

Background

McKinsey & Company ("McKinsey") provides management consulting services to its clients. McKinsey operates in Australia through a branch of McKinsey Pacific Rim, Inc. ("the Branch"). Below is the information for the Branch as required by the Australian Board of Taxation's voluntary Tax Transparency Code.

Reconciliation of accounting profit to tax expense

Description	For year ended Dec 31, 2018 (A\$'000)	For year ended Dec 31, 2017 (A\$'000)
Accounting profit before income tax (A)	659	40,186
Tax at Australian tax rate of 30%	198	12,056
Add: Non-deductible expenses (permanent/ non-temporary differences) (Refer Note 1)	249	368
Income tax expense (B)	447	12,424
Effective tax rate (B/A) (Refer Note 3)	67.83%	30.92%

Reconciliation of income tax expense to income tax payable or income tax paid

Description	For year ended Dec 31, 2018 (A\$'000)	For year ended Dec 31, 2017 (A\$'000)
Income tax expense	447	12,424
Add: Movement in timing/ temporary differences (Refer Note 2)	(447)	1,598
Income tax liability	-	14,022
Income tax paid	18,868	23,054
Income tax payable/ (refundable)	(18,868)	(9,032)

Note 1: Permanent/ non-temporary differences largely relate to meals and entertainment expenses.

Note 2: Movement in timing/ temporary difference largely relate to provision for employee benefits and revenue accruals.

Note 3: Accounting effective tax rate: Effective tax rate, calculated as income tax expense divided by accounting profit before income tax expense, is 67.83% for 2018. However, excluding the impact of the significant permanent difference adjustment noted above, notional effective tax rate is approximately 30%.