

TAX TRANSPARENCY

2019

REPORT



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TAX TRANSPARENCY REPORT 2019

ASC Pty Ltd (ASC) has adopted the Board of Taxation's voluntary tax transparency code (TTC) issued in February 2016. This tax transparency report provides:

- an overview of the business operations of ASC and its wholly owned subsidiaries;
- ASC's approach to tax strategy, risk management and tax planning; and
- information on tax payments made by ASC during the financial year.

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

Consistent with last year's report, ASC has provided both:

- the minimum disclosures required as a "large business" under the TTC; and
- the optional disclosures in relation to other Australian taxes and imposts paid to Government and Government imposts collected by ASC on behalf of others, which are contained in the "Taxes paid" section of the Australian Tax Contribution Summary below.

Overview of business operations

ASC exists to serve Australia's frontline naval defence capabilities. With more than 1,300 employees across our 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 the defence force.

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 for Finance.

ASC and its wholly-owned Australian subsidiaries at 30 June 2019 form part of an income tax consolidated group under the tax consolidation legislation. As a consequence, these entities are taxed as a single entity and the company lodges a consolidated taxation return with the Australian Taxation 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:

- To comply with tax laws, tax filing and tax payment obligations in all jurisdictions.
- To pay tax in all jurisdictions of operation as required by legislation.
- To act with a high standard of integrity as a responsible taxpayer and good corporate citizen.
- To maintain open, honest, and cooperative relationships with all tax authorities.
- To not tolerate any practices that rely on secrecy or concealment of any information from any tax authorities.
- To embed risk management principles and practices into its organisational culture and processes.
- To focus 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 group. 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 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 2019 \$'000	June 2018 \$'000
Corporate Tax ^{^1}	14,284	18,224
Indirect Taxes Net of Recoveries ^{^2}	29,768	43,486
Employer Payroll Taxes ^{^3}	12,486	15,229
Employee Withholding Taxes ^{^4}	61,153	78,757
Fringe Benefits Tax ^{^5}	105	183
Total Taxes Paid	117,796	155,879

- 1 The tax liability of the ASC group includes ASC Pty Ltd, ASC Shipbuilding Pty Ltd (up to 13 December 2018), ASC AWD Shipbuilder Pty Ltd and ASC OPV Shipbuilder Pty Ltd. ASC Shipbuilding Pty Ltd left the consolidated group on 13 December 2018 when it transferred to separate government ownership.
- 2 The net amount paid to the ATO for Goods and Services Tax. ASC Shipbuilding Pty Ltd left the GST group on 13 December 2018 when it transferred to separate government ownership.
- 3 Relates to state payroll taxes incurred during the years ended 30 June 2019 and 30 June 2018 respectively.
- 4 Pay As You Go (PAYG) withholding withheld from employee remuneration and paid to the ATO in the years ended 30 June 2019 and 30 June 2018 respectively.
- 5 Fringe Benefits Tax (FBT) paid relating to the FBT year ended 31 March 2019 and 31 March 2018 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 2019 \$'000	June 2018 \$'000
Income taxes payable at the beginning of financial year	4,973	10,057
Less: Income tax paid during the year as per cash flow	(14,284)	(18,224)
Prior Year Adjustments	(20)	17
Income Taxes payable for current financial year	10,724	13,123
Total tax payable/(refundable) as reported in the balance sheet	1,393	4,973

The net Income tax paid during the financial year includes:

- monthly instalments paid in accordance with legislation to the ATO for the 2018/19 financial year of \$14,604,000 (2018: \$9,361,000); and
- a refund of \$277,000 relating to the lodgement of the final 2017/18 income tax return and a refund of \$43,000 relating to the 2016/17 income tax return (2018: a final payment of \$8,863,000 relating to the 2016/17 income tax return).

Total tax payable as reported in the balance sheet of \$1,393,000 reflects ASC's income tax liability at 30 June 2019. ASC's 2019 income tax liability will be settled by the June 2019 income tax instalment, paid in July 2019, as well as any amount payable on lodgement of the 2018/19 income tax return, due on 1 December 2019.

Reconciliation of accounting profit to income tax expense

The consolidated accounting profit of ASC for the 2019 financial year attributable to the shareholders was \$30,272,000 (2018: \$31,996,000) after provision for income tax expense of \$12,857,000 (2018: \$13,728,000). This is reconciled to profit before tax in the table below:

	June 2019 \$'000	June 2018 \$'000
Profit from continuing operations before income tax expense	43,129	45,724
Income Tax calculated at 30%	12,939	13,717
Tax effect of non-temporary adjustments	(82)	11
Income Tax Expense	12,857	13,728

Represented by:

Current Tax Expense	10,633	13,123
Deferred Income Tax Expense	2,224	605
Income Tax Expense	12,857	13,728

Reconciliation of income tax expense to income tax payable

The consolidated income tax expense of ASC for the 2019 financial year was \$12,857,000 (2018: \$13,728,000). This is reconciled income tax payable in the table below:

	June 2019 \$'000	June 2018 \$'000
Income tax expense	12,857	13,728
Movements in temporary differences	(2,224)	(605)
Expected income tax payable	10,633	13,123
Tax payments during the year	(9,220)	(8,167)
Adjustments to current tax of prior periods	(20)	17
Income tax payable – current year	1,393	4,973

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 non-temporary differences relate to:

- Research and Development tax incentives; and
- 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 2019 \$'000	June 2018 \$'000
Profit from continuing operations before income tax expense	43,129	45,724
Income Tax Expense as reported in the Profit and Loss	12,857	13,728
Effective Corporate Tax Rate	29.81%	30.02%

ASC's 2019 Australian effective corporate tax rate is 29.81% (2018: 30.02%).

The effective tax rate of ASC for 2019 is different to the corporate tax rate of 30% due to tax adjustments arising from the receipt of Research and Development tax incentives, partly offset by the impact of non-deductible expenses.

