

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, 2019 (A\$'000)	For year ended Dec 31, 2018 (A\$'000)
Accounting profit /(loss) before income tax (A)	(29,447)	659
Tax at Australian tax rate of 30%	(8,834)	198
Add: Non-deductible expenses (permanent/ non-temporary differences) ¹	500	249
Income tax expense/(benefit) (B)	(8,334)	447
Effective tax rate (B/A)	28.30%	67.83% ²

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

Description	For year ended Dec 31, 2019 (A\$'000)	For year ended Dec 31, 2018 (A\$'000)
Income tax expense/(benefit)	(8,334)	447
Add: Movement in timing/ temporary differences ³	9,459	(447)
Income tax liability	1,125	-
Income tax paid	11,886	18,868
Income tax payable/ (refundable)	(10,761)	(18,868)

Notes :

1. Permanent/ non-temporary differences largely relate to meals and entertainment expenses.
2. 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%.
3. Movement in timing/ temporary difference largely relate to provision for employee benefits and revenue accruals.