The Westpac Group's Approach to Tax and Tax Contributions

The Westpac Group's Approach to Tax

The Westpac Group's approach to tax is approved by the Board and embedded in the Group's Tax Policy and Governance Framework. The approach is aligned with the Group's commercial, reputational and business practices and its commitment to corporate responsibility. It comprises:

- complying with applicable tax laws, rules and regulations;
- ensuring tax compliance is a fundamental part of the business practice;
- paying tax in all the jurisdictions the Group operates, based on where the underlying economic activity occurs;
- complying with arm's length principles for related party and intra-group transactions;
- managing tax risk to avoid any unnecessary disputes;
- seeking constructive, co-operative and transparent working relationships with the tax authorities; and
- pro-actively managing and monitoring compliance with the above principles.

The way in which the Westpac Group implements this approach is through its Tax Risk Management Framework (the **Framework**). The Framework:

- applies to all employees (and contractors) of the Group;
- adopts a Three Lines of Defence approach;
- covers both financial and reputational risk;
- ensures that material transactions are the subject of advice from external experts, complex issues are disclosed to the revenue authorities and material tax risk is reported to (and overseen by) the Board Audit Committee; and
- is actively monitored by Group Tax who report to the Group Chief Financial Officer.

The Westpac Group is a Large Taxpayer

The Westpac Group pays a significant amount of tax, and is one of Australia and New Zealand's largest taxpayers. The Group is ranked as Australia's 5th largest taxpayer according to Bloomberg.

The Westpac Group's Total Tax Contributions for 2014

The Group pays a significant amount of tax to State and Federal Governments in all the jurisdictions/regions in which it operates, for a number of taxes including non-recoverable GST.

The Westpac Group's total tax contributions for 2014 are set out in the following table[1]:

FY 2014 (in AUD, $ms)	% of NPBT (1)	Effective Tax Rate[2] (2)	Corporate income taxes paid[3] (3)	Non-recoverable GST (4)	Other business and state taxes (5)	Total (6)
Australia – Westpac[4]	84.7%	29.7%	2,404	222	203	2,829
Australia – subs (that pay tax on stand-alone basis) [5]			34	0	4	38
New Zealand	11.9%	25.3%	284	34	7	325
Other offshore	3.4%	21% to 29%	61	0	(1)	60
Total	100%	29%	2,783	256	213	3,252

[1] 2014 is the latest year all relevant tax information is available.
[2] This is the effective tax rate recognised in the statutory accounts for each jurisdiction (i.e. income tax expense/net profit before tax).
[3] This represents the amount actually paid to the Revenue Authorities for income tax during the 2014 year.
[4] This is the amount of Australian tax paid by Westpac Banking Corporation for its Australian operations and all its wholly owned Australian subsidiaries (i.e. the Westpac Australian Tax Group).
[5] Australian subsidiaries that are not wholly owned by Westpac pay tax on a stand-alone basis.

It illustrates that the Westpac Group paid approximately AU$3,252m in various taxes for the 2014 year. Most of the tax was paid in Australia and New Zealand, where over 96% of the Group's Net Profit Before Tax was earned.

Corporate Income Tax Paid and the Westpac Group's Income Tax Expense

Corporate income tax presented in the table above reflects the income taxes paid as set out in the cash flow statement in the Annual Report. Income Tax Expense, as presented on an accruals basis in Note 5 to the Financial Statements, was $3,115m[6]. The table below presents a reconciliation of these items.

Reconciliation of Corporate Income Taxes Paid to Income Tax Expense for FY 2014	(in AUD, $ms)
ITE per Note 5 to the Financial Statements	3,115
Timing Differences	(425)
Other	93
Total Corporate Income Tax Paid by Westpac Group	2,783

The ($425m) represents timing differences between the time transactions are recognised in the financial statements and the time they are recognised for tax purposes[7]. Most of this relates to:

- tax consolidation adjustments relating to the acquisition of St.George, which were expensed in the financial statements in 2011 but only deductible for tax purposes on a straight line basis over 2011 to 2014; and
- credit impairment (bad debts) which are deductible for tax in 2014 when written off but were expensed for accounting purposes in previous years.

The $93m represents other adjustments, including tax payments made in 2014 which relate to 2013 tax liabilities and tax liabilities accrued for 2014 that were paid in 2015.

[6] See Annual Report Income Statement and Note 5 to the Financial Statements.
[7] The ($425m) represents the reduction in net Deferred Tax Asset for 2014, as per Notes 5 and 14 to the Financial Statements.

Tax Information to Be Published by the Australian Taxation Office

In December 2015, the Australian Taxation Office (**ATO**) will report Australian tax information for Westpac and a number of other large public companies relating to the 2014 year. It will also include general guidance material on its website.

The information that will be reported for Westpac is as follows:

Westpac Banking Corporation
ABN 33 007 457 141

	$m
Total Income	39,174[8]
Taxable Income	9,012[9]
Tax Payable	2,429*

*Of the $2,429m, $2,404m tax was paid in 2014 and the $25m balance was paid in 2015.

The above information is obtained from Westpac Banking Corporation's 2014 income tax return, and relates to the income tax payable by Westpac Banking Corporation on its Australian operations and its wholly owned Australian subsidiaries (the **Westpac Australian Tax Group**). It does not reflect tax payable on Westpac's offshore operations or non-wholly owned subsidiaries (that pay tax on a stand-alone basis).

Tax payable is the Westpac Australian Tax Group's income tax liability for the 2014 year.

Tax payable is prima facie 30% of taxable income, however for 2014 our tax rate was approximately 27%. This reflects the benefit of specific items prescribed by the Tax Law, as represented in the table below.

Westpac Australian Tax Group Tax Rate for FY 2014	
Prima Facie Tax Rate	30%
Research & Development tax offset for eligible expenditure incurred by the Group	(1.4%)
Franking credits attached to dividends received from non-wholly owned Westpac Group subsidiaries (e.g. BT Investment Management)	(0.3%)
Lower tax rates for certain life company income and franking credits attributable to policy holders	(1.3%)
Westpac Australian Tax Group Tax Rate	27%

[8] Total Income as reported by the ATO is the gross income earned by the Westpac Australian Tax Group, before deductions/expenses are applied. This differs from the Group's global total income in the financial statements because it does not include income earned by the Group's offshore operations and non wholly owned subsidiaries (e.g. BT Investment Management and Westpac New Zealand Limited), but it does include income earned from transactions with these offshore branches and subsidiaries (e.g. intragroup interest and dividends).

[9] Taxable Income for the Westpac Australian Tax Group is arrived at by deducting a range of expenses from its Total Income (such as funding and operating costs) and making certain other adjustments required by Tax Law. Taxable Income differs from the broader Group's net profit before tax in the financial statements because it includes adjustments for:

a) permanent differences (items that are included for accounting purposes and not for tax (or vice versa)). These are covered in Note 5: Income Tax to the Financial Statements; and
b) timing differences (items that are recognised in different periods for accounting and tax). For example, in 2014 taxable income was reduced by credit impairment charges (bad debts) and tax consolidation adjustments relating to the acquisition of St.George. These were both expensed for accounting purposes in previous years.