MACQUARIE

# Tax Transparency

## Macquarie Group

Year ended 31 March 2018



# TAX TRANSPARENCY

Macquarie supports the Australian Government's commitment for greater Australian corporate tax transparency, as actioned through the Australian Board of Taxation's voluntary Tax Transparency Code (the Code).

This Tax Transparency disclosure has been prepared to meet the requirements of the Code, namely details of: Macquarie's tax policy, strategy and governance; Macquarie's operations; and details of Macquarie's effective tax rate, taxes paid and international related party dealings.

## Tax policy, strategy and governance

Macquarie's tax governance framework is documented in Macquarie's Group Tax Policy which was tabled at the Board Audit Committee (BAC). The BAC also requires tax reports to be prepared and presented regularly. The CFO, with the assistance of the Head of Tax, reports on general tax items and tax risk issues.

The principles of the Group Tax Policy are consistent with Macquarie's approach to corporate governance and ensure that Macquarie:

- Identifies, assesses, controls and reports tax risks
- Complies with statutory obligations, administrative requirements and required disclosures to Revenue Authorities
- Maintains documented policies and procedures in relation to tax risk management
- Maintains open, transparent and professional relationships with Revenue Authorities, both local and international
- Resolves as effectively as possible any outstanding disagreements with Revenue Authorities
- Seeks to maintain the highest of reputations and the confidence of all stakeholders
- Complies with all laws and regulations
- Behaves in a way that maintains the trust in Macquarie by regulators, Revenue Authorities, clients and the public
- Ensures tax affairs are conducted in compliance with the tax laws of the jurisdictions in which Macquarie operates

Macquarie has entered into an Annual Compliance Arrangement (ACA) in relation to income tax and goods and services tax with the Australian Taxation Office (ATO). The ACA further enhances Macquarie's positive and proactive relationship with the ATO.

Macquarie may benefit from tax concessions in the course of its normal business, but has no appetite for any transaction that is motivated by the avoidance of tax. Macquarie's tax governance framework is regularly reviewed.

## Macquarie Operations

The distribution of taxes paid by Macquarie reflects the geographic spread of Macquarie's business. In operating its business globally, Macquarie comprises subsidiaries resident in many countries.

The location of the subsidiaries reflects commercial considerations, driven by the locations of our operations and the needs of our global clients. Each of these subsidiaries is subject to the taxation laws of the countries in which they are resident and also the overlay of Australia's comprehensive international taxation regime.

## Effective tax rates

An effective tax rate (ETR) can be calculated as income tax expense divided by accounting profit.

### Global Operations

The FY18 ETR[1] is 25.5%. Macquarie's ETR is largely driven by the geographical mix of income derived in any particular period. Around 65% of Macquarie's income during FY18 was earned by businesses outside Australia.

The amount of income tax paid will vary from the income tax expense used in calculating Macquarie's ETR in any given period, largely because of the impact of differences between when an amount of revenue or expense is recognised for accounting purposes and when income and deductions are recognised under the tax laws in the various jurisdictions in which Macquarie operates.

The following table provides a reconciliation on a global basis of operating profit to income tax expense, and from income tax expense to income tax paid, in accordance with the Code.

[1] Calculation of ETR is before adjusting for the impact of non-controlling interests.

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| Reconciliation of operating profit to income tax expense | March 2018 $m |
|---|---|
| Operating profit | 3,464 |
| Prima facie tax @ 30% | (1,039) |
| Permanent differences: | |
| Rate differential on offshore income | 173 |
| Other items | (17) |
| **Total tax expense** | **(883)** |

| Reconciliation of income tax expense to cash taxes paid | March 2018 $m |
|---|---|
| Total tax expense | (883) |
| Movement in current tax payable | 50 |
| Movement in tax receivables | 95 |
| Other balance sheet movements | (47) |
| Temporary differences: | |
| Fixed assets | 25 |
| Intangible assets | (37) |
| Investments | (23) |
| Tax losses | 18 |
| Leasing and financial instruments | (56) |
| Other assets and liabilities | 375 |
| **Total Corporate Income Tax cash paid** | **(483)** |

### Australian Operations

The FY18 ETR for the Australian operations is 29.9%. This is calculated as total tax expense divided by the accounting profit attributable to Macquarie's Australian operations and is based on the financial information used to produce Macquarie's financial report. The ETR has been calculated in accordance with the Draft Appendix to the Tax Transparency Code issued by the Australian Accounting Standards Board (AASB).

## Tax contribution statement

This table shows the total of corporate and other taxes paid in Australia and New Zealand (ANZ) and offshore.

| | Corporate taxes | Employer taxes | Unrecovered GST / VAT | Total |
|---|---|---|---|---|
| | FY18 | FY18 | FY18 | FY18 |
| ANZ | 224 | 78 | 28 | 330 |
| Offshore | 259 | 120 | 26 | 405 |
| **Total** | **483** | **198** | **54** | **735** |

*Note: All amounts are AUDm*

During FY18, Macquarie also collected a range of taxes on behalf of governments in the countries where we operated. These included employee taxes of $1,090m and indirect taxes (primarily GST and VAT) of $7,157m.

The above numbers do not include the amount of the Major Bank Levy paid in the year ended 31 March 2018 by Macquarie. This amount is treated as a finance cost and is recognised in Macquarie's Financial Report as interest expense. The Major Bank Levy came into effect from 1 July 2017 and applies to certain liabilities at the rate of 0.06%pa. Macquarie's total expected liability for the three quarters to March 2018 was $49m, of which $33m was paid in March 2018.

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## International related party dealings

As an Australian headquartered global integrated business, the Australian operations have significant dealings including through foreign branches with offshore related parties that impact the taxable position of the Macquarie Group Limited (MGL) Australian Tax Consolidated Group (TCG).

Related party dealings include dealings with entities resident in the United Kingdom, the United States, Hong Kong and Singapore.

Related party dealings giving rise to income and expenses in the MGL Australian TCG include:

- Derivative transactions as part of our global trading activities
- Financing and related activities, including amounts borrowed and loaned
- Revenue and profit sharing arrangements for globally integrated businesses
- Service arrangements including the provision of software and information technology services, the provision of management and administrative services, together with asset management services

## DISCLAIMER

The material in this disclosure has been prepared by Macquarie Group Limited ACN 122 169 279 (Macquarie) and is general background information about Macquarie's activities current as at the date of this disclosure. This information is given in summary form and does not purport to be complete. Information in this disclosure should not be considered as advice or a recommendation to investors or potential investors in relation to holding, purchasing or selling securities or other financial products or instruments and does not take into account your particular investment objectives, financial situation or needs. Before acting on any information you should consider the appropriateness of the information having regard to these matters, any relevant offer document and in particular, you should seek independent financial advice. All securities and financial product or instrument transactions involve risks, which include (among others) the risk of adverse or unanticipated market, financial or political developments and, in international transactions, currency risk.

Unless otherwise specified all information is for the full year ended 31 March 2018. Certain financial information in this disclosure is prepared on a different basis to the Financial Report within the Macquarie Group Annual Report for the year ended 31 March 2018, which is prepared in accordance with Australian Accounting Standards.

This disclosure provides further detail in relation to key elements of Macquarie's financial performance and financial position. Any additional financial information in this disclosure, which is not included in the Financial Report, was not subject to independent audit or review by PricewaterhouseCoopers.