

Tax Transparency Report

2020



Introduction



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 Income Tax, Payroll Tax, Fringe Benefits Tax and Goods and Services Tax. ASC also withholds Pay As You Go Withholding in respect of personal 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.

1. Summary of tax policy, tax strategy and governance

Overview of business operations

ASC exists to serve Australia's frontline naval defence capabilities. With more than 1,000 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 2001* (Cth) 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 2020 have formed an income tax consolidated group under the tax consolidation legislation. As a consequence, these entities are subject to income tax as a single entity and the company lodges a consolidated income tax 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 is 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 is 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 tax 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 tax laws and regulations of all the jurisdictions in which it operates.

Approach to engagement with the ATO

ASC maintains a professional and transparent relationship with the ATO. It is this relationship that has previously allowed ASC to successfully undertake various ATO early engagement reviews without any issues arising.

International related party dealings summary

ASC has no dealings with international related parties.

2. Australian tax contribution summary

Taxes paid

	June 2020 \$'000	June 2019 \$'000
Corporate Tax ¹	5,831	14,284
Indirect Taxes Net of Recoveries ²	26,892	29,768
Employer Payroll Taxes ³	10,040	12,486
Employee Withholding Taxes ⁴	50,917	61,153
Fringe Benefits Tax ⁵	94	105
Total Taxes Paid	93,774	117,796

- 1 The June 2020 tax liability of the ASC group includes ASC Pty Ltd, ASC AWD Shipbuilder Pty Ltd and ASC OPV Shipbuilder Pty Ltd. Relevant to the June 2019 tax liability, ASC Shipbuilding Pty Ltd left the consolidated group on 13 December 2018 when its shares were transferred to separate government ownership.
- 2 The net amount paid to the ATO for Goods and Services Tax. As above, relevant to the June 2019 indirect taxes net of recoveries, ASC Shipbuilding Pty Ltd left the GST group on 13 December 2018 when its shares were transferred to separate government ownership.
- 3 Relates to state payroll taxes paid during the years ended 30 June 2020 and 30 June 2019 respectively.
- 4 Pay As You Go (PAYG) withholding withheld from employee remuneration and paid to the ATO in the years ended 30 June 2020 and 30 June 2019 respectively.
- 5 Fringe Benefits Tax (FBT) paid relating to the FBT year ended 31 March 2020 and 31 March 2019 respectively.

Australian corporate income tax payable

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

	June 2020 \$'000	June 2019 \$'000
Income taxes payable at the beginning of financial year	1,393	4,973
Less: Income tax paid during the year as per cash flow	(5,831)	(14,284)
Prior Year Adjustments	(428)	(20)
Income Taxes payable (ie - current income tax expense) for current financial year	19,468	10,724
Total tax payable as reported in the balance sheet	14,602	1,393

The net income tax paid during the financial year includes:

- monthly instalments paid in accordance with legislation to the ATO in respect of the 2019/20 financial year of \$4,424,000 (2019: \$14,604,000); and
- a final estimated payment of \$1,407,000 relating to the 2018/19 income tax return (2019: 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).

Total tax payable as reported in the balance sheet of \$14,602,000 reflects:

- ASC's estimated income tax liability at 30 June 2020 of \$15,043,000 which will be settled by ASC paying the June 2020 income tax instalment (which ASC paid in July 2020) and ASC paying a balancing payment which is due on 1 December 2020 in respect of the 2019/20 income tax return.
- ASC's estimated income tax refund at 30 June 2019 of \$441,000 to be received on lodgement of the 2018/19 income tax return due by 30 September 2020 for which an extension of time to lodge has been obtained from the Australian Taxation Office.

Reconciliation of accounting profit to income tax expense

The consolidated accounting profit of ASC for the 2020 financial year attributable to the shareholders was \$22,557,000 (2019: \$30,272,000) after provision for income tax expense of \$9,683,000 (2018: \$12,857,000). This is reconciled to profit before tax in the table below:

	June 2020 \$'000	June 2019 \$'000
Profit from continuing operations before income tax expense	32,240	43,129
Income Tax calculated at 30%	9,672	12,939
Tax effect of non-temporary adjustments	11	(82)
Income Tax Expense	9,683	12,857
Represented by:		
Current Tax Expense	19,039	10,633
Deferred Income Tax Expense	(9,356)	2,224
Income Tax Expense	9,683	12,857

Reconciliation of income tax expense to income tax payable

The consolidated income tax expense of ASC for the 2020 financial year was \$9,683,000 (2019: \$12,857,000). This is reconciled to income tax payable in the table below:

	June 2020 \$'000	June 2019 \$'000
Income tax expense	9,683	12,857
Movements in temporary differences	9,356	(2,224)
Expected income tax payable	19,039	10,633
Tax payments during the year	(4,424)	(9,220)
Adjustments to current tax of prior periods	428	(20)
Income tax payable – current year	15,043	1,393
Income tax payable – prior year	(441)	0
Total income tax payable	14,602	1,393

Material temporary and non-temporary differences

Temporary differences

ASC's material temporary differences mainly relate to:

- right of use assets;
- lease liabilities;
- 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.

3. 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 2020 \$'000	June 2019 \$'000
Profit from continuing operations before income tax expense	32,240	43,129
Income Tax Expense as reported in the Profit and Loss	9,683	12,857
Effective Corporate Tax Rate	30.03%	29.81%

ASC's 2020 Australian effective corporate tax rate is 30.03% (2019: 29.81%).

The effective tax rate of ASC for 2020 is different to the corporate tax rate of 30% due to minor tax adjustments arising from the impact of non-deductible expenses.

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.



ASC Pty Ltd
ACN 008 605 034

Registered and Head Office
694 Mersey Road, Osborne
South Australia 5017

T + 61 8 8348 7000

F + 61 8 8348 7001

W asc.com.au

Find and follow us on:
Facebook - LinkedIn - Twitter

