

Becoming a simpler,
better bank

Tax Transparency Code 2018

Tax Transparency Code

Commonwealth Bank of Australia ("the Group") is pleased to provide our tax transparency report for the financial year ended 30 June 2018 ("FY18"). The Group is one of Australia's largest taxpayers. Our commitment is to comply with all prevailing tax laws in every jurisdiction of operation and to maintain transparent and collaborative relationships with all tax authorities.

In FY18, the Group paid approximately **\$5.2 billion** of taxes in Australia and over **\$5.7 billion** of taxes globally.

The Group also collected over **\$2.5 billion** of customer and employee taxes for tax authorities.

Taxes Paid by the Group

The total taxes paid¹ by the Group in FY18 are as follows:

TOTAL TAX CONTRIBUTION BY THE GROUP	FY18 \$M			FY17 \$M
	Australia	Offshore	Group Total	Group Total
Corporate Income Taxes Paid	4,308	483	4,791	3,976
Net Unrecoverable GST/VAT	252	34	286	275
Other Taxes and Employee Taxes Paid (including Payroll Tax and FBT)	267	27	294	286
Major Bank Levy ²	369	-	369	-
Total	5,196	544	5,740	4,537

Taxes Collected by the Group

The total taxes collected by the Group in FY18 are as follows:

TOTAL TAX COLLECTED BY THE GROUP ON BEHALF OF GOVERNMENT	FY18 \$M			FY17 \$M
	Australia	Offshore	Group Total	Group Total
GST/VAT (Customer)	788	78	866	875
Withholding Taxes (Largely Customer)	66	192	258	254
PAYG Withholding (Employees)	1,250	193	1,443	1,373
Total	2,104	463	2,567	2,502

CBA Group's Effective Tax Rate (on a Statutory Basis)

JURISDICTION	PROFIT BEFORE INCOME TAX	EFFECTIVE INCOME TAX RATE
Australia	84.8%	31.2%
Offshore	15.2%	25.1%
Total	100%	30.3%

The effective tax rate of Australia and Offshore differ mainly because of the difference in the prevailing corporate tax rates. The corporate tax rate in Australia was 30%, whereas the corporate tax rate in the other main countries of operation as at 30 June 2018 was as follows: New Zealand (28%), United States (21%), United Kingdom (19% - exclusive of bank corporation tax surcharge), Singapore (17%) and Hong Kong (16.5%).

¹ Represents payments made in FY18.

² From 1 July 2017, the Major Bank Levy applied to the Group. The levy is calculated at the rate of 0.06% per annum of certain Authorised Deposit Taking Institutions ("ADI") liabilities.

Reconciliation of accounting profit to income tax expense (on a Statutory Basis)

A reconciliation of the Group's accounting profit to income tax expense for continuing operations is disclosed in Note 2.5 of the Financial Report contained in the Group's 2018 Annual Report. Income tax expense is calculated in accordance with Australian accounting standards and represents accounting profit multiplied by Australia's corporate tax rate of 30%, adjusted for "non-temporary" differences between accounting and tax. Examples of "non-temporary" differences include non-deductible expenses, foreign tax rate differences and concessional tax income.

In FY18, the results of Commlnsure Life, Sovereign, BoComm Life and TymeDigital were disclosed in "discontinued operations" in the Group's 2018 Annual Report.

The reconciliation below includes both continuing and discontinued operations.

	FY18 \$M	FY17 \$M
Profit before income tax expense – continuing operations	13,420	13,665
Profit before income tax expense – discontinued operations	(6)	247
Profit before income tax expense³	13,414	13,912
Prima facie income tax at 30%	4,024	4,174
Tax effect of amounts not deductible / (assessable)		
Taxation offsets and other dividend adjustments	(7)	(11)
Offshore tax rate differential	(67)	(76)
Offshore banking unit	(39)	(42)
Effect of changes in tax rates	15	4
Income tax (over)/under provided in previous years	(80)	(66)
Non-deductible expense provision ⁴	210	-
Other	10	(23)
Total income tax expense	4,066	3,960
Effective tax rate	30.3%	28.5%

Reconciliation of income tax expense to income tax paid

The table below reconciles income tax expense to income tax paid (as shown in the Statements of Cash Flows contained in the Group's 2018 Annual Report). Income tax expense is an accounting concept that measures the amount of tax which will be paid in relation to the accounting profits of the period. Income taxes paid represents actual net cash paid to tax authorities during the year.

	FY18 \$M	FY17 \$M
Total income tax expense	4,066	3,960
Temporary differences (movement)		
Provisions	(62)	(42)
Lease financing	35	47
Unearned income	39	127
Intangibles	8	141
Other timing differences	128	54
Other adjustments ⁵	577	(311)
Total Corporate Income Tax Paid (per Statement of Cash Flows)	4,791	3,976

³ Includes discontinued operations and excludes policyholder tax.

⁴ Due to the \$700 million expense relating to the AUSTRAC civil penalty, which is not deductible for tax purposes.

⁵ Predominantly represents tax payments made in the financial year that relates to the preceding income year (i.e. final tax instalment).

Approach to management of tax risk

Tax Risk Appetite

The Group takes a conservative approach to managing its tax affairs. This includes complying with all tax laws in the jurisdictions in which the Group operates, and includes ensuring that all tax lodgments, payments, reporting, disclosures and other obligations are adhered to.

Further, the Group applies the following principles in its assessment of tax outcomes:

- Only enter into transactions that have a clear business rationale, before taking into account any tax consequences;
- Not participate in or promote aggressive tax planning or tax avoidance arrangements (either for the Group's own tax affairs or for its customers);
- Pay the appropriate amount of tax in accordance with the prevailing tax laws; and
- Claim any deductions, credits, offsets or concessions that are legitimately available.

As tax laws can be very complex and open to interpretation, the Group acknowledges at times tax regulators may interpret tax laws differently to the Group.

Relationship with tax authorities

The Group aims to maintain transparent and collaborative relationships with all tax regulators, which includes:

- Providing any information required on a timely basis;
- Engaging proactively on significant tax issues; and
- Where disputes arise, working openly and constructively to resolve the issues.

Most of the tax paid by the Group is to the Australian Taxation Office ("ATO"). The Group has entered into an Annual Compliance Arrangement ("ACA") with the ATO, which sets out a compliance and risk management relationship framework based on openness and trust. Under the ACA, the Group reports all significant transactions, risks and other issues to the ATO on a regular basis, and issues are resolved with the ATO in a constructive and efficient manner.

Arm's Length Pricing

The Group ensures that international related party and intra-group transactions are in compliance with the Organisation for Economic Co-operation and Development ("OECD") guidelines and arm's length principles. The Group does not artificially divert profits to low tax jurisdictions or tax havens.

Risk Management Framework

The Group's strategy for managing tax risk forms part of the Group's risk and compliance framework. The strategy includes:

- Maintaining a qualified and well-resourced central Group Taxation team to manage and oversee the tax control framework and the day to day tax affairs of the Group;
- Requiring specified products, transactions and events to be signed-off by the Group Taxation team;
- Where appropriate, obtaining external tax advice for material and/or complex transactions;
- Ensuring that appropriate transactions (such as where there is uncertainty) are disclosed to the relevant tax authorities; and
- Regular reporting of significant tax issues to the Group's Chief Financial Officer, the Chief Executive Officer and to the Board Audit Committee, a sub-committee of the Board.

International Related Party Dealings

The Group has an international presence through its shareholdings in foreign retail banks, international banking investments, life insurance operations, banking branches in major international financial services hubs and an international funds management business. The key international related party dealings for the Group which have a material impact on the Group's Australian taxable income are:

KEY INTERNATIONAL RELATED PARTY DEALING	DESCRIPTION	SIGNIFICANT JURISDICTIONS
Loans	The Australian business has loans to/from offshore CBA branches and subsidiaries.	United Kingdom, United States of America, Singapore, Japan, Hong Kong, New Zealand, Malta, South Africa.
Derivative arrangements	The Australian business has derivative arrangements (including swaps, options, FX and commodity contracts) with offshore CBA branches and subsidiaries.	New Zealand, United Kingdom, United States of America, Hong Kong, Singapore, Japan, Indonesia.
Dividends	The Australian business owns subsidiaries in other countries from which it receives dividends.	New Zealand, Malta, Hong Kong, United Kingdom, China, Bermuda.

The Group maintains contemporaneous documentation supporting the pricing of related party dealings which are conducted in accordance with the arm's length principle.

Australian Tax return information

The ATO publishes tax return information annually for a number of large public companies. The following FY18 information will be disclosed by the ATO in respect of the Australian Tax Group:

AUSTRALIAN TAX CONSOLIDATED GROUP	FY18 \$M	FY17 \$M
Tax Payable in Australia (after offsets)	4,395	3,938
Australian Tax Consolidated Group Total Revenues	42,371	41,857
Australian Tax Consolidated Group Total Taxable Income	15,006	13,511

These figures will differ from the figures disclosed in the Tax Expense Note 2.5 of the Financial Report contained in the Group's Annual Report for the following reasons:

- The ATO data does not include foreign entities and Australian entities that are not wholly owned entities;
- Temporary differences as explained above;
- Concessional tax treatment for certain income e.g. certain Policyholder superannuation income and retirement savings account income is taxed at 15%; and
- The effect of credits, such as foreign tax credits and franking credits, which prevent double taxation.



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