

Tax Transparency Report

2021



ASC

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 (the Group);
- 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 in this document.



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 1,300 employees across its facilities in South Australia and Western Australia, ASC has evolved into one of Australia's largest specialised defence shipbuilding organisations, 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) (PGPA Act)*. All the shares issued in the capital of ASC are owned by the Commonwealth of Australia (through the Minister for Finance).

ASC and its wholly-owned Australian subsidiaries formed an income tax consolidated group under the tax consolidation legislation effective from 1 July 2002. 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

ASC's approach to taxation aligns with the Group's business strategy, code of conduct and values which include open and honest communication with our stakeholders and the public. As a Government Business Enterprise, ASC is governed by the PGPA Act and Guidelines. ASC also considers the interests and reputation of its Shareholder with respect to meeting its taxation obligations. ASC adopts a conservative approach to tax strategy in line with its business risk appetite and does not tolerate non-compliant tax practices.

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

ASC has developed a Board-approved Tax Risk Governance Framework to guide the way in which the Group manages its tax obligations. The ASC Board 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 Tax Risk Governance 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 tax 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 tax governance and risk management systems in place, which manage 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 Australian Taxation Office

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

During the year ended 30 June 2021 the ATO commenced and completed a Combined Assurance Review under the Top 1,000 Program covering the financial years ended 30 June 2017 to 30 June 19 for income tax purposes, and the financial year ended 30 June 2019 for GST purposes.

The objectives of the Combined Assurance Review were to obtain greater confidence that ASC paid the right amount of corporate income tax, or to identify areas of income tax risk in respect of the period reviewed, and to better understand the GST profile of ASC and identify any GST risks that may require further action.

The ATO has advised that in respect of the years under review for income tax, an overall 'Medium' assurance rating was awarded including some individual areas of 'High' assurance. ASC's Tax Risk Governance Framework was rated at Stage 1, which is the minimum acceptable rating, and is currently the most common rating awarded across corporate taxpayers that have been subjected to an ATO Assurance Review.

The ATO Assurance Review report has highlighted the need to clarify the treatment of certain transactions for income tax purposes. The ATO also recommended improvements to the Tax Risk Governance Framework to further strengthen tax controls, which ASC will address in part through the implementation of a new enterprise wide reporting system.

The ATO has advised that in respect of the Combined Assurance Review that no further compliance action will be taken with respect to either income tax or GST.

International related party dealings summary

ASC has no dealings with international related parties.



2. Australian tax contribution summary

Taxes paid

	June 2021 \$'000	June 2020 \$'000
Corporate tax ¹	27,286	5,831
Indirect taxes net of recoveries ²	25,717	26,892
Employer payroll taxes ³	10,033	10,040
Employee withholding taxes ⁴	49,445	50,917
Fringe Benefits Tax ⁵	103	94
Total taxes paid	112,584	93,774

All amounts above relate to the ASC Group which includes ASC Pty Ltd, ASC AWD Shipbuilder Pty Ltd and ASC OPV Shipbuilder Pty Ltd.

¹ Corporate income tax paid to the ATO.

² Net amount of Goods and Services Tax paid to the ATO.

³ Payroll taxes paid to State Revenue Authorities.

⁴ Pay As You Go (PAYG) withholding withheld from employee remuneration paid to the ATO.

⁵ Fringe Benefits Tax (FBT) paid to the ATO.

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 2021 \$'000	June 2020 \$'000
Income taxes payable at the beginning of the financial year	14,602	1,393
Less: income tax paid during the year as per cash flow	(27,286)	(5,831)
Prior year adjustments	17	(428)
Income taxes payable (i.e. current income tax expense) for current financial year	12,540	19,468
Total tax (refundable) / payable as reported in the balance sheet	(127)	14,602

The net income tax paid during the financial year includes:

- monthly instalments paid in accordance with legislation to the ATO for the 2020/2021 financial year of \$8,353,000 (2020: \$4,424,000);
- a final estimated payment of \$3,429,000 for the 2020/2021 financial year (2020 : nil);
- a final estimated payment of \$15,079,000 for the 2019/2020 financial year (2020 : \$1,407,000 relating to the 2018/2019 financial year) and
- a final payment of \$425,000 on lodgement of the 2018/2019 income tax return.

Total tax refundable as reported in the balance sheet of \$127,000 reflects:

- ASC's estimated remaining income tax liability for 30 June 2021 of \$1,049,000 which will be settled by paying the June 2021 income tax instalment (which was paid in July 2021) and paying a balancing payment which is due on 1 December 2021 in respect of the 2020/2021 income tax return.
- ASC's income tax refund due for 30 June 2020 of \$1,176,000 which is currently being held by the ATO.

Reconciliation of accounting profit to income tax expense

The consolidated accounting profit of ASC for the 2020/2021 financial year attributable to the shareholders was \$36,727,000 (2020: \$22,557,000) after provision for income tax expense of \$15,587,000 (2020: \$9,683,000). This is reconciled to profit before tax in the table below:

	June 2021 \$'000	June 2020 \$'000
Profit from continuing operations before income tax expense	52,314	32,240
Income Tax calculated at 30%	15,694	9,672
Tax effect of non-temporary adjustments	(107)	11
Income tax expense	15,587	9,683
Represented by:		
Current tax expense	12,540	19,039
Deferred income tax expense	3,047	(9,356)
Income tax expense	15,587	9,683

Reconciliation of income tax expense to income tax payable

The consolidated income tax expense of ASC for the 2020/2021 financial year was \$15,587,000 (2020: \$9,683,000). This is reconciled to income tax payable in the table below:

	June 2021 \$'000	June 2020 \$'000
Income tax expense	15,587	9,683
Movements in temporary differences	(3,047)	9,356
Expected income tax payable	12,540	19,039
Tax payments during the year	(11,474)	(4,424)
Adjustments to current tax of prior periods	(17)	428
Income tax payable – current year	1,049	15,043
Income tax payable / (refundable) – prior year	(1,176)	(441)
Total income tax (refundable) / payable	(127)	14,602

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 2021 \$'000	June 2020 \$'000
Profit from continuing operations before income tax expense	52,314	32,240
Income tax expense as reported in the Profit and Loss	15,587	9,683
Effective corporate tax rate	29.80%	30.03%

ASC's 2020/2021 Australian effective corporate tax rate is 29.80% (2020: 30.03%).

The effective tax rate of ASC for 2020/2021 is different to the corporate tax rate of 30% due to tax adjustments arising from the research and development tax incentives, partly offset by the impact of non-deductible expenses.

The effective tax rate of ASC for 2019/2020 is different to the corporate tax rate of 30% due to minor tax adjustments arising from the impact of non-deductible expenses.



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