that—I believe it was back in the early 2000s. And, when we acquired it, we acquired the intellectual property. When I say 'we', Google Inc. acquired it and acquired the intellectual property of it. Again, it was a team of about four people.
Senator MILNE: So the intellectual property was developed here, with an R&D tax credit to Google?
Ms Carnegie: I do not believe so, because it was a start-up that we acquired. I have no understanding of how that start-up operated before Google acquired it.
Senator MILNE: Could you take on notice, please, the development of the IP for Google Maps here in Australia, the tax breaks that you got for that and then the decision to take it to the US?
Ms Carnegie: Just to clarify: do you want to know the tax break that the start-up did? I am not sure I can get that.
Senator Milne: I want you just to provide what information you can about Google acquiring the intellectual property for Google Maps and then taking it offshore.
Ms Carnegie: Yes

Answer
Google is proud to be fostering engineering talent in Australia. Our presence here with 500 engineers supports the whole startups ecosystem.

Google Inc acquired a four person startup in Sydney over ten years ago. *Google Inc* purchased the company - and the associated intellectual property. The four engineers were then employed as research and development engineers in Google Australia.

Post-acquisition, Google Inc and Google Ireland Holdings took on the financial risk associated with further development of Google Maps. Over the last ten years Google Inc and Google Ireland have invested millions of dollars with engineers working around the world, including in Sydney, to make Google Maps as you know it today. So its profits would ultimately flow to Google Inc. and Google Ireland.

Google's R&D function in Australia is paid for by Google Inc. They bear the risk and the reward of these activities. For example, Google Wave was developed by engineers in Australia. It was not successful and we closed it. *Google Inc* bore this loss.

In 2010, the Federal Government made changes to taxation laws so that companies could claim the incentive regardless where the intellectual property is located and this had bipartisan support. We understand this was done with the view of creating more jobs in the area, with the explanatory memorandum stating the changes "will strengthen the case for companies to conduct their R&D activities in Australia" (see: explanatory memorandum).
