

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”). Given 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, 2021 (A\$’000)	For year ended Dec 31, 2020 (A\$’000)
Accounting profit /(loss) before income tax (A)	(39,182)	54,243
Tax expense/(benefit) at Australian tax rate of 30%	(11,755)	16,273
Add: Non-deductible expenses (permanent/ non-temporary differences) ¹	1,921	446
Income tax expense/(benefit) (B)	(9,833)	16,719
Effective tax rate (B/A)²	25.10%	30.82%

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

Description	For year ended Dec 31, 2021 (A\$’000)	For year ended Dec 31, 2020 (A\$’000)
Income tax expense/(benefit)	(9,833)	16,719
Add: Movement in timing/ temporary differences ³	15,300	2,998
Income tax liability	5,467	19,717
Income tax paid	7,032	20,760
Income tax payable/ (refundable)	(1,565)	(1,043)

Notes :

1. Permanent/ non-temporary differences largely relate to severance payments, amortization of intangible assets, meals and entertainment expenses, and withholding tax suffered on services to overseas affiliate entities.
2. Accounting effective tax rate: Effective tax rate, calculated as income tax expense divided by accounting profit before income tax expense. However, excluding the impact of the significant permanent differences adjustment noted above, notional effective tax rate is 30%.
3. Movement in timing/ temporary differences largely relate to provision for employee benefits and revenue accruals.