

## The Westpac Group's 2017 Tax Transparency Report

2nd largest corporate income taxpayer in Australia<sup>1</sup>

Over AUD\$4 billion in taxes paid worldwide in 2017

30.6% effective tax rate for 2017

### Executive Summary

Westpac is pleased to present this report which sets out the Group's tax contributions and our approach to tax responsibilities. Westpac takes its tax obligations seriously and is committed to paying the right amount of tax in all the jurisdictions where the Group operates. Our corporate values and behaviours are reflected in our approach to tax transparency and relationship with tax regulators globally.

This report covers the years ended 30 September 2016 and 30 September 2017 and meets all requirements of the voluntary Tax Transparency Code (TTC) which was released by the Board of Tax in February 2016.

Westpac's 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 2<sup>nd</sup> largest taxpayer in 2016<sup>1</sup>. In 2017, 98.5% of our taxes were paid in Australia and New Zealand, with most (88.4%) paid in Australia.

The Westpac Group paid over \$4 billion globally in various taxes in 2017. Additionally, Westpac collected just under \$3 billion in 2017 for Australian tax authorities for other tax matters 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 are passed on to Westpac shareholders. This allows our shareholders to receive a tax offset that can be applied against their Australian tax payable.

Further information about the Westpac Group, as well as our approach to sustainability can be found at [www.westpac.com.au/about-westpac/](http://www.westpac.com.au/about-westpac/).

The Westpac Group's total tax contributions for 2016 and 2017 are set out in Table 1 overleaf.

<sup>1</sup> Based on the ATO's Corporate Tax Transparency Report for the 2015-16 Income Year, published December 2017.

**Table 1: Taxes Paid by the Westpac Group**

Tax Type	2017 A\$m					2016 A\$m				
	Australia- Westpac Bank <sup>2</sup>	Australia – subsidiaries (that separately pay tax) <sup>3</sup>	New Zealand	Other offshore	TOTAL	Australia - Westpac Bank <sup>2</sup>	Australia – subsidiaries (that separately pay tax) <sup>3</sup>	New Zealand	Other offshore	TOTAL
Corporate income taxes paid <sup>4</sup>	3,117	13	370	52	3,552	3,129	12	313	15	3,469
Non- recoverable GST	244	7	36	3	290	234	7	35	2	278
Payroll Tax <sup>5</sup>	200	1	-	-	201	187	1	-	-	188
Fringe Benefits Tax <sup>6</sup>	17	-	4	-	21	18	-	4	-	22
Other <sup>7</sup>	-	-	-	8	8	-	-	-	13	13
<b>TOTAL*</b>	<b>3,578</b>	<b>21</b>	<b>410</b>	<b>63</b>	<b>4,072</b>	<b>3,568</b>	<b>20</b>	<b>352</b>	<b>30</b>	<b>3,970</b>

\*In addition to these taxes paid for FY16 and FY17, Westpac is liable for the Major Bank Levy. It began to apply from 1 July 2017, and the amount payable by Westpac for the last quarter of FY17 was \$95m. This amount will be paid on 21 March 2018.

<sup>2</sup> 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.

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

<sup>4</sup> This represents the amount actually paid to the Revenue Authorities for income tax during the financial year ended 30 September.

<sup>5</sup> This represents the amount of Payroll tax actually paid to State Revenue Authorities during the financial year ended 30 September.

<sup>6</sup> This is the amount of Fringe Benefits Taxes (FBT) actually paid in Australia and New Zealand during the financial year ended 30 September.

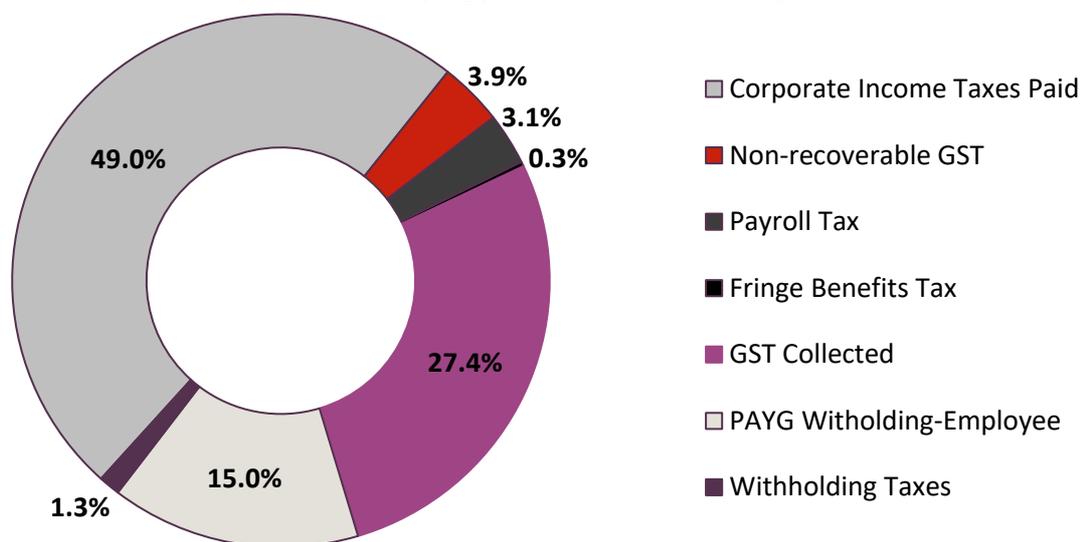
<sup>7</sup> This includes various taxes incurred by our offshore branches and subsidiaries. Other state taxes, levies and charges that Westpac pays are also excluded from Table 1.

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 <sup>8</sup>	
	2017 A\$m	2016 A\$m
Withholding Taxes <sup>9</sup>	82	91
GST Collected	1,745	1,764
PAYG withholding - employees <sup>10</sup>	955	927
<b>TOTAL</b>	<b>2,782</b>	<b>2,782</b>

**2017 Taxes Paid and Collected by Type - Australia-Westpac Bank (%)\***



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

### Westpac Group’s Effective Income Tax Rate

The Westpac Group’s effective income tax rate for 2017 was 30.6% (2016: 29.9%). This is the rate recognised in the financial statements included in our 2017 Annual Report (Financial Statements), and is calculated as income tax expense divided by the net profit before tax. The effective income tax rate is similar to Australia’s corporate tax rate of 30%. The difference is principally due to non-deductible hybrid distributions. It also reflects differing treatments arising under accounting and tax rules for some items. Table 3 provides a summary of Westpac’s effective income tax rates.

<sup>8</sup> These are the taxes collected or paid by the Westpac Australian Tax Consolidated Group/Westpac Australian GST Group as applicable for the financial year ended 30 September.

<sup>9</sup> This includes TFN withholding, ABN withholding, interest withholding tax and royalty withholding tax.

<sup>10</sup> This represents the income tax withheld from employee remuneration.

**Table 3: Effective Income Tax Rates**

Jurisdiction	2017		2016	
	% of NPBT	Effective Income Tax Rate	% of NPBT	Effective Income Tax Rate
Australia	85.4%	31.2%	86.1%	30.9%
New Zealand	12.1%	28.6%	11.9%	27.6%
Other offshore	2.5%	16.7%	2.0%	-0.9%
<b>TOTAL</b>	<b>100%</b>	<b>30.6%</b>	<b>100%</b>	<b>29.9%</b>

### 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 \$3,518m for 2017. Table 4 below reconciles ITE to Taxes Paid. For a detailed reconciliation of accounting profit to ITE see Note 7 (Income Tax) in the 2017 Financial Statements.

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

	2017 A\$m	2016 A\$m
ITE per Note 7 in the Financial Statements	3,518	3,184
Timing Differences	(110)	102
Other	144	183
<b>Total Corporate Income Tax Paid by Westpac Group Globally</b>	<b>3,552</b>	<b>3,469</b>

In Table 4, "Timing differences" represent the differences between the time transactions are recognised for accounting purposes and when they are recognised for income tax purposes.

The amounts in "Other" represent income 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 income tax for the preceding income year.

### Impact of the new Major Bank Levy to the Westpac Group

The Australian Government enacted legislation that introduced a Major Bank Levy in June 2017. The Levy applies from 1 July 2017 and the rate is set at 0.06% per annum of certain ADI liabilities of the Westpac Group. The amount payable for the July-September 2017 quarter was \$95m. This amount will be paid in March 2018 and is not recognised in Table 1 of this report. It is recognised in our 2017 Financial Statements in Note 3 (Net interest income) and is deductible for tax purposes in the year ended 30 September 2017.

## Westpac Group's Tax Strategy

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.

The Australian Group Tax Function (Group Tax) has day-to-day responsibility for managing the global tax risk and strategy in accordance with the Board's set risk limits. Our tax functions located offshore in New Zealand, US, UK, and Asia assist Group Tax in this process.

Key elements of our approach to tax include:

- complying with all applicable tax laws, rules and regulations in all the countries where the Group operates;
- not participating in or promoting aggressive tax planning arrangements (either for our own tax affairs or for our customers);
- ensuring tax compliance – including the associated control environment and business processes;
- 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;
- applying a low tax risk threshold and managing tax risk to avoid unnecessary disputes;
- seeking constructive, collaborative and transparent working relationships with the Australian Taxation Office (ATO) and other global tax authorities where we have operations, which may include entering into various co-operative compliance arrangements<sup>11</sup>; and
- pro-actively managing and monitoring compliance with the above principles.

The Westpac Group's strategy and risk governance process for taxation matters is supported through its Tax Risk Management Framework (the Framework) that operates in Australia and all the countries where we have operations. The Framework is approved by the Board Audit Committee and aligns to the Group's risk and compliance frameworks. 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;
- sets out the products, transactions and events that require notification to and/or sign-off by the applicable tax function(s);
- ensures that we seek external tax advice for material transactions;
- that significant, uncertain or complex issues are proactively disclosed to the relevant revenue authorities and that tax rulings or similar approvals are sought where appropriate;
- provides a mechanism for the escalation of material tax matters and ensures that material tax risk is reported to (and overseen by) the Board Audit Committee; and
- is actively monitored by Group Tax which reports to the Group Chief Financial Officer.

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<sup>11</sup> 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>).

Our willingness to maintain an open relationship with the ATO and with other revenue authorities in countries where we have operations is illustrated by the risk rating given to Westpac by the ATO. Westpac is considered to be a 'Key Taxpayer' for both income tax and GST for the 2016-17 financial year. 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 Fiji.

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.	✓	✓

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 globally, 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 2017, the ATO reported Australian tax information for Westpac and a number of other large public companies relating to the 2016 year. The ATO also included general guidance material on its website.

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

**Table 6: Report of Entity Tax Information**

<b>Westpac Banking Corporation</b>	
ABN 33 007 457 141	
All figures in A\$m	
Total Income	37,100 <sup>12</sup>
Taxable Income	10,415 <sup>13</sup>
<b>Income Tax Payable</b>	<b>2,967<sup>14</sup></b>

The above information relates to the income tax payable by the Westpac Australian Tax Consolidated Group for the 2016 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 28.5%<sup>15</sup>. This reflects the effect of specific items prescribed by the tax law, as represented in the graph overleaf.

<sup>12</sup> 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).

<sup>13</sup> 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).

<sup>14</sup> Income Tax Payable is the Westpac Australian Tax Consolidated Group's income tax liability for 2016. Of the \$2,967m, \$2,668m tax was paid in FY16 and the \$299m balance was paid in FY17. It differs to the Corporate Income tax paid of \$3,129m disclosed in Table 1 of this report, as that is the actual amount of tax paid during FY16.

<sup>15</sup> The rate of 28.5% differs from the effective income tax rate of 30.9% shown in Table 3 of this report 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 Income tax rate and the Westpac Australian Tax consolidated Group Income Tax rate for FY16**

