

The Westpac Group's 2016 Tax Transparency Report

2nd largest Corporate Income Taxpayer in Australia

Over \$3.9 Billion in all Taxes Paid Worldwide in 2016

29.9% Effective Tax Rate for 2016

Executive Summary

Westpac is pleased to present this report which sets out the Westpac Group's tax contributions and how we approach our tax responsibilities. Paying the right amount of tax in all the jurisdictions where the Group operates is something we take seriously at Westpac.

This report covers the years ended 30 September 2015 and 30 September 2016 and meets all requirements of the voluntary Tax Transparency Code (TTC) which was released by the Board of Tax in February 2016.

Westpac's corporate strategy is focused on our core markets of Australia and New Zealand. This, combined with our significant operations, has led to Westpac being Australia's 2nd largest taxpayer in 2015¹. In 2016, 99% of our taxes were paid in Australia and New Zealand, with most paid in Australia (90%).

The Westpac Group paid over \$3.9 billion globally in various taxes for each of the 2015 and 2016 financial years. Additionally, Westpac collected just under \$3 billion in each of the 2015 and 2016 financial years for Australian tax authorities for other items including GST and income tax collected from employees.

Westpac pays a high portion of its profits as dividends to shareholders, the majority of whom are Australians owning shares directly or through their superannuation funds. The corporate income taxes Westpac pays in Australia create franking credits which can be passed on to Westpac shareholders. This allows our shareholders to receive a tax offset that can be applied against their Australian tax.

Further information about the Westpac Group and its brands, as well as our approach to sustainability and our Family of Giving can be found at www.westpac.com.au/about-westpac/.

The Westpac Group's total tax contributions for 2015 and 2016 are set out in Table 1 overleaf.

¹ Based on the ATO's Corporate Tax Transparency Report for the 2014-15 Income Year, published December 2016.

Table 1: Taxes Paid by the Westpac Group

Tax Type	2016 A\$m					2015 A\$m				
	Australia - Westpac Bank ²	Australia – subsidiaries (that separately pay tax) ³	New Zealand	Other offshore ⁴	TOTAL	Australia - Westpac Bank ²	Australia – subsidiaries (that separately pay tax) ³	New Zealand	Other offshore	TOTAL
Corporate income taxes paid ⁵	3,129	12	313	15	3,469	2,972	28	336	90	3,426
Non-recoverable GST	234	7	35	2	278	226	4	37	-	267
Payroll Tax ⁶	187	1	-	-	188	187	5	-	-	192
Fringe Benefits Tax ⁷	18	-	4	-	22	21	-	4	-	25
Other ⁸	-	-	-	13	13	-	-	-	18	18
TOTAL	3,568	20	352	30	3,970	3,406	37	377	108	3,928

² 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.

³ Australian subsidiaries that are not wholly owned by Westpac (for example, Hastings Funds Management Limited) pay tax separately from Westpac.

⁴ The offshore corporate income taxes were reduced in 2016 due to prior year tax refunds recognised in the 2016 Financial Statements.

⁵ This represents the amount actually paid to the Revenue Authorities for income tax during the 2015 and 2016 years as set out in the cash flow statement in the Financial Statements.

⁶ This represents the amount of Payroll tax actually paid to State Revenue Authorities during the financial year ended 30 September.

⁷ This is the amount of Fringe Benefits Taxes (FBT) actually paid in Australia and New Zealand during the financial year ended 30 September.

⁸ This includes various taxes incurred by our offshore branches and subsidiaries. Amounts less than \$500,000 are excluded from Table 1. Other state taxes, levies and charges that Westpac pays are also excluded from Table 1.

In addition to the taxes paid, Westpac also collects significant taxes on behalf of the Australian Government. Table 2 below provides the amounts collected by Westpac.

Table 2: Taxes collected on behalf of the Australian Government

Tax Type	Australia – Westpac Bank ⁹	
	2016 A\$m	2015 A\$m
Withholding Taxes ¹⁰	91	104
GST Collected	1,764	1,632
PAYG withholding - employees ¹¹	927	921
TOTAL	2,782	2,657

Westpac Group's Effective Tax Rate

The Westpac Group's effective tax rate for 2016 was 29.9% (2015: 29.3%). This is the rate recognised in the financial statements included in our 2016 Annual Reports (Financial Statements), and is calculated as income tax expense divided by the net profit before tax. The effective tax rate is similar to Australia's corporate tax rate of 30%. The difference is principally due to differing corporate tax rates in offshore locations where Westpac operates. New Zealand for example, has a corporate tax rate of 28%. It also reflects differing treatments arising under accounting and tax rules for some items. Table 3 provides a summary of Westpac's effective tax rates.

Table 3: Effective Tax Rates

Jurisdiction	2016		2015	
	% of NPBT	Effective Tax Rate	% of NPBT	Effective Tax Rate
Australia	86.1%	30.9%	86.2%	30.1%
New Zealand	11.9%	27.6%	11.0%	27.2%
Other offshore	2.0%	-0.9% ¹²	2.8%	13.3%
TOTAL	100%	29.9%	100%	29.3%

⁹ These are the taxes collected by the Westpac Australian Tax Consolidated Group/Westpac Australian GST Group as applicable for the financial year ended 30 September.

¹⁰ This includes TFN withholding, ABN withholding, interest withholding tax and royalty withholding tax.

¹¹ This represents the tax withheld from employee remuneration.

¹² The Other offshore effective tax rate has reduced in 2016 due to prior year tax refunds that have been recognised in the 2016 Financial Statements.

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 \$3,184m for 2016. Table 4 below reconciles ITE to Taxes Paid. For a detailed reconciliation of accounting profit to ITE see Note 7 (Income Tax) in the 2016 Financial Statements.

Table 4: Reconciliation of Income Tax Expense to Income Tax Paid

	FY2016 A\$m	FY 2015 A\$m
ITE per Note 7 in the Financial Statements	3,184	3,348
Timing Differences	102	(89)
Other	183	167
Total Corporate Income Tax Paid by Westpac Group Globally	3,469	3,426

In Table 4, “Timing differences” represent the differences between the time transactions are recognised for accounting purposes and when they are recognised for tax purposes. The main reason for the movement between 2015 and 2016 is due to:

- the increase in loan impairment charges booked for accounting in 2016 which are only deductible for tax when the loans are written off; and
- the difference between the tax and accounting treatment on the partial sale of BT Investment Management Limited in June 2015.

The amounts in “Other” represent tax payments that occur in a year that is different to the accounting year shown in the Financial Statements. For example, Corporate Income Tax Paid for a financial year will include the final instalment of tax for the preceding income year.

Westpac’s Tax Governance Framework

The Westpac Group’s approach to tax is approved by the Board and is aligned with the Group’s commercial, reputational and business practices and its commitment to corporate responsibility. Key elements of the approach include:

- complying with all applicable tax laws, rules and regulations;
- ensuring tax compliance is a fundamental part of business practice;
- paying tax in all the jurisdictions where the Group operates, based on underlying economic activity;
- complying with arm’s length principles for international related party and intra-group transactions;
- managing tax risk to avoid unnecessary disputes;
- seeking constructive, co-operative and transparent working relationships with the Australian Taxation Office (ATO) and other tax authorities, which may include entering into assurance arrangements with them from time to time; and
- pro-actively managing and monitoring compliance with the above principles.

The Westpac Group implements this approach 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 to risk management where ‘risk is everyone’s business’;
- covers both financial and reputational risk;
- ensures we seek external advice for material transactions and that complex issues are proactively disclosed to the revenue authorities and material tax risk is reported to (and overseen by) the Board Audit Committee; and
- is actively monitored by the Group Tax team who report to the Group Chief Financial Officer.

Our willingness to maintain an open relationship with the ATO is also reflected in the risk rating given to Westpac by the ATO. Westpac is considered to be a ‘Key Taxpayer’ for both income tax and GST. This is the lowest risk rating that can be attained taking into account the size and complexity of our Australian operations.

Westpac’s International Related Party Dealings

Westpac has a number of branches and subsidiaries outside Australia, including major operations in New Zealand. Westpac also has overseas branches and/or subsidiaries in the United Kingdom, United States, Singapore, China, Hong Kong, India, Papua New Guinea and Fiji¹³.

Westpac’s business in these regions supports customer activity and so our international dealings support customer activity, along with administrative functions associated with managing our business in these markets. The type of dealings with our offshore subsidiaries and branches are summarised in Table 5:

Table 5: Material transactions Westpac undertakes with offshore subsidiaries and branches

Transaction type	Westpac	
	Offshore Subsidiaries	Offshore Branches
Derivatives	✓	✓
Loans	✓	✓
Dividends received	✓	-
Administrative and management services which Westpac Australia undertakes for offshore entities and for which it is reimbursed.	✓	✓

¹³ Westpac sold its operations in Samoa, Tonga, and the Cook Islands in the 2015 financial year and the Solomon Islands and Vanuatu during the 2016 financial year.

Westpac applies the 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, so they understand the sort of transactions being undertaken. This can include entering into certain arrangements such as Advanced Pricing Agreements from time to time.

Tax Information Published by the Australian Taxation Office

In December 2016, the ATO reported Australian tax information for Westpac and a number of other large public companies relating to the 2015 year. The ATO also included general guidance material on its website.

The information that will be reported for Westpac is as follows in Table 6:

Westpac Banking Corporation	
ABN 33 007 457 141 All figures in A\$m	
Total Income	36,838 ¹⁴
Taxable Income	10,239 ¹⁵
Tax Payable	2,854¹⁶

The above information is from Westpac Banking Corporation's 2015 income tax return, and relates to the income tax payable by the Westpac Australian Tax Consolidated Group for the 2015 year. It does not reflect tax payable on Westpac's offshore operations or other non-wholly owned subsidiaries (that separately pay tax).

Tax payable is prima facie 30% of taxable income; however Westpac's rate was approximately 27.9%¹⁷. This reflects the benefit of specific items prescribed by the tax law, as represented in table 7 overleaf.

¹⁴ 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 (e.g. Hastings 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).

¹⁵ 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 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:

- permanent differences (items that are included for accounting purposes and not for tax (or vice versa)). These are covered in Note 7: Income Tax in the Financial Statements; and
- timing differences (items that are recognised in different periods for accounting and tax).

¹⁶ Tax payable is the Westpac Australian Tax Consolidated Group's income tax liability for 2015. Of the \$2,854m, \$2,397m tax was paid in 2015 and the \$457m balance was paid in 2016 on lodgement of the 2015 tax return. It is different to the tax paid amount disclosed (\$2,972m) in Table 1 of this report, as taxes paid is the actual tax paid during the financial year, some of which reflects tax relating to previous years.

¹⁷ The rate of 27.9% differs from the effective tax rate of 30.1% shown in Table 3 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 permanent and timing differences whereas the effective tax rate for accounting purposes on Table 3 reflects only permanent differences.

Table 7: Reconciliation between the Australian corporate tax rate and the Westpac Australian Tax consolidated Group Tax rate for FY15

