News Corp Australia

Julian Clarke
Chief Executive

2 February 2015

Dr Kathleen Dermody
Committee Secretary
Senate Economics References Committee
PO Box 6100
Parliament House
CANBERRA ACT 2600

Email Address: economics.sen@aph.gov.au

Dear Dr Dermody

RE: Inquiry into corporate tax avoidance and minimisation

I refer to your letter of 27 October 2014 inviting News Corp Australia to make a submission to the Senate Economics References Committee in relation to its inquiry into tax matters in Australia ('the Inquiry'). In responding to your letter, I have been assisted by News Corp Australia's Chief Financial Officer, Susan Panuccio.

Executive Summary

Over the past five financial years, News Corp Australia, which employs close to 9,000 Australians, had an accounting profit before tax of $815.9m, and paid $417.3m in Australian taxes. During this same period, News Corp Australia paid an additional $900m in Australian goods and services, fringe benefit and payroll taxes.

About News Corp Australia

News Corp Australia is a group of companies, led by News Limited, with significant businesses operating across all states and territories of Australia.

While the group's ultimate parent, News Corporation, is a global company based in the United States, News Corp Australia operates its Australian businesses through entities incorporated in Australia.

News Corp Australia was founded 92 years ago, and as the employer of close to 9,000 Australians, is the largest private sector employer of journalists in Australia.

News Corp Australia has invested billions of dollars in building new businesses (including Foxtel, FOX SPORTS Australia and REA) and provides 15 million Australians each week with news and information services.

News Corp Australia prides itself on the role it plays in the communities in which it operates, and has a significant physical presence in Australia with assets including:

- Australian national, metropolitan, regional and community newspapers and news sites, and a stable of lifestyle magazines in print and digital formats;
- 100% ownership of FOX SPORTS Australia, the leading Australian sports channel provider to pay television media;
- 50% ownership of Foxtel, the leading Australian pay television operator; and
- 61% ownership of REA Group Limited, Australia's leading on-line real estate sales domain.

News Corp Australia's response

It is important to us that our businesses are fully compliant with all applicable Australian income taxation laws, and we firmly believe that we are.

Over the last five financial years, from 2010 to 2014, News Corp Australia's statutory accounting profit before tax was $815.9m. This is consolidated and reported to ASIC under News Australia Holdings Pty Limited.

Over the same period Australian income tax of $292.5m, and interest withholding tax of $124.8m, totalling $417.3m, has been paid. These taxes include income tax paid by some subsidiaries of News Corporation operating in Australia, principally HarperCollins Australia, whose profits are not consolidated or reported to ASIC in the same accounting group as News Corp Australia, but who do form part of the News Corp Australia consolidated tax group.

In addition, News Corp Australia's group of companies has paid over $900m in Australian goods and services, fringe benefit and payroll taxes in the relevant five year period.

These facts demonstrate that we are incurring and paying substantial tax on our operations in Australia.

Given that the focus of the Inquiry is on the taxes paid by companies that generate revenue in Australia, this letter does not cover taxes paid by News Corporation and its non-Australian subsidiaries in countries outside of Australia.

News Corp Australia history and structure

In considering the Australian taxes paid by News Corp Australia, it is important to recognise certain key facts about its company history and structure:

1. Prior to November 2004, News Corp Australia's ultimate parent was The News Corporation Limited (an Australian company). From November 2004 until June 2013, News Corp Australia's ultimate parent was News Corporation (a US based company). In June 2013, News Corporation changed its name to Twenty-First Century Fox, Inc. and separated its Publishing business from its Media and Entertainment business, forming a new separately listed US based company to hold the Publishing business. That new US based company is now called News Corporation, and is the current ultimate parent of News Corp Australia.

2. News Corporation is a global company headquartered in the United States, with substantial operations in the US, UK, Europe, Australia and Asia. It pays taxes based on the tax laws of each of the jurisdictions in which it operates.
3. News Corp Australia generates almost all its operational revenue in Australia and pays tax in Australia on its Australian income.

News Corp Australia's capital structure has been determined by its parent company, News Corporation, to include funding from a combination of debt and equity. News Corporation has provided the debt funding as opposed to external financiers. Our capital structure has been reviewed by the Australian Taxation Office. We ensure the level of debt funding provided to News Corp Australia complies with applicable Australian tax law, specifically the thin capitalisation and transfer pricing rules. Australian withholding tax is paid on the associated interest payments.

Effective tax rate

We have set out in Appendix 1 a calculation of the effective tax rate of News Corp Australia for each of the past 5 financial years (2010 to 2014), and have provided further information on some of the larger differences between the accounting and tax treatments.

Our analysis adopts a five year time frame as a reasonable period over which to assess compliance with current tax regulations, particularly given the significant restructuring of News Corporation.

In calculating the effective tax rate we note that, as with any large enterprise, there are complex accounting and tax rules that must be followed that are often not identical. These rules drive different treatment and timing of items, and can result in tax and accounting groups that do not align.

Please also note that an effective tax rate is an accounting term based on accounting tax expense, rather than actual tax paid. This calculation can result in unusual outcomes in the effective tax rate, for example the effective tax rate can become negative in years of accounting loss (such as 2011 and 2012), and in a year of reimbursement (such as 2014) as described in note 4 of Appendix 1. These anomalies do not mean, however, that a negative amount of tax has been paid. Appendix 1 also sets out the amount of tax actually paid in respect of each of those years.

I trust that our comments are of assistance to the Committee. Please contact me should you require any further information on News Corp Australia's position.

Yours sincerely

Julian Clarke
Chief Executive Officer
News Corp Australia

Appendix 1: **News Corp Australia – Effective Tax Rate**

Per Statutory Accounts lodged with ASIC
A$M (unless otherwise stated)

Income Year	2014	2013	2012	2011	2010	Total
Accounting Profit before non-taxable gains and intangible impairments	355.9	34.9	228.8	511.5	503.9	
Add: CMH Gain	-	1,222.1 Note 1	-	-	-	
Add: Sky NZ Gain	-	292.6 Note 2	-	-	-	
Less: Intangible Impairment		(922.2) Note 3	(686.1) Note 3	(713.1) Note 3	(12.4) Note 3	
Accounting Profit before tax	**355.9**	**627.4**	**(457.3)**	**(201.6)**	**491.5**	**815.9**
Tax Expense Note 5	**(529.8)** Note 4	**106.0**	**19.4**	**98.8**	**193.0**	
Effective Tax Rate (Tax Expense divided by Accounting Profit before tax)	**(149)%** Note 4	**16.9%**	**(4.2)%**	**(49.0)%**	**39.3%**	

Actual Tax paid (including Withholding Tax)	85.1	64.2	57.7	96.4	113.9	417.3

Note1

CMH Gain - Under Australian accounting requirements when a company acquires a greater share of assets than it already holds it must revalue the book value of its share in the existing assets held. The revaluation is booked to the profit line. In 2013 News Corp Australia increased its shareholding in Foxtel from 25% to 50% and it increased its shareholding in FOX SPORTS Australia from 50% to 100%, when it acquired Consolidated Media Holdings Limited. Under accounting standards, we had to revalue our existing 25% shareholding in Foxtel and our 50% shareholding in FOX SPORTS Australia. This revaluation (which increased the value of the asset) is not taxable unless and until it is realised on disposal.

Note 2

Sky NZ Gain - In 2013 News Corp Australia sold Sky New Zealand, an entity domiciled in New Zealand. Under Australian accounting requirements, the gains from such a sale must be booked to the profit line. These gains are exempt from Australian taxation in accordance with the territorial basis of company taxation currently employed in Australia's tax legislation.

Note 3

Intangible Impairments - Under Australian accounting requirements a company must assess the value of its assets and, if necessary, write them down, which has an impact on the company's accounting profit. News Corp Australia wrote down significantly the value of a range of assets in the years between 2010 and 2013. The company did this because of the dramatic changes in media which negatively impacted traditional revenue streams and meant that we could not continue to value certain assets as we once did. These write downs were a significant contributing factor to the company losses of $201.6m in 2011 and $457.3m in 2012, on an accounting basis. These losses have no tax impact in the financial statements as no deduction arises for tax purposes until the assets are disposed.

Note 4

Reimbursement in 2014 - In 2014, News Corp Australia received from the ATO a reimbursement amounting to $623.8m (plus interest which is subject to tax) in respect of the 2001 to 2009 years. The reimbursement was received only after the matter had been considered by the Full Federal Court which found in favour of the Company. If the tax expense for 2014 was adjusted to remove the effect of that reimbursement, the tax expense for 2014 would be $94m and the effective tax rate would be 26.4%.

Note 5

Timing differences – Tax expense has not been adjusted for various matters including timing differences, for example annual leave and long service leave. In addition, significant reversals of tax assets occurred in 2010 and 2013 relating to the build-up of historic movements in carrying values of certain investments. These reversals resulted in adjustments of $92m in 2013 and $123.4m in 2010.