

Tax Transparency Report

**FOR THE YEAR ENDED
30 SEPTEMBER 2021**

WESTPAC BANKING CORPORATION
ABN 33 007 457 141



Simpler, stronger bank

 **estpac** GROUP

Chief Financial Officer's Introduction



5th
largest corporate income
taxpayer in Australia



35.7%
effective income
tax rate (income tax
expense divided by profit
before income tax)



\$3.7bn
total taxes paid globally



\$3.2bn
Australian taxes paid

I am pleased to present Westpac Banking Corporation's¹ Tax Transparency Report for the year ended 30 September 2021. Our report sets out Westpac's tax contributions and approach to tax responsibilities in line with the Australian voluntary Tax Transparency Code (TTC).

We take our tax obligations seriously and are committed to paying the right amount of tax in the jurisdictions in which we operate. Our commitment to tax transparency and relationships with tax regulators globally reflects our purpose and the company's values.

Our core markets are Australia and New Zealand, and we were Australia's 5th largest taxpayer in 2020². In 2021, 99.3% of our taxes (including the Major Bank Levy) were paid in Australia and New Zealand, with 88.1% paid in Australia.

Westpac paid \$3.7 billion globally in various taxes during 2021. Additionally, we collected over \$2.5 billion for Australian tax authorities for other tax matters including GST and income tax collected from employees.

Under the Australian Taxation Office's (ATO's) Justified Trust program, we received a high level of assurance over our income tax affairs. This high assurance rating means the ATO is confident that we have paid the right amount of income tax for the 2017 and 2018 income years³.

The corporate income tax Westpac pays in Australia generates franking credits which, when passed on to Westpac shareholders can be applied against their Australian tax payable.

Further information on Westpac, can be found at westpac.com.au/about-westpac/

Michael Rowland
Chief Financial Officer

¹ Westpac or the Group

² Based on the ATO's Corporate Tax Transparency Report for the 2019-20 Income Year, published December 2021.

³ Reviews for later income years will occur at a future time, and we will continue to work with the ATO in regards to this.

Basis of Preparation

The information provided in this report covers the years ended 30 September 2020 and 2021.

Westpac's internal auditors have verified that the information disclosed meets the requirements of the Australian voluntary Tax Transparency Code (TTC) released by the Board of Tax in February 2016 and Section 161 and Schedule 19 of the UK Finance Act 2016; and is consistent with the Financial statements in Westpac's 2021 Annual Report, financial records and submitted tax returns. Amounts are in Australian dollars or where applicable have been translated into Australian dollars and rounded to the nearest AUD1 million.

The report also considers recommendations and guidance from the Post-Implementation Review of the Tax Transparency Code Consultation Paper issued in February 2019 and the Draft Appendix to the Tax Transparency Code issued by the Australian Accounting Standards Board in May 2017.

Westpac Group's Tax Strategy

Westpac's tax strategy and approach is approved by the Board and aligns with the Group's commercial, reputational and business practices and commitment to corporate responsibility.

Group Finance (including Group Tax located in Australia) has day-to-day responsibility for managing global tax risk and strategy in accordance with Board risk limits, supported by tax specialists located in New Zealand, United States, United Kingdom, Singapore and China. Group Tax personnel are appropriately experienced, qualified, and trained to identify, manage and mitigate the Group's tax risks and obligations.

Key elements of our tax strategy and approach includes:

- complying with all applicable tax laws, rules and regulations in all the countries where the Group operates, including ensuring that all tax lodgements, payments and reporting requirements are adhered to;
- not participating in or promoting aggressive tax planning arrangements (either for our own tax affairs or for customers);
- a policy prohibiting conduct that facilitates tax evasion⁴;
- ensuring tax compliance - including the associated control environment and business processes embedded in the business;
- paying the correct amount of tax in the jurisdictions we operate, based on underlying economic activity and the prevailing tax laws;
- not using 'Low or Nil' tax rate⁵ jurisdictions for the purposes of avoiding or evading tax;
- complying with arm's length principles for international related party and intra-group transactions;
- having a low tax risk appetite and managing tax risk to avoid unnecessary disputes;
- pro-actively seeking constructive, collaborative and transparent working relationships with the ATO and other international tax authorities where we have operations. This includes engaging in open and frequent dialogue to disclose new and/or complex transactions and address any areas of uncertainty as well as entering into various formal co-operative compliance arrangements⁶; and
- pro-actively managing and monitoring compliance with the above principles.

Westpac's tax governance includes the Tax Risk Management Framework (the Framework) as well as accompanying tax policies. The Framework is approved by the Board Audit Committee (which oversees and monitors Tax Risk for Westpac) and covers financial, regulatory and reputational risk.

The Framework uses a Three Lines of Defence approach to risk management, provides a mechanism for the escalation of material tax matters and ensures that material tax risk is reported to the Board Audit Committee. The Framework and supporting tax policies also set out the products, transactions and events that require notification or sign-off, external tax advice and/or disclosure to the relevant revenue authorities. Similar tax governance frameworks operate in all the countries where we have operations.

In addition to receiving a high level of assurance over its income tax affairs from the ATO under the Justified Trust program, Westpac has also received a 'Key Taxpayer' risk rating from the ATO for 2020, (similar to prior years). This rating applies to both income tax and GST and is the highest possible risk rating for our size and complexity.

⁴ Including a commitment to adherence to the UK Criminal Finance Act

⁵ Low or nil tax rate jurisdictions are defined using International Standards (e.g. OECD)

⁶ Including adopting the UK Code of Practice on Taxation for Banks (refer: <https://www.gov.uk/government/publications/code-practice-taxation-banks/code-of-practice-on-taxation-for-banks>).

Westpac Group's Effective Income Tax Rate

Westpac's effective income tax rate for 2021 was 35.7% (2020: 46.3%). This is the rate recognised in the financial statements in our 2021 Annual Report (Financial Statements) and is calculated as income tax expense divided by the Profit before income tax. The effective income tax rate is above Australia's corporate tax rate of 30%. For 2021, the difference is principally due to the non-deductible goodwill impairments and additional tax expense arising from our Insurance divestments. It also reflects differing treatments arising under accounting and tax rules for some items. If we include the Major Bank Levy the effective tax rate for 2021 becomes 40.4%. Table 1 provides a summary of Westpac's effective income tax rates.

TABLE 1: EFFECTIVE INCOME TAX RATES

Jurisdiction	2021		2020	
	% of profit before income tax	Effective income tax rate	% of profit before income tax	Effective income tax rate
Australia	83.1%	36.9%	81.8%	48.6%
New Zealand	16.2%	28.4%	20.8%	28.6%
Other offshore	0.7%	65.7%	-2.6%	-20.4% ⁷
TOTAL	100%	35.7%	100%	46.3%

Westpac's International Related Party Dealings

Westpac has significant banking and related operations in New Zealand.

Westpac also has branches and/or subsidiaries in the United Kingdom, United States, Singapore, China, Hong Kong, Papua New Guinea (PNG) and Fiji which provide commercial banking products and services. PNG and Fiji also provide retail banking products and services. Our branch in India has now been closed while branches in China and Hong Kong are in the process of winding up in line with our strategy.

Westpac's businesses in these overseas jurisdictions support the communities banking needs in these markets. The type of dealings with our offshore subsidiaries and branches are summarised in Table 2:

TABLE 2: MATERIAL TRANSACTIONS WESTPAC AUSTRALIA UNDERTAKES WITH ITS OFFSHORE SUBSIDIARIES AND BRANCHES⁸

TRANSACTION TYPE	JURISDICTION	
	Offshore Subsidiaries	Offshore Branches
Derivatives – comprises swaps, options, forwards and futures contracts with offshore branches and subsidiaries	Westpac Europe Limited Westpac Capital Markets LLC	Singapore, UK, USA, New Zealand, Hong Kong, China
Loans – comprises loans to and/or from offshore branches and subsidiaries	Westpac New Zealand Limited	Singapore, USA, New Zealand, UK
Dividends – comprises dividends received from offshore subsidiaries	Westpac New Zealand Group Limited Westpac Bank-PNG-Limited	–
Administrative and management services – Westpac undertakes these services centrally for the benefit of offshore branches and subsidiaries	Westpac New Zealand Limited Westpac NZ Covered Bond Limited Westpac NZ Securitisation Limited Westpac Bank-PNG-Limited	New Zealand, UK, USA, Fiji, Singapore, Hong Kong

Westpac applies globally recognised and accepted tax transfer pricing principles and documentation requirements under the local country laws for each jurisdiction where we have operations and follows Organisation for Economic Co-operation and Development (OECD) guidelines. In transfer pricing matters, Westpac has transparent working relationships with the ATO and other tax authorities globally, so they understand the nature of the transactions being undertaken. This can include entering into certain arrangements such as Advanced Pricing Agreements from time to time.

In 2021, Westpac lodged its fourth Country-by-Country (CbC) report for the year ended 30 September 2020. CbC reporting is part of a range of international measures that work towards promoting more comprehensive exchanges of information between countries.

⁷ The negative effective tax rate was due to the non-recognition of tax losses in the 2020 Financial Statements.

⁸ Where the impact to taxable income is greater than \$0.5m.

Westpac's total tax contributions for 2021 and 2020

TABLE 3: TAXES (INCLUDING THE MAJOR BANK LEVY) PAID BY THE WESTPAC GROUP

Type	2021 A\$M					2020 A\$M				
	Australia- Westpac Bank ⁹	Australia - subsidiaries (that separately pay tax) ¹⁰	New Zealand	Other offshore	TOTAL	Australia- Westpac Bank ⁹	Australia - subsidiaries (that separately pay tax) ¹⁰	New Zealand	Other offshore	TOTAL
Corporate Income Taxes Paid ¹¹	2,296	1	366	25	2,688	2,714	1	369	2	3,086
Major Bank Levy ¹²	396	-	-	-	396	404	-	-	-	404
Non- recoverable GST	327	-	43	1	371	289	-	39	1	329
Payroll Tax ¹³	215	-	-	-	215	203	-	-	-	203
Fringe Benefits Tax ¹⁴	11	-	4	-	15	17	-	4	-	21
Other ¹⁵	-	-	-	1	1	-	-	-	8	8
TOTAL	3,245	1	413	27	3,686	3,627	1	412	11	4,051

9 This is the amount of Australian tax paid by the Westpac Australian Tax Consolidated Group/Westpac Australian GST Group where applicable. Under Australian income tax law, wholly owned corporate groups can consolidate themselves into a single entity and pay corporate income tax as one entity. For its Australian operations, Westpac and its wholly owned Australian subsidiaries are part of one Westpac Australian Tax Consolidated Group. Under GST Law, two or more entities are permitted to consolidate their GST reporting and payment obligations by forming a GST group. For its Australian operations, all Westpac entities (that are at least 90% owned) are consolidated into the Westpac Australian GST Group.

10 Australian subsidiaries that are not wholly owned by Westpac pay tax separately from Westpac.

11 This represents the amount actually paid to the Revenue Authorities globally for income tax during the financial year ended 30 September.

12 From 1 July 2017 the Major Bank Levy began to apply to Westpac. This is calculated at the rate of 0.06% per annum of certain Authorised Deposit Taking Institution (ADI) liabilities. This is the amount that was actually paid during the financial year ended 30 September.

13 This represents the amount of Payroll tax actually paid to State Revenue Authorities during the financial year ended 30 September.

14 This is the amount of Fringe Benefits Taxes (FBT) actually paid in Australia and New Zealand during the financial year ended 30 September.

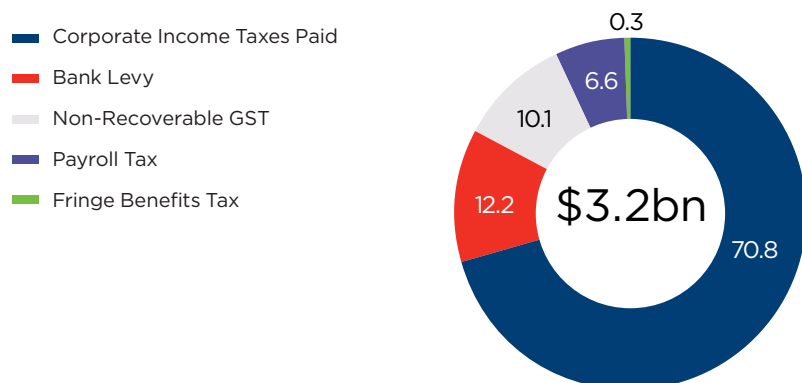
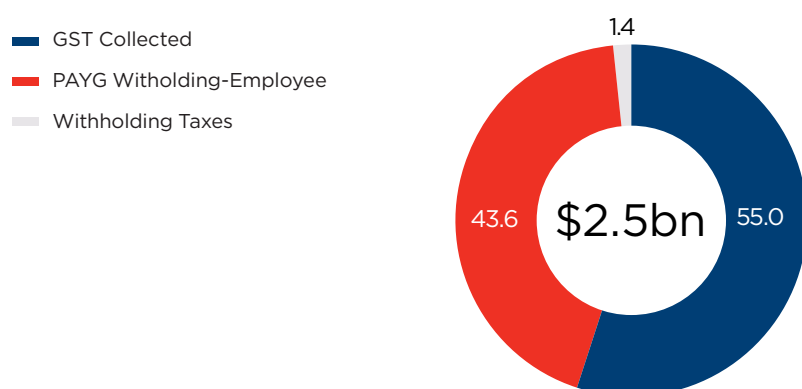
15 This includes various taxes incurred by our offshore branches and subsidiaries, however, does not include all state taxes, levies and charges that Westpac pays.

Westpac's total tax contributions for 2021 and 2020 (continued)

In addition to the taxes paid, Westpac also collects significant taxes on behalf of the Commonwealth of Australia. Table 4 provides the amounts collected by Westpac.

TABLE 4: TAXES COLLECTED ON BEHALF OF THE AUSTRALIAN GOVERNMENT

TAX TYPE	AUSTRALIA - WESTPAC BANK ¹⁶	
	2021 A\$M	2020 A\$M
Withholding Taxes ¹⁷	35	47
GST Collected	1,400	1,434
PAYG Withholding - Employees ¹⁸	1,111	1,038
TOTAL	2,546	2,519

TAXES PAID BY TYPE - AUSTRALIA WESTPAC¹⁶ (%)**TAXES COLLECTED BY TYPE - AUSTRALIA WESTPAC¹⁶ (%)**

16 These are the taxes and levies collected or paid by the Westpac Australian Tax Consolidated Group/Westpac Australian GST Group where applicable for the financial year ended 30 September.

17 This includes TFN withholding, ABN withholding, interest withholding tax and royalty withholding tax.

18 This represents the income tax withheld from employee remuneration.

Westpac Group's Income Tax Paid and Income Tax Expense

Income Tax Expense (ITE) as presented in Note 7 (Income Tax) to the Financial Statements, was \$3,038 million for 2021.

Table 5 reconciles Profit before income tax to Taxes Paid. In Table 5, "Non-Temporary Differences" represent the differences between tax and accounting that never reverse over time. "Temporary Differences" represent the differences between the time transactions are recognised for accounting purposes and when they are recognised for income tax purposes.

TABLE 5: RECONCILIATION OF ACCOUNTING PROFIT TO INCOME TAX PAID

	2021 A\$M	2020 A\$M
Profit before income tax	8,501	4,266
Tax at the Australian company tax rate of 30%	2,550	1,280
<i>Non-Temporary Differences:</i>		
Hybrid capital distributions ¹⁹	59	56
Life insurance:		
Tax adjustments on policyholder earnings ²⁰	3	(17)
Adjustment for life business tax rates	0	1
Other non-assessable items ²¹	(6)	(3)
Other non-deductible items ²²	252	585
Adjustment for overseas tax rates ²³	(16)	16
Income Tax (over)/under provided in prior years ²⁴	3	1
Other items ²⁵	193	55
Total Income Tax Expense per Note 7 in the Financial Statements	3,038	1,974
<i>Temporary Differences (movement):</i>		
Provisions for ECL on loans and Credit Commitments ²⁶	(307)	630
Financial instruments	0	(5)
Finance lease transactions	(43)	(23)
Lease Liabilities ²⁷	(156)	899
Property and equipment ²⁷	447	(777)
Life insurance assets	43	14
Other provisions	(182)	75
Other timing differences	(96)	168
Total Temporary Differences (movement)	(294)	981
Other tax adjustments ²⁸	(56)	131
Total Corporate Income Tax Paid by Westpac Group Globally	2,688	3,086

19 This represents interest payments paid on Hybrid distributions which are equity for tax purposes and therefore non-deductible.

20 The tax adjustment on policyholder earnings is related to the income tax expense on investment earnings attributable to insurance policyholders instead of the Group. Therefore, it is separately disclosed in Note 7 (Income Tax) to the Financial Statements and Table 5.

21 These are amounts that have been included in accounting income however are not assessable for tax purposes.

22 These are amounts which are expensed for accounting purposes but are non-deductible for tax purposes, for e.g. goodwill impairments in FY21.

23 This represents the adjustments on corporate tax rates between Australia and the offshore jurisdictions where we operate.

24 This represents prior year tax adjustments.

25 This represents other items that are not included in the other categories for e.g. additional tax expense arising from our Insurance divestments in FY21.

26 This represents provisions raised during the year which are not tax deductible until the debt is written off as bad.

27 Under AASB 16 all leases are recognised on balance sheet as a right of use asset (in Property & Equipment) as well as a Lease Liability. This asset and liability give rise to temporary differences. For tax purposes the leases continue to be treated as off- balance sheet operating leases, with a tax deduction available for the lease payments made.

28 This amount represents income tax payments and temporary differences that relate to a year that is different to the current year. For example, Corporate Income Tax Paid for a financial year will include the final instalment of income tax for the preceding financial year.

Australian Tax Return Information Published by the ATO

In December 2021, the ATO reported Australian tax information for Westpac and other large public companies relating to the 2020 year.

The information that was reported for Westpac is shown in Table 6:

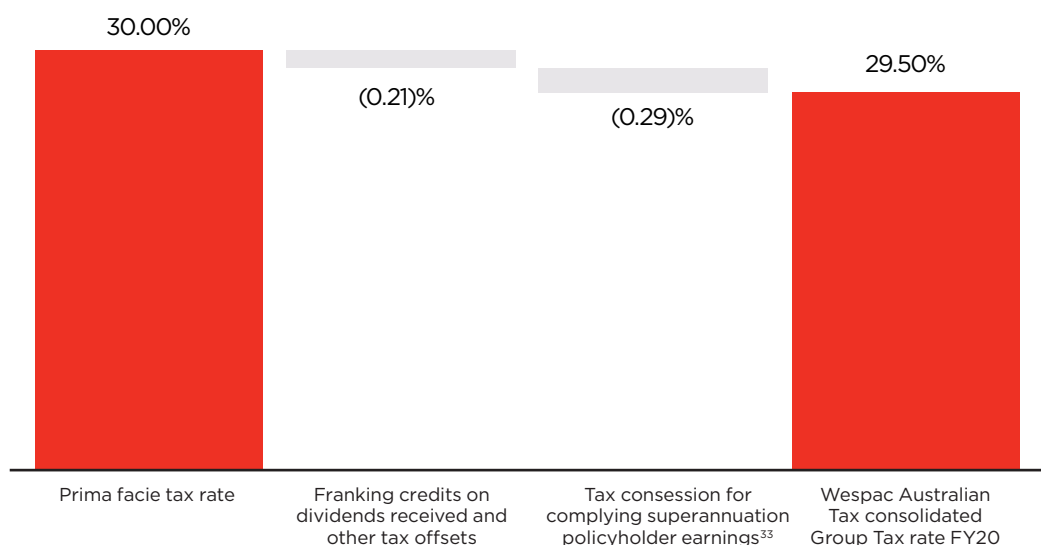
TABLE 6: REPORT OF ENTITY TAX INFORMATION

WESTPAC BANKING CORPORATION ABN 33 007 457 141	ALL FIGURES IN A\$M
Total Income	34,923 ²⁹
Taxable Income	8,653 ³⁰
Income Tax Payable	2,553³¹

The information in Table 6 relates to the income tax payable by the Westpac Australian Tax Consolidated Group for the 2020 year. It does not reflect tax payable on Westpac's offshore operations or other non-wholly owned subsidiaries (that separately pay tax).

Income tax payable is prima facie 30% of taxable income, however Westpac's income tax rate was approximately 29.50%³². This reflects the effect of specific items prescribed by the tax law, as represented in the graph below.

TABLE 7: RECONCILIATION BETWEEN THE AUSTRALIAN CORPORATE INCOME TAX RATE AND THE WESTPAC AUSTRALIAN TAX CONSOLIDATED GROUP INCOME TAX RATE FOR FY20



²⁹ Total Income as reported by the ATO is the gross income earned by the Westpac Australian Tax Consolidated 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, but it does include income earned from transactions with these offshore branches and subsidiaries (e.g. intragroup interest and dividends).

³⁰ Taxable Income for the Westpac Australian Tax Consolidated Group is arrived at by deducting a range of expenses from its Total Income (such as funding and operating costs) and making other adjustments required by tax law. Taxable Income differs from the broader Group's profit before income tax in the Financial Statements because it includes adjustments for:
a) non-temporary differences (items that are included for accounting purposes and not for tax (or vice versa)); and
b) temporary differences (items that are recognised in different periods for accounting and tax). These are covered in Table 5 of this Report.

³¹ Income Tax Payable is the Westpac Australian Tax Consolidated Group's income tax liability for 2020. Of the \$2,553m, \$2,550m tax was paid in FY20 and the \$3m balance was paid in FY21. It differs to the Corporate Income tax paid of \$2,714m disclosed in Table 3 of this report, as that is the actual amount of tax paid during FY20.

³² The rate of 29.50% differs from the effective income tax rate of 48.6% shown in Table 1 of this report for Australia because:
- The accounting consolidated group includes Australian subsidiaries that are not wholly owned and are therefore excluded from the above calculation; and
- The rate reflects both non-temporary and temporary differences whereas the effective income tax rate for accounting purposes in Table 1 reflects only non-temporary differences.

³³ The Tax Concession for complying superannuation policyholder earnings relates to income that is earned on investment assets held by Westpac Life Insurance Services Limited for the benefit of policyholders which are complying superannuation funds and is taxed at 15%.

westpac.com.au