

Apple Response to TAXE3 Committee

(1) Did the adoption of OECD BEPS prompt your company to change its tax planning strategy? Did you change your tax planning strategy following the revelations of the Paradise Papers revelations?

Apple is committed to transparency and has long advocated for comprehensive international tax reform to simplify and encourage consistency across markets, including in our testimony to the US Senate (May 2013) and to the European Parliament (March 2016). Substantial reforms have taken place and the combination of the OECD BEPS recommendations and their implementation, EU tax directives, and US tax reform reflect legislative changes and new compliance obligations for companies.

We expect the implementation of BEPS policy recommendations will address some distinctions in the level of tax paid in markets based on sales to our customers. We are proactively taking steps to address this already.

We understand that some would like to change the tax system further so multinationals are taxed differently across the countries where they operate. At Apple we follow the existing laws, and if the system changes we will comply accordingly.

When Ireland changed its tax laws in 2014, we complied by changing the residency of our Irish subsidiaries and at that time we informed Ireland, the European Commission and the United States of such change. The changes Apple made to its corporate structure in 2014 were specifically designed to preserve its tax payments to the United States, not to reduce its taxes anywhere else. In November 2017 we issued a statement on our website to correct inaccurate reporting on our tax payments (see attached).

(2) What impact has had the US Tax Reform in your tax planning strategy?

As a consequence of US tax reform Apple is now paying current US tax on all of its overseas earnings, which had previously been subject to a deferred US tax. As a result Apple confirmed in January 2018 that it expects to pay \$38 billion on prior foreign earnings. Including the \$38 billion payment, we will have paid over \$110 billion of corporate income tax on our total domestic and foreign earnings during the last 10 years, for a cash tax rate of about 26%. Going forward, all of Apple's earnings from sales outside the US are also subject to a new-minimum rate of tax under the new US law.

We know taxation of multinational companies is a complex matter, yet a fundamental principle is recognized around the world: a company's profits are taxed based on where value is created. This fundamental principle holds true for both US and European companies. The value in Apple products is created principally in the United States, where design, research, development, engineering work and more are undertaken. So under the current international tax system, the majority of Apple corporate income taxes are owed to the US, not where sales activity takes place.

US tax reform reinforces this as it incorporates a number of policy recommendations arising from BEPS to address previously deferred US taxes.

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We understand some believe multinational tax payments should be allocated differently across the markets where they operate. At Apple we follow the existing laws, and if the system changes we will comply accordingly. We strongly support efforts from the global community toward comprehensive international tax reform and a far simpler system.

(3) This is the first year in which, pursuant to Council Directive (EU) 2016/881 of 25 May 2016 amending Directive 2011/16/EU as regards mandatory automatic exchange of information in the field of taxation, and transposing national legislation, your business group would have to provide, inter alia, a country-by-country report for each tax jurisdiction in which you do business, the amount of revenue, profit before income tax and income tax paid and accrued. Would you agree to share that report with the Committee?

The requirement for country-by-country reporting arises from the OECD BEPS Action 13 recommendations. The United States has implemented this and has agreed to share the information with foreign tax jurisdictions within the OECD Inclusive Framework so long as they agree to safeguard the information to ensure the tax information remains confidential and will be used solely for tax purposes. As a US multinational, we are required to comply with these US regulations and we will do so.

(4) What is the share of income obtained from royalties in relation to the turnover of your corporation?

Apple is a product company and we derive income from the sale of products and services to our customers, not from licensing IP or selling advertising. Royalty income is not a significant component of Apple's business and therefore we don't report it.

(5) Have the Paradise Papers revelations or any other public report related to tax avoidance and the fact that you are mentioned therein had any impact on your consumers' behaviour? Have you suffered any damage on account of those revelations? If that is the case, which is the damage you have suffered? What measures have you taken to reduce this damage?

When Ireland changed its tax laws in 2014, we complied and at that time we informed Ireland, the European Commission and the United States of the changes made. Such changes were specifically designed to preserve Apple's tax payments to the United States and did not reduce its taxes anywhere else. In November 2017 we issued a statement to correct inaccurate reporting on our tax payments (see attached).

(6) How does your company structure the collection of income related to image rights? Do you use any specific subsidiaries in some countries? If this is the case, can you specify the country and explain why have you chosen that jurisdiction? Have you changed your practice after the Paradise Papers revelations and the US Tax Reform?

Apple is a product company and we derive income from the sale of products and services to our customers. Income from "image rights" is not a significant component of our business and Apple has not made any changes in this respect. All of Apple's income is subject to tax, and we are proud to be the largest corporate income tax payer in the world. In addition, we pay indirect

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taxes, payroll taxes and other taxes in accordance with the law in every country where we operate.

(7) How many people in-house and outsourced do respectively work on direct corporate tax planning and compliance? What percentage of your staff does it represent?

Apple employs approximately 60 professional staff in its tax department, addressing both direct and indirect taxes, to ensure we are complying with tax laws and rules in every country in which we operate. Apple employs over 130,000 people around the world.

(8) Which is the relation between the expenditure your company incurs for innovation-related activities and the amount of royalties income?

In FY2017, Apple spent \$11.6 billion in research and development to innovate and develop its product and service offerings, and this has increased roughly 20% each year for the previous three years. As discussed before royalty income is not a significant component of Apple's business.