

TAX TRANSPARENCY

2018

REPORT



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TAX TRANSPARENCY REPORT 2018

The Tax Transparency report provides an overview of business operations, ASC's approach to Tax strategy, risk management and tax planning as well as information on any tax payments made throughout the financial year.

ASC is subject to various taxes across its Australian locations including Corporate Tax, Payroll Tax, Goods and Services Tax and withholds Pay As You Go Withholding Tax on behalf of employees.

ASC has provided the minimum disclosure requirements as seen in last financial years Tax Transparency Report and has also elected to disclose information in relation to employment taxes.

Overview of business operations

ASC exists to serve Australia's frontline naval defence capabilities. With more than 2,500 employees across our three facilities in South Australia and Western Australia, ASC has evolved into Australia's largest specialised defence shipbuilding organisation, with naval design and engineering resources unparalleled within Australia's defence industry.

ASC is committed to supporting the Australian Defence Force by maintaining open lines of communication with our customer, understanding our customer's expectations and priorities, implementing productivity and efficiency improvements, and striving to deliver the best results for defence.

ASC is a proprietary company limited by shares registered under the Corporations Act and is subject to the *Public Governance Performance and Accountability Act 2013* (Cth). All the shares issued in the capital of ASC are owned by the Minister of Finance.

ASC and its wholly-owned Australian subsidiaries at 30 June 2018 formed part of an income tax consolidation group under the tax consolidation legislation. As a consequence, these entities are taxed as a single entity and the company prepares a consolidated taxation return with the Australian Tax Office (ATO).

Tax Strategy

Strongly held corporate values are an important element of the strategic framework that underpins ASC. It is these values of Service, Safety, Leadership, Integrity, Results and Innovation that ensures we continue to keep open and honest communication with our stakeholders and the public.

ASC is committed to conducting its tax affairs in line with these corporate values through its tax principles:

- Not to intentionally breach tax laws, tax filing, and tax payment obligations in all jurisdictions.
- Pay tax in all jurisdictions of operation as required by legislation.
- Achieve a high standard of integrity as a responsible taxpayer and good corporate citizen.
- Maintain open, honest, and cooperative relationships with all tax authorities.
- Not tolerating any practices that rely on secrecy or concealment of any information from any tax authorities.
- Committing to embed risk management principles and practices into its organisational culture and processes.
- Focussing on what's good for ASC and its stakeholders not only for today, but for the future.

Approach to risk management and governance arrangements

The Board of ASC are responsible for corporate governance which is monitored against performance at each Board meeting. The Board is committed to risk management as an integral part of ASC's business and has established an Audit Committee to ensure that financial compliance is effective. Tax risks are managed by the Board and the Audit Committee as part of this overall corporate governance and risk management framework.

ASC seeks to comply with and observe all applicable rules and regulations of all the jurisdictions it operates in and to maintain open, honest, and cooperative relationships with all tax authorities.

Attitude towards tax planning

Tax decisions will be made at all times in a manner which is consistent with ASC's overall strategy.

ASC will apply due professional care and judgement when considering tax planning or initiatives. Transactions will only be undertaken which relate to the commercial needs of the company. Due consideration is given to ASC's reputation, brand and corporate social responsibilities when considering tax planning or initiatives. Where there is uncertainty as to the application or interpretation of tax law, appropriate written advice evidencing the facts, risks and conclusions may be taken from external advisers to support the decision-making process.

Accepted level of risk in relation to taxation

The Board adopts a conservative approach when considering different tax options in order to mitigate any potential taxation risks.

ASC has a tax governance and risk management system in place which manages tax risk in line with the enterprise wide risk management framework. Tax risks are identified, assessed and managed in accordance with Board defined thresholds/risk appetite.

ASC complies with and observes all applicable rules and regulations of all the jurisdictions it operates in.

Approach to engagement with the Australian Taxation Office (ATO)

ASC maintains a professional and transparent relationship with the Australian Taxation Office (ATO). It is this relationship that has allowed ASC to continue to successfully undertake the ATO annual assurance review without any issues arising.

International related party dealings summary

ASC has no dealings with international related parties.

Australian tax contribution summary

Taxes paid

	June 2018 \$'000	June 2017 \$'000
Corporate Tax ^{^1}	18,224	4,746
Indirect Taxes Net of Recoveries ^{^2}	43,486	44,684
Employer Payroll Taxes ^{^3}	15,229	15,270
Employee Withholding Taxes ^{^4}	78,757	77,313
Fringe Benefits Tax ^{^5}	183	267
Total Taxes Paid	155,879	142,280

- 1 The tax liability of ASC Group includes ASC Pty Ltd, ASC AWD Shipbuilder Pty Ltd and ASC Shipbuilding Pty Ltd. The comparative information includes taxes paid on behalf of Australian Naval Infrastructure Pty Ltd in which left the consolidated group on 26 March 2017.
- 2 The net amount paid to the Australian Taxation Office for Goods and Services Taxes. The comparative information includes Goods and Services taxes paid on behalf of Australian Naval Infrastructure Pty Ltd in which left the consolidated group in 26 March 2017.
- 3 Relates to payroll taxes incurred during the year ended 30 June 2018 and 30 June 2017 respectively.
- 4 Pay As You Go Withholding withheld from employee remuneration and paid to the Australian Taxation Office in the year ended 30 June 2018 and 30 June 2017 respectively.
- 5 Fringe Benefits Tax Paid relating to the FBT year ended 31 March 2018 and 31 March 2017 respectively.

Australian corporate income tax paid

The following table reconciles the income tax expense account as reported in the profit and loss to the income tax payable disclosed in the balance sheet.

	June 2018 \$'000	June 2017 \$'000
Income taxes payable at the beginning of financial year	10,057	(2,036)
Less: Income tax paid during the year as per cash flow	(18,224)	(4,746)
Prior Year Adjustments	17	(151)
Income Taxes payable for current financial year	13,123	16,990
Total tax payable/(refundable) as reported in the balance sheet	4,973	10,057

The net Income Tax Paid during the financial year includes:

- monthly Pay As You Go (PAYG) instalments paid in accordance with legislation to the ATO for the 2017/18 financial year of \$9,360,738 (\$6,993,000 in 2017);
- a payment of \$8,363,662 relating to the lodgement of the final 2016/17 income tax return (\$2,186,000 refunded in 2017)

The total tax payable amount includes the final PAYG instalment for June 2018 which is not paid until the 2018/19 financial year as prescribed under taxation legislation, as well as the final balance payable on lodgement of the 2017/18 income tax return.

Reconciliation of accounting profit to income tax expense

The consolidated accounting profit of ASC for the 2018 financial year attributable to the shareholders was \$31,996,000 (2017: \$29,177,000) after provision for income tax expense of \$13,728,000 (2017: \$12,646,000). This is reconciled to profit before tax in the table below:

	June 2018 \$'000	June 2017 \$'000
Profit from continuing operations before income tax expense	45,724	41,823
Income Tax calculated at 30%	13,717	12,547
Tax effect of non-temporary adjustments	11	99
Income Tax Expense	13,728	12,646
Represented by:		
Current Tax Expense	13,123	16,990
Deferred Income Tax Expense	605	(4,344)
Income Tax Expense	13,728	12,646

Material temporary and non-temporary differences

Temporary differences

ASC's material temporary differences mainly relate to:

- employee benefits;
- project recognised profit; and
- property, plant and equipment.

Non-temporary differences

ASC's only material non-temporary differences relate to:

- non-deductible entertainment expenses

Effective company tax rate

The effective corporate tax rate of ASC has been calculated by dividing the income tax expense by profit before tax, as set out in the table below:

	June 2018 \$'000	June 2017 \$'000
Profit from continuing operations before income tax expense	45,724	41,823
Income Tax Expense as reported in the Profit and Loss	13,728	12,646
Effective Corporate Tax Rate	30.02%	30.24%

ASC's 2018 Australian Effective corporate tax rate is 30.02%.

The effective tax rate of ASC is higher than the corporate tax rate of 30% due to tax adjustments arising from non-deductible expenses.

