

How will Amazon navigate Australia's taxation system?

Written by Roman Lanis, Associate Professor, Accounting, University of Technology Sydney

With Amazon expected to open its doors in Australia this year, questions are being asked about how this US giant with a reputation for tax avoidance in the UK and Europe will navigate the Australian taxation system.

Global firms such as Starbucks, Google and Amazon have come [under fire](#) for dodging tax on earnings in various jurisdictions. Such multinational firms often have complicated tax structures that minimise and shroud how much tax they really pay.

Notably, Amazon's blueprint for avoiding tax was known as [Project Goldcrest](#), a tax scheme named after Luxembourg's national bird, based on a 2003 deal with Luxembourg's authorities.

Project Goldcrest used a series of complex inter-company contracts to transfer intangible assets such as software, marketing assets and trademarks to one of the Amazon companies in Luxembourg, where tax rates are low.

Read more: [Amazon poses a double threat to Australian retailers](#)

Amazon has consistently minimised its taxes by managing its books to keep profits low over the past 20 years. This includes investing heavily in specialised staff and projects such as data centres. In [a statement](#), Amazon said the company has constantly invested in infrastructure because "corporate tax is based on profits, not revenues".

Amazon in the UK

The Amazon experience in the UK, where it has been operating and growing at a tremendous pace for some years now, provides a telling test case of how the company is likely to operate in Australia.

How will Amazon navigate Australia's taxation system?

Written by Roman Lanis, Associate Professor, Accounting, University of Technology Sydney

Amazon operates its business in Britain through a company called Amazon Services UK, primarily as a marketing services business. The only revenue is a fee paid by a US-based Amazon subsidiary for those services. That fee is arbitrary and enables Amazon to essentially set any profit for its local UK subsidiary.

Amazon's sales in the UK (for books, movies etc) are booked through its Luxembourg company, Amazon EU Sarl. This company also takes in Amazon profits from other European countries without being subject to tax on profits in those markets.

This structure is common among many US tech companies operating in Australia, such as Uber, Google and Airbnb. In fact, Amazon seems to have paid [very little](#) corporate tax in the UK over the past few years, even receiving tax credits in 2015.

In 2015, the UK introduced a [diverted profits tax](#). This is a tax that is charged at 25% when the UK tax base is reduced, either by segregating UK and non-UK activities to avoid creating a permanent establishment, or by making payments to low-tax entities.

Subsequently, Amazon indicated it would restructure its business in the UK in a way that enabled it to book revenues in Luxembourg and therefore avoid local taxes. However, any substantial changes will only become evident when the company's 2017 financial reports are released.

Next stop – Australia

Although Amazon is only now building its [logistics infrastructure](#) in Australia, it is possible to gain a glimpse into the future by analysing the company's recent Australian financial statements.

Amazon filed two sets of financial reports (which are not publicly accessible) with the Australian Securities and Investments Commission this year. One is for a company called Amazon Web Services Australia and the other is for Amazon Corporate Services.

How will Amazon navigate Australia's taxation system?

Written by Roman Lanis, Associate Professor, Accounting, University of Technology Sydney

The first of these companies seems to be the classic marketing services provider for the Amazon group. The financial report states that the company conducts business in the form of providing marketing, training and professional services.

Read more: [*Love of bookshops in a time of Amazon and populism*](#)

Its main source of revenue is A\$116 million in inter-company support services, which is a fee paid by another Amazon subsidiary located outside Australia. The sales are carried out by a subsidiary in Luxembourg (in the case of Amazon) and are then booked in Luxembourg as a method of transferring profits out of a higher-tax jurisdiction such as Australia.

The second company, Amazon Corporate Services, has as its principal activity the provision of data-hosting services to a related party, as a foreign subsidiary of the Amazon group.

This is an ominous sign for what may happen with the billions once Amazon scales up its selling operations in Australia. Such methods of channelling profits through offshore companies are consistent with Amazon's Project Goldcrest.

Battle looming with ATO

The [Australian Tax Office](#) is fully aware of Project Goldcrest, the legal cases against Amazon in Europe and its experience in the UK, and has studied Amazon's recent financial reports.

In response, Australia has introduced its own [diverted profit tax](#), or "Google tax". According to the ATO, the tax is designed to encourage greater compliance by large multinational enterprises with their tax obligations in Australia.

Until the diverted profits tax comes into effect, it is premature to judge how Amazon will navigate

How will Amazon navigate Australia's taxation system?

Written by Roman Lanis, Associate Professor, Accounting, University of Technology Sydney

the Australian taxation system, but the signs are not promising. All indications are that Amazon will do whatever it can to avoid paying significant taxes – but the Australian Tax Office will try to rein it in as best it can.

Once Amazon sets up shop here and the selling bonanza begins, we can only hope that Australia doesn't miss out on its fair share of corporate tax.

The authors do not work for, consult, own shares in or receive funding from any company or organisation that would benefit from this article, and have disclosed no relevant affiliations beyond the academic appointment above.

Authors: Roman Lanis, Associate Professor, Accounting, University of Technology Sydney

Read more <http://theconversation.com/how-will-amazon-navigate-australias-taxation-system-85323>