

Tax Transparency Report

For the year ended 30 September 2020

 **estpac** GROUP

FY20 Tax Contribution Highlights



Chief Financial Officer's Introduction

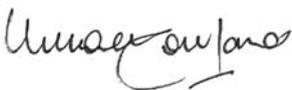
I am pleased to present Westpac Group's annual Tax Transparency Report for the year ended 30 September 2020. Westpac has adopted the Australian voluntary Tax Transparency Code (TTC) which was released by the Board of Tax in February 2016. This report sets out the Group's tax contributions and approach to tax responsibilities.

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 corporate values and behaviours.

Westpac is focused on our core markets of Australia and New Zealand. This has led to Westpac being Australia's 4th largest taxpayer in 2019¹. In 2020, 99.7% of our taxes (including the Major Bank Levy) were paid in Australia and New Zealand, with 89.6% paid in Australia.

Westpac paid over \$4 billion globally in various taxes during 2020. Additionally, we collected over \$2.5 billion in 2020 for Australian tax authorities for other tax matters including GST and income tax collected from employees.

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



Michael Rowland
Chief Financial Officer

¹ Based on the ATO's Corporate Tax Transparency Report for the 2018-19 Income Year, published December 2020.

Basis of Preparation

The information provided in this report covers the years ended 30 September 2019 and 30 September 2020. 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.

All amounts in the report have either been sourced from the Financial statements in Westpac Group's 2020 Annual Report, financial records or submitted tax returns. Where applicable, amounts have been translated into Australian dollars.

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.

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

Key elements of our tax strategy and approach 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);
- a policy prohibiting conduct that facilitates tax evasion;
- ensuring tax compliance – including the associated control environment and business processes;
- paying the correct amount of tax in the jurisdictions we operate in, based on underlying economic activity;
- not using 'Low or Nil' tax rate² 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;
- seeking constructive, collaborative and transparent working relationships with the Australian Taxation Office (ATO) and other international tax authorities where we have operations. This may include entering into various co-operative compliance arrangements³; 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 the Westpac Group) 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 (and overseen by) 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 globally in all the countries where we have operations.

² Low or nil tax rate jurisdictions are defined using International Standards (e.g. OECD)

³ 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 constructive relationship with the ATO is illustrated by the 'Key Taxpayer' risk rating given to Westpac by the ATO for 2019 and prior years. This rating applies to both income tax and GST. This rating is the highest possible risk rating for our size and complexity.

The ATO is now undertaking assurance reviews of all large Australian companies as part of its approach to Justified Trust. Westpac continues to work in an open and co-operative way with the ATO, with the aim of achieving a high level of assurance.

Westpac Group's Effective Income Tax Rate

Westpac's effective income tax rate for 2020 was 46.3% (2019: 30.4%). This is the rate recognised in the financial statements in our 2020 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 2020, the difference is principally due to the non-deductible provision for the penalty relating to AUSTRAC's civil proceedings and non-deductible goodwill impairments. 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 2020 becomes 55.7%. Table 1 provides a summary of Westpac's effective income tax rates.

Table 1: Effective Income Tax Rates

Jurisdiction	2020		2019	
	% of Profit before income tax	Effective income tax rate	% of Profit before income tax	Effective income tax rate
Australia	81.8%	48.6%	82.8%	31.3%
New Zealand	20.8%	28.6%	14.9%	27.5%
Other offshore	-2.6%	-20.4% ⁴	2.3%	14.8%
TOTAL	100%	46.3%	100%	30.4%

Westpac's International Related Party Dealings

Westpac has major operations in New Zealand and operates a number of branches and subsidiaries outside these markets.

Westpac also has overseas branches and/or subsidiaries in the United Kingdom, United States, Singapore, China, Hong Kong, India, Papua New Guinea (PNG) and Fiji which provide commercial banking products and services. PNG and Fiji also provide retail banking products and services.

⁴The negative effective tax rate is due to the non-recognition of tax losses in the 2020 Financial Statements.

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

Table 2: Material transactions Westpac undertakes with its' Offshore Subsidiaries and Branches

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, China, Hong Kong
Loans – comprises loans to and/or from offshore branches and subsidiaries	Westpac Capital Markets Holding Corporation	Singapore, USA, New Zealand
Dividends – comprises dividends from offshore subsidiaries	Westpac New Zealand Group Limited Westpac Bank-PNG-Limited BT Financial Group (NZ) Limited Westpac Financial Services Group-NZ Limited Westpac Group Investment NZ Limited	–
Administrative and management services – Westpac Australia undertakes these services for offshore branches and subsidiaries.	Westpac New Zealand Limited Westpac Bank-PNG-Limited	UK, USA, Singapore, Fiji

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 2020, Westpac has also lodged its third Country-by-Country (CbC) report for the year ended 30 September 2019. CbC reporting is part of a range of international measures that work towards promoting more comprehensive exchanges of information between countries.

Westpac's total tax contributions for 2019 and 2020

Table 3: Taxes (including the Major Bank Levy) paid by the Westpac Group

Type	2020 A\$m					2019 A\$m				
	Australia- Westpac Bank ⁵	Australia – subsidiaries (that separately pay tax) ⁶	New Zealand	Other offshore	TOTAL	Australia- Westpac Bank ⁵	Australia – subsidiaries (that separately pay tax) ⁶	New Zealand	Other offshore	TOTAL
Corporate Income Taxes Paid ⁷	2,714	1	369	2	3,086	3,033	21	402	44	3,500
Major Bank Levy ⁸	404	-	-	-	404	388	-	-	-	388
Non- recoverable GST	289	-	39	1	329	285	-	33	1	319
Payroll Tax ⁹	203	-	-	-	203	208	-	-	-	208
Fringe Benefits Tax ¹⁰	17	-	4	-	21	17	-	4	-	21
Other ¹¹	-	-	-	8	8	-	-	-	13	13
TOTAL	3,627	1	412	11	4,051	3,931	21	439	58	4,449

⁵ 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.

⁶ Australian subsidiaries that are not wholly owned by Westpac pay tax separately from Westpac.

⁷ This represents the amount actually paid to the Revenue Authorities globally for income tax during the financial year ended 30 September.

⁸ 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.

⁹ This represents the amount of Payroll tax actually paid to State Revenue Authorities during the financial year ended 30 September.

¹⁰ This is the amount of Fringe Benefits Taxes (FBT) actually paid in Australia and New Zealand during the financial year ended 30 September.

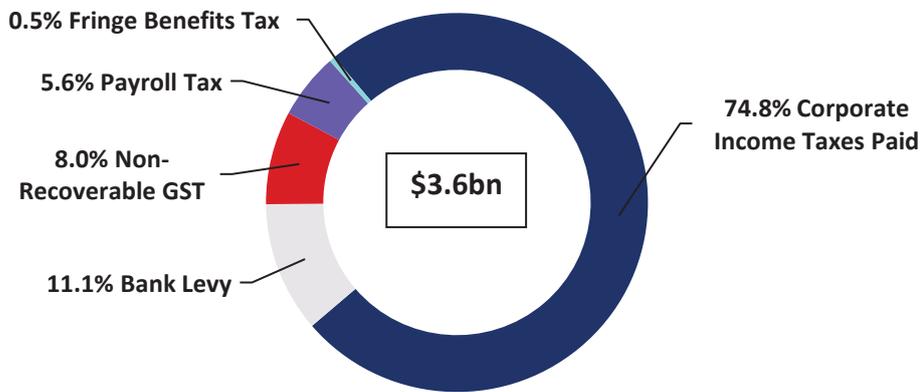
¹¹ This includes various taxes incurred by our offshore branches and subsidiaries, however, does not include all state taxes, levies and charges that Westpac pays.

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

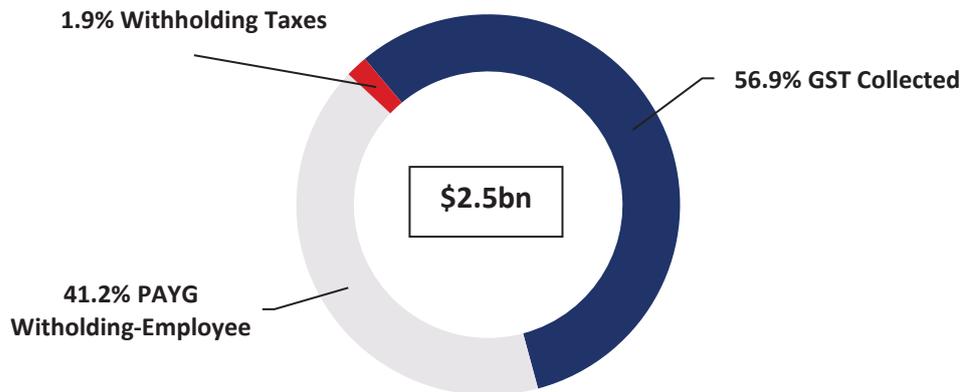
Table 4: Taxes Collected on behalf of the Australian Government

Tax Type	Australia – Westpac Bank ¹²	
	2020 A\$m	2019 A\$m
Withholding Taxes ¹³	47	75
GST Collected	1,434	1,620
PAYG Withholding - Employees ¹⁴	1,038	1,027
TOTAL	2,519	2,722

Taxes Paid by Type - Australia Westpac (%)¹²



Taxes Collected by Type - Australia Westpac (%)¹²



¹² 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.

¹³ This includes TFN withholding, ABN withholding, interest withholding tax and royalty withholding tax.

¹⁴ 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 \$1,974m for 2020.

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

	2020 A\$m	2019 A\$m
Profit before income tax	4,266	9,749
Tax at the Australian company tax rate of 30%	1,280	2,925
<i>Non-Temporary Differences:</i>		
Hybrid capital distributions ¹⁵	56	72
Life insurance:		
Tax adjustments on policyholder earnings ¹⁶	(17)	8
Adjustment for life business tax rates	1	(1)
Dividend adjustments ¹⁷	-	(1)
Other non-assessable items ¹⁸	(3)	(14)
Other non-deductible items ¹⁹	585	12
Adjustment for overseas tax rates ²⁰	16	(32)
Income Tax (over)/under provided in prior years ²¹	1	(10)
Other items	55	-
Total Income Tax Expense per Note 7 in the Financial Statements	1,974	2,959
<i>Temporary Differences (movement):</i>		
Provisions for ECL on loans and Credit Commitments ²²	630	(25)
Financial instruments	(5)	(3)
Finance lease transactions	(23)	(72)
Lease Liabilities ²³	899	-
Property and equipment ²³	(777)	6

¹⁵ This represents interest payments paid on Hybrid distributions which are equity for tax purposes and therefore non-deductible.

¹⁶ 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.

¹⁷ This represents the adjustment in regards to franking credits for the receipt of franked dividends from non-accounting consolidated entities.¹⁸ These are amounts that have been included in accounting income however are not assessable for tax purposes.

¹⁸ These are amounts that have been included in accounting income however are not assessable for tax purposes.

¹⁹ These are amounts which are expensed for accounting purposes but are non-deductible for tax purposes, for e.g. fines.

²⁰ This represents the adjustments on corporate tax rates between Australia and the offshore jurisdictions where we operate.

²¹ This represents prior year tax adjustments.

²² This represents provisions raised during the year which are not tax deductible until the debt is written off as bad.

²³ On the adoption of 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.

	2020 A\$m	2019 A\$m
<i>Temporary Differences cont.:</i>		
Life insurance assets	14	(6)
Other provisions	75	365
Other timing differences	168	136
Total Temporary Differences (movement)	981	401
Other tax adjustments ²⁴	131	140
Total Corporate Income Tax Paid by Westpac Group Globally	3,086	3,500

Australian Tax Return Information Published by the ATO

In December 2020, the ATO reported Australian tax information for Westpac and a number of other large public companies relating to the 2019 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

Westpac Banking Corporation	
ABN 33 007 457 141	
All figures in A\$m	
Total Income	37,068 ²⁵
Taxable Income	10,528 ²⁶
Income Tax Payable	3,010²⁷

²⁴ 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.

²⁵ 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).

²⁶ 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:

- non-temporary differences (items that are included for accounting purposes and not for tax (or vice versa)); and
- temporary differences (items that are recognised in different periods for accounting and tax). These are covered in Table 5 of this Report.

²⁷ Income Tax Payable is the Westpac Australian Tax Consolidated Group's income tax liability for 2019. Of the \$3,010m, \$2,847m tax was paid in FY19 and the \$163m balance was paid in FY20. It differs to the Corporate Income tax paid of \$3,033m disclosed in Table 3 of this report, as that is the actual amount of tax paid during FY19.

The information in Table 6 relates to the income tax payable by the Westpac Australian Tax Consolidated Group for the 2019 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 28.59%²⁸. 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 FY19



²⁸ The rate of 28.59% differs from the effective income tax rate of 31.3% 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.

²⁹ 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%.