



Google Australia Pty Ltd Tax Transparency Code Report

Google Australia Pty Ltd (“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 2020. This report provides information regarding Google Australia. Dollar values are presented in Australian dollars unless otherwise stated.

Google Australia

Every day, Google Australia helps millions of Australians and Australian businesses to harness the benefits of technology to communicate, collaborate and find the information they need. For almost 20 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 2020, Google Australia invested more than AU\$1 billion dollars in Australia and employed more than 1,800 people, a large portion of whom work in our engineering division. This number has grown to almost 2,000 in 2021.

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 2020, Google Australia spent more than AU\$300m on research and development in Australia.

This year Google announced it would invest \$1 billion in Australia over the next five years on infrastructure, a new AI Research Centre and additional research partnerships. Research undertaken by Henry Ergas AO found that these investments will provide a \$1.3 billion boost to Australia’s GDP and support 6,500 additional jobs across the economy.

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

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 total corporate tax obligations exceeded \$7.8 billion in 2020. The majority of this tax was due in the US, where most of the company’s product development takes place.

Alphabet spends more than US\$27.6 billion, or 15% of its global revenue, on R&D as well as paying for the digital infrastructure (data centers, technology hardware and fibre-optic cabling between



nations) that supports the global internet and allows Australians and others to access to Search, Maps, Translate and other widely used consumer productivity tools.

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 *Consolidated statement of profit or loss and other comprehensive income* ("Google Australia's 2020 Financial Statement").¹

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 the requirements of the Corporations Act 2001, Australian Accounting Standards - Reduced Disclosure Requirements and other authoritative pronouncements of the Australian Accounting Standards Board, 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.

Corporate Income Tax Paid

The corporate income tax paid/received is included in Google Australia's Statement of cash flows set out in Google Australia's 2020 Financial Statement, and refers to the net amount transacted 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 including refunds and prepayments for the current year, as per notices issued by the ATO. Income tax payments are made on an installment basis throughout the year, with any outstanding amounts paid, and/or any excess payments refunded in the following financial years.

¹ Google Australia's Financial Statement can be found at www.asic.gov.au

Google Australia's 2020 Tax Facts

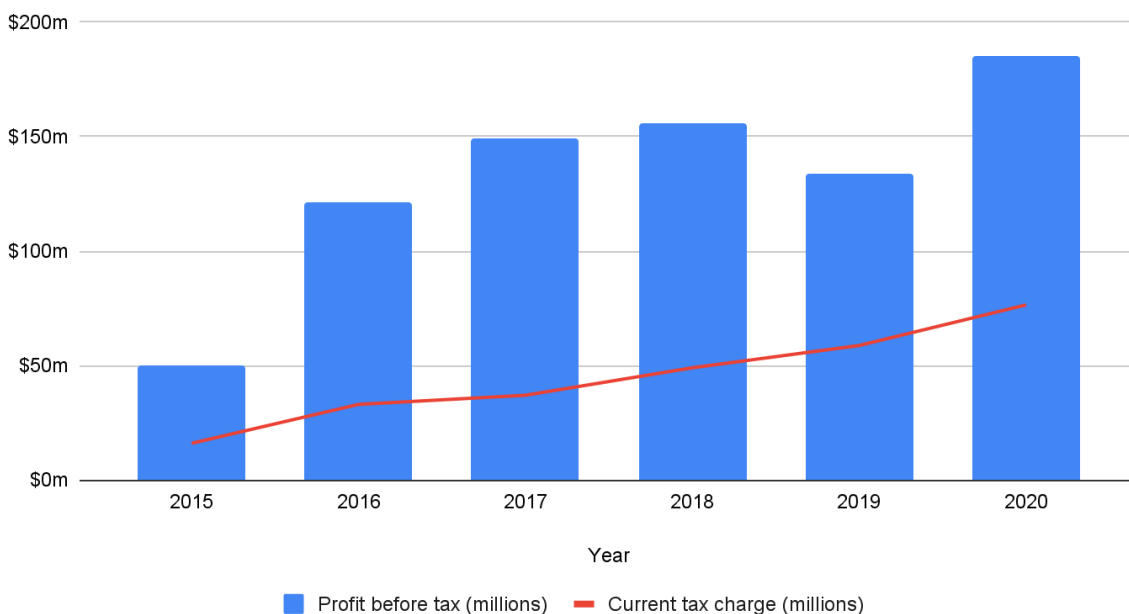
Income Tax Expense

Tax Type	2020 (\$ '000)	2019 (\$ '000)	Year on Year % change
Current Tax	76,484	58,740	30%
Prior Period Adjustment	(1,879)	50,627	(104%)
Deferred Taxes	(21,682)	(9,611)	126%
TOTAL	52,923	99,756	(47%)

The substantial change in Prior Period Adjustments relates to the outcome from Google's settlement with the Australian Tax Office.

The chart below shows Google Australia's current tax charge for each financial year (i.e. the amount of corporate tax due to the ATO in respect of the financial year) from 2015 - 2020².

Google Australia



² This chart doesn't include the impact of the FY19 'prior period adjustment' to tax of \$50,627k.



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 installment basis throughout the year, with any outstanding amounts paid, and/or any excess payments refunded in the following financial years.

Tax Type	2020 (\$ 000')	2019 (\$ 000')	Year on Year % change
Corporate income taxes (refunded)/paid ³	(22,163)	133,526	(116)%
Employer related taxes ⁴	46,442	37,274	25%
TOTAL	24,279	170,800	(86)%

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	2020 (\$ 000')	2019 (\$ 000')	Year on Year % change
PAYG withholding ⁵	150,867	125,946	20%
Net GST ⁶	551,409	476,202	16%
TOTAL	702,276	602,148	17%

³ "Income tax paid" as per *Statement of cash flows* in the Financial Statements, this contains prepaid income taxes as well as payments and refunds for prior periods.

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

⁵ Including taxes withheld from Australian tax residents and taxes withheld on interest expense payments for the financial reporting period January to December.

⁶ Net GST includes GST remitted in respect of amounts collected on sales, offset by credits claimed for GST incurred on purchases.

Effective Tax Rate

Google Australia's effective tax rate (defined by the TTC as income tax expense divided by net profit before tax) for 2020 was 22%, as presented in the table below⁷.

For a reconciliation from accounting profit to income tax expense, see Note 9 in Google Australia's 2020 Financial Statements as well as the table below with further breakdowns.

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

	2020 (\$ 000')	2019 (\$ 000')
Profit before income tax	238,516	133,692
Tax at Australian company tax rate of 30%	71,555	40,108
<i>Permanent differences (tax effective):</i>		
Non deductible expenses	1,917	812
Non deductible share based expenditure	49,048	63,643
Research and Development Tax offset	(2,395)	(1,918)
Expenses that are deductible and charged directly to equity	(68,443)	(53,157)
Prior period adjustments- current tax	(1,879)	50,627
Prior period adjustments- deferred tax	3,120	(359)
Total income tax expense per Note 9 in the Financial Statements	52,923	99,756
Effective tax rate⁷	22%	75%
<i>LESS: Temporary Differences (tax effective movement):</i>		
Accrued expenses	2,417	8,206
Provisions	7,391	(8,764)
Accelerated depreciation	2,191	(3,389)
Share-based payment charges incurred	7,475	(5,558)
Net lease balances	2,208	(106)
Total current tax expense	74,605	109,367
<i>Comprising:</i>		
Current tax charge	76,484	58,740
Adjustment for prior years' tax	(1,879)	50,627

⁷ 2019's Effective Tax Rate is unusually high as a result of 'prior period adjustment' relating to Google's December 2019 settlement with the Australian Tax Office, as referenced in the section on Income Tax Expense above. Excluding this 'prior period adjustment', the Effective Tax Rate would be 37%.



Other terms

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

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

“Temporary differences” refer to differences between the tax and accounting (Australian Accounting Standards) treatments of certain transactions which unwind over time, e.g. for assets, accounting (Australian Accounting Standards) depreciation may be incurred at a different rate to the capital allowance (tax); for employee expenses, obligations such as vacation accrual and bonuses 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

Google Australia 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 recognised by Google Australia.

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

Transaction type	Description
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 Pte Ltd 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. Refer to Note 21 of Google Australia’s 2020 Financial Statements for current and prior year related party transactions.



Google Australia's Tax Governance Framework

Risk management

Google Australia's tax risk management conforms with Alphabet's 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. 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 the 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. The 8 October 2021 OECD agreement was an important step forward, and we are grateful for the leadership and the hard work of many governments in moving a solution forward.

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