



MACQUARIE

Submission to the Senate Economics References Committee

Inquiry into Corporate Tax Avoidance

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Terms of Reference

Tax avoidance and aggressive minimisation by corporations registered in Australia and multinational corporations operating in Australia, with specific reference to:

- the adequacy of Australia's current laws;
- any need for greater transparency to deter tax avoidance and provide assurance that all companies are complying fully with Australia's tax laws;
- the broader economic impacts of this behaviour, beyond the direct effect on government revenue;
- the opportunities to collaborate internationally and/or act unilaterally to address the problem;
- the performance and capability of the Australian Taxation Office (ATO) to investigate and launch litigation, in the wake of drastic budget cuts to staffing numbers;
- the role and performance of the Australian Securities and Investments Commission in working with corporations and supporting the ATO to protect public revenue;
- any relevant recommendations or issues arising from the Government's White Paper process on the 'Reform of Australia's Tax System'; and
- any other related matters.

Introduction

Macquarie Group thanks the Senate Economics References Committee for the invitation to make a submission to this Inquiry.

Macquarie Group Limited (MGL) is an Australian-headquartered financial services provider. MGL is listed in Australia (ASX:MQG; ADR:MQBKY) and is regulated by APRA, the Australian banking regulator, as the owner of Macquarie Bank Limited, an authorised deposit taker. Macquarie also owns a bank in the UK, Macquarie Bank International Limited, which is regulated by the Financial Conduct Authority and the Prudential Regulation Authority in that jurisdiction.

The company's history dates from 1969 and records more than 40 years of continued profitability. Today MGL operates from 72 offices in 28 countries and employs more than 14,000 people worldwide, more than half of whom live outside Australia. The company's expertise covers advisory and capital markets, trading and hedging, funds management, asset finance, financing, research and retail financial services.

Macquarie Group comprises six business groups including three annuity-style businesses and three capital markets facing businesses. The annuity style businesses comprise Macquarie Funds Group (MFG), Corporate and Asset Finance (CAF) and Banking and Financial Services (BFS).

MFG is the largest manager of infrastructure assets in the world and a top 50 global asset manager, with over \$425 billion of assets under management.

CAF specialises in corporate debt and asset financing with over \$27 billion of loans and assets under finance. CAF is a global provider of specialist finance across aircraft, motor vehicles, technology, healthcare, manufacturing, industrial, energy, rail and mining equipment.

BFS provides to Australian retail clients, advisers, brokers and business clients a diverse range of personal banking, wealth management and business banking products and services.

The three capital markets facing businesses comprise the Fixed Income, Currencies and Commodities Group (FICC), Macquarie Securities Group (MSG) and Macquarie Capital.

FICC operates across global physical and financial commodity markets, and primary and secondary financial markets, providing finance, risk management solutions and market access to producers and consumers as well as financial institutions and investors.

MSG is a global institutional securities and research house with strong Asia-Pacific foundations.

Macquarie Capital provides a global corporate finance capability, including mergers and acquisitions, in debt and equity capital markets, and principal investments.

Macquarie's Business Income and Expense

Macquarie Group earns income from its operations across the globe.

In the half year results announcement for the period ended 30 September 2014, Macquarie Group reported net operating income of \$4.3 billion and total operating expenses of \$3.2 billion for the six month period.

Around 65% of Macquarie's income during this period was earned by businesses located or conducted outside of Australia with 35% of income derived from Australia. By region, 30% of Group income was derived from businesses located in the Americas; 25% from businesses in Europe, the Middle East and Africa; and 10% from business operations in Asia. The proportion of Macquarie Group's income earned outside Australia continues to grow and approximately 53% of the company's staff are located outside of Australia.

Macquarie's effective tax rate is largely driven by the geographic location and mix of the income derived in any particular reporting period. The Group's tax rate has been 38% or higher for each of the last four reporting periods.

The amount of income tax paid will vary from the Group's effective tax rate in any given period, largely because of the impact of differences between when an amount of revenue or expense is recognised for accounting purposes and when income and deductions are recognised under the tax laws in the various jurisdictions in which Macquarie operates.

With regard to Australia's tax system, it should be noted that in addition to the taxation requirements of offshore countries, Macquarie also adheres to Australia's controlled foreign company tax provisions so that income generated in countries regarded as not having a comparable corporate tax system is treated as Australian taxable income and is taxed at the Australian rate.¹

In operating its businesses globally, the Macquarie Group comprises subsidiaries resident in many countries. The location of subsidiaries is a result of numerous commercial considerations, primarily driven by the locations of our operations and the needs of our global clients with whom we are conducting business. Each of these subsidiaries is subject to the taxation laws of the countries in which they are resident and also to the overlay of Australia's comprehensive controlled foreign company provisions.

¹ See slide 35 of Macquarie's results briefing for the six month period to 30 September 2014.
<http://static.macquarie.com/dafiles/Internet/mgl/global/shared/about/investors/results/2015/mgl-hy15-interim-presentation.pdf?v=3>

Australia's Corporate Taxation System

The Australian tax system seeks to generate revenue to meet the government's social and functional responsibilities. It is desirable that the system is fair and efficient to minimise the loss to the community. This is increasingly challenging in a changing and competitive global environment.

We note that Australia has a comprehensive tax system assessing Australian companies on their global income. In particular, Australian company tax is imposed on subsidiaries and other controlled entities located in non-comparable tax jurisdictions.

We further note that the Australian corporate sector contribution to tax revenue as a share of GDP is the second highest of all OECD countries; only behind Norway.²

A tax system comparable with those of global financial services hubs is generally considered a pre-requisite for Australia to develop its global financial services industry, as successive governments have sought to promote. Similar logic would apply to any other international business carried on in Australia.

Macquarie welcomes the Government's Tax and Federation White Papers and the opportunity they provide to develop a consistent, certain and holistic approach to tax reform. We encourage tax reform to be guided by the following well-established principles of effective tax policy:

- Equity and fairness
- Neutrality
- Certainty
- Simplicity
- Competitiveness

² Data extracted on 04 Feb 2015 00:10 UTC (GMT) from OECD.Stat;
<http://stats.oecd.org/index.aspx?DatasetCode=REV>

The Australian Taxation Office (ATO)

Macquarie maintains a high level of engagement with the ATO and we acknowledge the recent steps taken by the Commissioner of Taxation to align the ATO's tax administration practices with that of best practice among international tax authorities.

Macquarie's relationship with the ATO is professional and transparent. The ATO categorises Macquarie as a "Key Taxpayer" under its risk-differentiation framework. This reflects the ATO's view that Macquarie has a "low risk of non-compliance".

Macquarie has always sought an open and transparent relationship with revenue authorities, both local and international. We seek to identify and resolve any issue as soon as possible.

Conclusions

Macquarie operates globally and is subject to the taxation laws of the many jurisdictions in which its businesses operate.

Macquarie has an open and transparent relationship with the ATO and welcomes the opportunity afforded by the Government's Tax and Federation White Papers.

If the Senate Economics References Committee would like further information, Macquarie would be happy to provide a supplementary submission.