



## Tax Transparency Code Report

### Google Australia Pty Ltd

Every day, Google helps millions of Australians and Australian businesses to harness the benefits of technology to communicate, collaborate and find the information they need. For more than 15 years, Google Australia's employees have been working on innovative products, helping improve the internet for the benefit of billions of users around the world, including millions of users in Australia.

During 2018 Google Australia Pty Ltd ("Google Australia") invested almost \$1 billion dollars in Australia, and employed close to 1,500 people, about half of whom work in our engineering division. Those engineers work on a diverse range of products including Google Maps, Google Photos, and new technologies for internet users in the developing world. In fact, the technology that today has become Google Maps was first invented by an Australian startup, and to this day Google Australia hosts one of the biggest Google Maps engineering teams in the world.

Google Australia's engineers also work on maintaining Google's global infrastructure and core systems. During 2018, Google spent almost \$300m on research and development in Australia.

Google's teams in Australia help local businesses compete effectively in the global digital economy. Google's products and services support more than \$15 Billion dollars worth of economic activity annually for the approximately 840,000 Australian businesses who connect with their customers through Google.<sup>1</sup>

We understand the community's interest in better understanding how tax applies to multinational companies, including digital companies, and welcome the opportunity to provide a Tax Transparency Code report to the Board of Taxation.

### Voluntary Tax Transparency

Google Australia presents the following report in line with the Australian Tax Office ("ATO") and Board of Taxation's Voluntary Tax Transparency Code ("TTC"), covering the year ended 31 December 2018. This report provides information regarding Google Australia. Dollar values are presented in Australian dollars unless otherwise stated.

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<sup>1</sup> Source: *Google Economic Impact: Australia 2015*, Alphabet, 2016



Alphabet, Inc. (“Alphabet”), is a publicly listed corporation in the United States (“US”). Alphabet is Google Australia’s ultimate parent company. Information related to Alphabet and its consolidated entities and total tax contribution can be found in Alphabet’s 10-K and 10-Q filings, which are accessible from <https://abc.xyz/investor/>

Alphabet paid more than US\$4.17 billion in tax globally in 2018. The majority of that tax was paid in the US because that is where the majority of the products are developed by Alphabet. Alphabet’s 10-year global effective tax rate is 23%. Alphabet’s global effective tax rate for 2018 was 12%, reflecting the impact on current and deferred tax positions of the U.S. Tax Cuts and Jobs Act, which was enacted in December 2017.

## **Explanation of accounting terms used in this report**

The following explanations of accounting terms are simplified and intended to improve the clarity of this report.

### **Income Tax Expense**

Income tax expense refers to the corporate income tax expense Google Australia accounted for in the relevant financial year, and is presented in Google Australia’s *Statement of profit or loss and other comprehensive income* (“Google Australia’s 2018 Financial Statements”).<sup>2</sup>

Income tax expense consists of current tax, which refers to the estimated amount of corporate income tax Google Australia will pay for the current year, as well as prior period related tax adjustments (i.e. the difference between the estimated amount and the actual return) and deferred taxes, credits or expenses. Deferred tax assets or liabilities arise due to differences in the recognition of income and expense in accounting, as per International Financial Reporting Standards (“IFRS”), versus the Australian tax rules. Google Australia offsets deferred tax assets with deferred tax liabilities in its financial statements.

Current tax is the estimated total tax charge for the year, which will finally be calculated in Google Australia’s annual income tax return. The actual tax calculated in the annual income tax return is the figure that will be reported by the ATO in its Corporate Tax Transparency Report for the relevant financial year. Due to the timing of when the Australian Securities and Investments Commission (“ASIC”) requires Google Australia to report compared to when Google Australia is required to file its tax return with the ATO, there is often an immaterial difference in the estimated tax charge and the final calculated tax charge.

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<sup>2</sup> Google Australia’s Financial Statements can be found at [www.asic.gov.au](http://www.asic.gov.au)

## Corporate Income Tax Paid

The corporate income tax paid is included in Google Australia’s Statement of cash flows set out in Google Australia’s 2018 Financial Statements, and refers to the amount of cash paid in relation to corporate income taxes during the financial year. This figure does not reflect Google Australia’s expected total income tax charge related to the financial year, as it includes a combination of adjustments for prior years and prepayments for the current year, as per notices issued by the ATO.

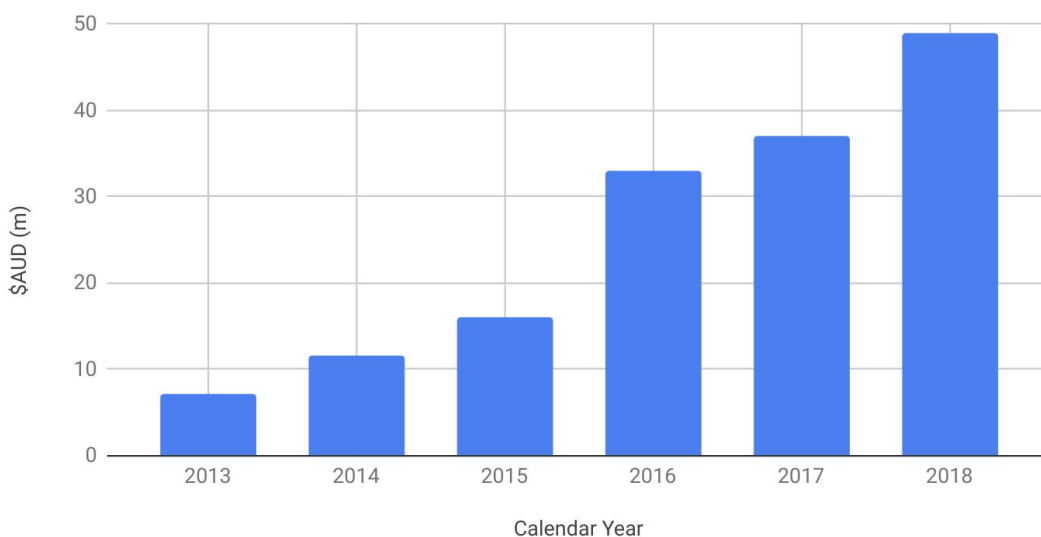
## Google Australia’s 2018 Tax Facts

### Income Tax Expense

Tax Type	2018 (\$ '000)	2017 (\$ '000)	Year on Year % change
Current Tax	49,112	37,185	32%
Prior Period Adjustment	(681)	222	(407%)
Deferred Taxes	(21,948)	(13,844)	59%
<b>TOTAL</b>	<b>26,483</b>	<b>23,563</b>	<b>12%</b>

The chart below shows Google Australia’s corporate income tax payable (i.e. the final tax charge per annum) from 2013–2018. Over this period, Google Australia’s annual corporate income tax payable to the Australian government has increased by almost 700%.

Google Australia’s Corporate Income Tax Payable (\$million AUD)





## **Taxes paid**

The table below provides a breakdown of taxes paid by Google Australia to Federal or State Governments, including payroll taxes, fringe benefit taxes, etc.

Income tax payments are made on an instalment basis throughout the year, with any outstanding amounts paid, and/or any excess payments refunded in the following financial years.

Tax Type	2018 (\$ 000')	2017 (\$ 000')	Year on Year % change
Corporate income taxes paid <sup>3</sup>	<b>91,312</b>	231,864	(61%)
Employer related taxes <sup>4</sup>	<b>31,314</b>	28,276	11%
<b>TOTAL</b>	<b>122,626</b>	260,140	(53%)

## **Taxes collected**

The table below shows taxes collected by Google Australia on behalf of Australian tax authorities. This includes the employer tax withholding obligations, commonly referred to as PAYG, remitted on behalf of employees, and GST collected and remitted on sales to Australian customers.

Tax Type	2018 (\$ 000')	2017 (\$ 000')	Year on Year % change
PAYG withholding - employees <sup>5</sup>	<b>104,342</b>	90,407	15%
Net GST	<b>399,867</b>	313,014	28%
<b>TOTAL</b>	<b>504,209</b>	403,421	25%

<sup>3</sup> Income taxes paid as per Cashflow Statement in the Financial Statements, this contains prepaid income taxes as well as payments and refunds for prior periods.

<sup>4</sup> This amount represents the combination of Payroll taxes (Jul-Jun) and Fringe benefit taxes (Apr-Mar) paid for the respective reporting periods.

<sup>5</sup> Taxes withheld from Australian tax residents for the financial reporting period January to December.



## **Effective Tax Rate**

Google Australia's effective tax rate (defined by the TTC as income tax expense divided by net profit before tax) for 2018 was 17%, as presented in the table below. For a reconciliation from accounting profit to income tax expense, see Note 8 in Google Australia's 2018 Financial Statements as well as the table below with further breakdowns.

## **Reconciliation of Accounting profit to Income Tax expense to Current Tax expense**

	2018 (\$ 000')	2017 (\$ 000')
<b>Profit before income tax</b>	<b>155,941</b>	<b>148,710</b>
Tax at Australian company tax rate of 30%	46,782	44,613
<i>Permanent differences (tax effective):</i>		
Non deductible expenses	519	532
Non deductible share based expenditure	30,191	22,869
Research and Development Tax offset	(2,058)	(4,285)
Expenses that are deductible and charged directly to equity	(47,373)	(40,367)
Prior period adjustments	(1,578)	201
<b>Total income tax per Note 8 in the Financial Statements</b>	<b>26,483</b>	<b>23,563</b>
<b>Effective tax rate</b>	<b>17%</b>	<b>16%</b>
<i>Temporary Differences (tax effective movement):</i>		
Employer obligations	6,898	7,164
Product related provisions	8,693	2,316
Asset life differences (tax vs acctg)	2,705	2,581
Prepaid customer deposits	4,119	1,409
Other timing differences	214	152
<b>Total current tax charge</b>	<b>49,112</b>	<b>37,185</b>



### Other terms

“Permanent differences” relates to transactions which have a different treatment under IFRS and tax i.e. entertainment expenditure and certain donations are reported as expenses under IFRS, but may not be deductible expense from a tax perspective.

“Prior period adjustments” is the difference between the estimated income tax amount and the actual return.

“Temporary differences” refers to differences between the tax and accounting (IFRS) treatments of certain transactions which unwind over time, e.g. for assets, accounting (IFRS) depreciation may be incurred at a different rate to the capital allowance (tax); for employee expenses, obligations such as vacation accrual are accounted for in the period the services were provided, but for tax purposes are deductible in the period they are paid out.

“R&D Tax Incentive” refers to the tax offset received in respect of eligible research and development (“R&D”) spend by Google Australia, in accordance with the Department of Innovation and Science’s R&D Tax Incentive. An assessment of eligible spend is performed annually.

## **Google Australia International Related Party Dealings**

Prior to 2016 Google Australia provided marketing and sales support to other Google affiliates, and was paid a marketing and sales support service fee.

Google restructured its operations in 2016 and became a reseller of products and services directly to Australian customers. Revenue from these sales, including from Google’s digital advertising on Search and YouTube, is now recognised by Google Australia.

Following the restructure, Google Australia’s international related party dealings fall into three categories:

<b>Transaction type</b>	<b>Description</b>
Reseller of Google’s Products and Services	Google Australia is appointed as reseller to sell certain products and services owned by Google to customers in Australia
R&D Services	Google Australia provides contract research and development services to Google, LLC
Marketing service income	Google Australia provides marketing services to Google Asia Pacific for certain Google products and services



Australian and international tax law requires Google Australia to deal with Google entities outside Australia on an arm's length basis at all times. For current and prior year amounts, refer to Note 20, page 38 of Google Australia's 2018 Financial Statements.

## **Google Australia's Tax Governance Framework**

### **Risk management**

Google Australia's tax strategy conforms with Alphabet's group Code of Conduct, is owned and approved by Alphabet and Google Management, and overseen by the Alphabet Board of Directors and Audit Committee.

The day-to-day implementation of the tax strategy is delegated to the APAC Tax Director, who is supported by the group tax and finance teams. We seek to identify, evaluate, monitor and manage tax risks to ensure that we comply in full with our legal obligations. Additional assistance from external advisors is sought when required.

We comply with tax laws and practices in the countries in which we operate. We continuously monitor changes to tax legislation, ensuring that we take advice where appropriate from professional advisers.

Given the nature of our business and geographic footprint, risks may arise with respect to the application of tax laws that are complex and at times uncertain. Whilst we do not have prescriptive levels of tax risk, we routinely seek professional advice where the application of tax law to a material transaction or a given situation is reasonably unclear or uncertain, or where specialist knowledge is required.

### **Tax planning**

In supporting the commercial and investment needs of the business, we take into account the tax laws (as well as all other relevant matters) of all countries in which we operate. Factors that are considered include potential incentives and reliefs, and eliminating the risk of double taxation.

All actions taken must align with the group's commercial objectives, meet our legal obligations, and take into account the potential impact on our reputation. We comply with all relevant laws, including the OECD arm's length standard in relation to transfer pricing.



### **Relationship with Australian Tax Office (ATO)**

We engage with ATO in a cooperative manner, including by explaining our business operations and practices. We seek to resolve any disagreements with the ATO through transparent engagement.

### **Approach to tax reform**

Google supports cooperation on international taxation reform, including multilateral efforts through the OECD and G20 to make the international tax system simpler and more transparent.