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BUSINESS

Apple pays zero tax in NZ despite sales of \$4.2 billion

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Apple's New Zealand operations are wholly owned by an Australian parent and appear to be run from there. Photo / AP

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Consumer electronics giant Apple paid no income tax to **Inland Revenue** over the past **decade** despite selling billions of dollars worth of iPhones and iPads to New Zealanders.

The revelations about Apple's local tax bill - in addition to international concerns about its use of havens such as Ireland - have sparked concerns a recently announced government crackdown on multinational tax avoidance may not go far enough.

Green Party co-leader James Shaw said Apple was not paying its fair share.

"It is absolutely extraordinary that they are able to get away with paying zero tax in this country. I really like Apple products - they're incredibly innovative - but it looks like their tax department is even more innovative than their product designers," Shaw said.

New Zealanders are avid Apple consumers - especially of its high-end iPhone handsets - and the company accounted for a quarter of the local smartphone market last year. According to figures compiled by industry analysts IDC, Apple sold 221,000 phones here in the three months to December.

Over the past decade, mostly thanks to the iPhone revolutionising the mobile phone, Apple grew to become the world's largest and most profitable company. According to financial statements for the company's local subsidiary, Apple Sales New Zealand, total sales here since 2007 amount to \$4.2 billion.

The accounts also show apparent income tax payments of \$34 million - but a close reading shows this sum was actually sent abroad to the Australian Tax Office, an arrangement that has been in place since at least 2007.

Had Apple reported the same healthy profit margin in New Zealand as it did for its operations globally it would have paid \$356m in taxes over the period.

In a statement issued from Australia, the multinational technology giant stressed it followed the law but did not directly address questions about the structuring of its New Zealand operations and the apparent lack of payments to Inland Revenue.

"Apple aims to be a force for good and we're proud of the contributions we've made in New Zealand over the past decade. Because our products and services are created, designed and engineered in the US, that's where the vast majority of our tax is paid," the spokesperson said.

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Spark chief executive Simon Moutter said Apple's zero tax bill reinforced his concerns that New Zealand's tax base was threatened by the burgeoning wave of technology companies.

"Some of these companies are willing to use every trick in the book to minimise the tax they pay towards the cost of running our schools, hospitals and social infrastructure," Moutter said.

The Weekend Herald analysis of Apple's accounts was broadly accepted by experts former Inland Revenue adviser Andrea Black, senior lecturer at Massey University Deborah Russell and Auckland University professor Michael Littlewood.

Apple's New Zealand operations are wholly owned by an Australian parent and appear to be run from there. A tax treaty between the two countries sees dual claims on income tax default to where the company is controlled.

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The accounts for Apple's New Zealand subsidiary disclose in notes that income tax is paid at 30% - the rate in Australia - not the 28% charged in New Zealand. This reference has been in every financial statement filed by Apple with the Companies Office since at least 2007.

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The company calculates the income tax expense using the tax rate that would be applicable in the period and the amount of tax payable. The major components of income tax expense are:

Russell, recently selected as the Labour Party candidate for the safe New Lynn electorate for September's general election, said Apple's tax arrangements were totally consistent with the law.

"They're operating completely legally: it's just that age-old distinction between legality and morality," she said.

Revenue Minister Judith Collins declined to talk about the Weekend Herald this week.

A spokesperson first said Collins was "unable to fit in" an interview, but later stated the minister was unable to comment on individual taxpayers.

"It looks like their [Apple's] tax department is even more innovative than their product designers."

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In a written statement, Collins said a "minority" of international companies were exploiting rules to avoiding paying tax and "we do not consider the amount of tax paid by these multinationals is fair".

Earlier this month Collins released a package of tax reforms aimed at tackling the issue - first thrust on to the public agenda last year with the *Herald's Tax Gap* series - but it is not clear whether the measures will have any effect on Apple.

"The new measures proposed earlier this month will help ensure that multinationals with a large internet footprint will be taxable on the profits from their New Zealand sales when they have people working for them in New Zealand," Collins said.

According to LinkedIn, Apple has several dozen employees based in New Zealand.

Shaw and Russell both expressed broad support for the Collins package but urged the consultation period - open until April 7 - not be used to water down the proposals.

Littlewood said any public outrage over the fact that the most profitable company in the world paid zero tax in New Zealand would be perfectly understandable but not easily defused. "It is really is about as simple as that.

"Whether something can be done about it is another question. The United Kingdom and Australia are taking a lead on this and it will be interesting to see how it works out for them."

Both Australia and Britain have gone further than the New Zealand Government and impose a diverted profits tax on companies trying to unfairly skirt national tax obligations.

John Payne, spokesman for the big business umbrella outfit the Corporate Taxpayers Group, cautioned against radical changes to the tax regime and warned the mechanism used by Apple was also used by local exporters.

"It's Tax 101 in terms of activity ... and it's quid pro quo for us when we're operating similarly in another country," Payne said.

Controversy over Apple's tax affairs has been raging for years internationally.

The Australian Financial Review reported in 2014 on Apple's use of Irish subsidiaries to shift billions of profits out of Australasia.

And last year the European Union took a dim view of Apple's Irish operations, punishing the company with a record \$20b tax bill after concluding that it had used the territory to improperly pay a tax rate of just 2 per cent on its international earnings.

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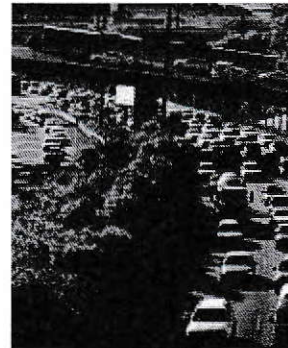


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