Google Tax

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DEFINITION of Google Tax

A Google tax, also known as a diverted profits tax, refers to anti-avoidance tax provisions that have been introduced in several jurisdictions to deal with the practice of profits or royalties being diverted to other jurisdictions that have lower or zero tax rates. For example, internet giant Alphabet Inc.'s (GOOGL) Google paid a negligible amount as tax in the United Kingdom by completing its transactions in the low tax capital city of Dublin, Ireland, even though the revenue of $6.5 billion was earned in the UK.

BREAKING DOWN Google Tax

Though the term includes the name of the company (Google) that became the poster boy for the practice, diverting profits is observed to be rampant across various industry sectors. Mainly technology giants from the U.S., like Facebook Inc. (FB), Apple Inc. (AAPL) and Amazon.com Inc. (AMZN), and other multinational corporations (MNC) like Starbucks Inc. (SBUX) and Diageo PLC, have been using such practices to lower their tax bills. For instance, a mobile app like Facebook's WhatsApp messenger or a game like Clash of Clans may not employ a single employee in a particular country, but can still derive a lot of profit from its local user base who generate revenues for the company through online ads and in-app purchases. The companies enjoyed the freedom to account for such revenues and earnings at a destination of their choice, and they often diverted it to low cost jurisdictions.

The U.S. Securities and Exchange Commission (SEC) mandates that American businesses publicly report details on where and how much revenue they generate across the globe, allowing the authorities of other countries such as the United Kingdom and Australia to obtain more concrete data on any possible tax avoidance measures used by American businesses.

In the U.K. and Australia, tax laws were modified to prevent companies from following such practices. Amid rising public anger, the U.K. introduced the diverted profits tax in 2015 which was set at 25 per cent. Her Majesty's Revenue and Customs (HMRC), the U.K.'s tax collection agency, said last year that it had secured £6.5 billion (around $8.33 billion) in additional taxes by challenging the transfer pricing arrangements of multinationals. Its own figures show that it secured an extra £853 million (around $1.09 billion) in 2015-16, £1.62 billion (around $2.08 billion) in 2016-17 and £1.68 billion (around $2.15 billion) in 2017-18, according to The Times.

Australia too implemented measures starting mid-2015, which led to the introduction of a diverted profits tax from July 2017 onwards that provisions for a 40 per cent tax on such tax avoidance practices.

Responding to the developments, global enterprises are now voluntarily paying up past dues and entering into settlements with the tax authorities to avoid being shamed by a Google tax. Diageo, the famous drinks giant that makes Tanqueray gin, recently struck an agreement with the HMRC to pay an extra £190 million (around $244 million) in corporation tax to avoid the potential damage to its brand reputation emerging from the Google tax. Google too has agreed to pay around $185 million in back taxes to the U.K.

Related Terms

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