

A man with a beard, wearing a white lab coat, is focused on working on a complex electronic device. He is using a pair of blue-handled pliers to adjust a component. The scene is lit with dramatic blue and pink lights, creating a high-tech, industrial atmosphere. The background is filled with various wires and components of the device.

# 2020 Tax Transparency Report

[baesystems.com.au](http://baesystems.com.au)

**BAE SYSTEMS**

# Meeting our obligations

As BAE Systems Australia approaches its 70th year of operations in Australia, the company is focused on growth and delivering existing major Defence programs.

Our growth is underpinned by the ramping up of the Hunter Class Frigate Program which will deliver nine submarine hunting warships to the Royal Australian Navy and the Jindalee Operational Radar Network (JORN) upgrade which will significantly boost the defence and security of our nation.

Other major programs include sustainment of the Hawk Lead-in Fighter, the F-35 Joint Strike Fighter and the mid-life upgrade of the Anzac Class frigates. The company is also investing in the development of new, world leading technologies to meet the future needs of the ADF.

Across Australia, our workforce comprises more than 5000 people at 25 key sites around the nation. From Cairns (Qld) in the north to Henderson (WA) in the west, Newcastle (NSW) in the east and Osborne (SA) in the south.

In the past two years, we have maintained our commitment to our customer with on-time program delivery despite the continued challenges of COVID-19.

As an Australian company, we are committed to meet our taxation responsibilities. This includes meeting all statutory obligations, lodgement deadlines and disclosure requirements.

This Tax Transparency Report is prepared for the BAE Systems Australia Holdings Limited tax consolidated group. This does not include ASC Shipbuilding (ASCS) as it is a different entity for tax reporting purposes. However ASCS is included in BAE Systems Australia Holdings Limited statutory reporting group for accounting purposes.

For the year ended 31 December 2020, BAE Systems Australia Holdings Limited paid \$27 million in corporate income tax to the Australian Government. This compares with \$39 million for the 2019 calendar year.

The following pages set out further information about BAE Systems Australia's tax contribution to the Commonwealth Government. They also set out information about our tax strategy and governance. This information is released on a voluntary basis following the Board of Taxation's Voluntary Tax Transparency Code.

Andy Cornfield  
Chief Financial Officer  
BAE Systems Australia



# Part A

## Effective Company Income Tax Rate

The corporate income tax rate in Australia is 30%. The effective tax rate for a company is calculated by dividing the total income tax expense by the total accounting profit before tax. We would normally expect the effective tax rate to be close to the corporate income tax rate. BAE Systems Australia's effective tax rate was 28.93% for the year ended December 2020. The effective tax rate was calculated as follows:

**Total income tax expense \$24,685,000**

**Total Profit before Tax \$85,334,000**

## Reconciliations under Part A of the Tax Transparency Code

Part A of the Code requires a reconciliation of accounting profit to tax expense and to income tax paid or income tax payable. BAE Systems Australia Holdings Limited is the consolidated entity which reports under the Australian Accounting Standards. The consolidated entity includes BAE Systems Australia Ltd and its subsidiary ASC Shipbuilding Pty Ltd. The tax consolidated group differs from the consolidated group under the Australian Accounting Standards. The tax consolidated group does not include ASC Shipbuilding Pty Ltd as the Commonwealth of Australia retains a sovereign share in this company and therefore the requirements for the consolidation of ASC Shipbuilding Pty Ltd under the Income Tax Assessment Act 1997 are not met.

The difference in the composition of the consolidated group for accounting purposes and the tax consolidated group means that accounting profit cannot be reconciled to tax paid without first removing the accounting profit of ASC Shipbuilding. The information below sets out the consolidated groups' accounting information and the accounting information for ASC Shipbuilding. The subtraction of the ASC Shipbuilding accounting information from the consolidated groups accounting information then allows the reconciliation to the relevant tax related information for the tax consolidated group.

## Reconciliation of Accounting Profit to Income Tax Expense

We have set out the tax note from the statutory accounts lodged for BAE Systems Australia Holdings Limited and the tax note that was prepared for ASC Shipbuilding Pty Ltd. These disclosures were prepared in accordance with the relevant Australian Accounting Standards. The income tax expense is calculated by multiplying the accounting profit, adjusted for non-temporary differences, by the corporate tax rate of 30%.

We have subtracted the amounts reported for ASC Shipbuilding from the amounts reports for BAE Systems Australia Holdings Limited so that we can reconcile the reported accounting profit for the Australian tax consolidated group to the income tax expense.

The information set out below also includes the tax note from the statutory accounts for the year ended 31 December 2019. This information is provided for comparison purposes.

### Numerical Reconciliation between pre-tax profit and tax expense

	Year Ended December 2020			Year Ended December 2019
	Consolidated BAESA Holdings	ASC Shipbuilding	BAESA Holdings	Consolidated BAESA Holdings
	\$'000	\$'000	\$'000	\$'000
Profit before tax	96,886	11,552	85,334	134,128
Income tax using the domestic corporation tax rate of 30%	29,066	3,465	25,601	40,238
Increase in income tax expense due to:			-	
Non-deductible (income)/expenses	819	16	803	1,994
Non-deductible employee share payments	456	100	356	229
Recognition of DTA	(148)	-	(148)	(616)
Effect of lower tax rate in the UK for permanent establishment	(7)	(7)	-	-
	30,186	3,574	26,612	43,077
Adjustments relating to prior years	(1,927)	1	(1,928)	(335)
Income tax expense on continuing operations	28,259	3,575	24,684	42,742

### Reconciliation of Income Tax Expense to Current Year Income Tax Payable

	Year Ended December 2020			Year Ended December 2019
	Consolidated BAESA Holdings	ASC Shipbuilding	BAESA Holdings	Consolidated BAESA Holdings
	\$'000	\$'000	\$'000	\$'000
Income tax expense on pre-tax net profit	28,259	3,575	24,684	42,742
Deferred tax (benefit)/expense	2,634	1,485	1,150	854
Prior year tax adjustments	1,435	(129)	1,564	1,062
Current year tax payable as per note 9	32,329	4,931	27,398	44,658

### Reconciliation from Current Year Income Tax Payable to Income Tax Paid

The amounts reported below for BAE Systems Australia for December 2019 and December 2020 relating to tax payable are reported to the ATO in the relevant income tax returns.

	Year Ended December 2020			Year Ended December 2019
	Consolidated BAESA Holdings	ASC Shipbuilding	BAESA Holdings	Consolidated BAESA Holdings
	\$'000	\$'000	\$'000	\$'000
Income tax expense on pre-tax net profit	32,329 ***	4,931	27,398	44,658
Deferred tax (benefit)/expense	(472)	(994)	522	(27,005)
Prior year tax adjustments	25,403	1,492	23,911	28,917
Current year tax payable as per note 9	57,260 ***	5,429	51,831	46,570

\*\*\* Income tax payable during a particular year is based on the tax instalments payable and any tax payable or refund due when the tax return is lodged. The tax instalments payable are determined by the Australian Taxation Office and are based on the most recent tax return lodged. For the year ended 31 December 2020 \$57m of tax instalments was paid under the consolidated BAESA Holdings group, of which \$32m related to current year income tax return. Tax payable for the year ended 31 December 2020 was correctly paid by the due date in June 2021.



# Part B

## Tax Policy, Tax Strategy and Governance

BAE Systems Australia's approach to tax strategy and tax governance is set out in our Tax Policy. This Tax Policy has been established under our internal governance framework and has been approved by BAE Systems Australia's Board. The Tax Policy sets out BAE Systems Australia's approach on how to manage its tax affairs and its tax risk management. Our strategy is to act as a model citizen in our approach to tax compliance. We maintain an open and transparent relationship with revenue authorities and other fiscal regulators and specifically:

1. We will comply with all tax laws and regulations.
2. We will interpret tax laws in a manner consistent with the policy intent.
3. We will adopt tax concessions that are legally available.
4. We have a low risk, no surprises approach to tax compliance, planning and advice and will not covertly adopt a position opposite to a revenue authority's published position.
5. We will disclose any mistakes identified to the relevant tax authority.
6. We encourage voluntary compliance with all taxation requirements throughout the business.
7. We will not use structures designed to achieve a tax benefit, contrary to the intentions of relevant tax law, and will not engage in activities to avoid tax.
8. We will price any overseas dealings with related parties at arm's length prices.

Where tax risks are identified, they will be reported to the Board. A comprehensive strategy to address identified tax risks has been developed and may include seeking external advice and initiating discussions with the ATO.

## Engagement with Revenue Authorities

BAE Systems Australia promotes a collaborative professional working with all tax authorities in order to build open, transparent and trusted relationships.

BAE Systems Australia has developed a strong relationship with revenue authorities in Australia over many years. We voluntarily entered into an Annual Compliance Arrangement with the ATO from 2012 until 2016 when this program was closed by the ATO. Under this agreement the ATO reviewed our income tax returns prior to lodgement. The new ATO program under the Justified Trust framework is the TOP 1000 Program. We have completed the ATO's Streamlined Assurance Review process and have entered the ATO's Top 1000 Program. We continue to have regular contact with the ATO to assist us in addressing issues as they arise. We see this as a foundational relationship that we will maintain into the future.

## BAE Systems Australia's contribution to the Australian tax base

BAE Systems Australia and its associated entities paid or collected taxes of more than \$229million in the year ended 31 December 2020.

The taxes we pay to the ATO or collect for the ATO are set out below:

Taxes we collect on behalf of ATO		Taxes we pay to ATO	
Tax Type	Amount	Tax Type	Amount
GST	\$46,827,698	FBT	\$2,412,123
PAYG Withholding	\$126,214,746	PAYG Withholding	\$53,906,689
Total	\$173,042,444	Total	\$56,318,812

The above tax paid and collected do not include ASC Shipbuilding

## International related party dealings

BAE Systems Australia is predominantly a defence company supplying products and services of critical national importance to governments. Those governments often place restrictions on the operational activities of the company for national security reasons. The consequence of this is that the cross-border flows of products and services are relatively small in comparison with many other multinational businesses.

BAE Systems Australia has some business interactions and transactions with our international related businesses predominantly in the United Kingdom and the United States of America. These are disclosed to the ATO as part of our tax return process and the country by country reporting process. Our related party dealings were reviewed by the ATO under our Annual Compliance Agreement. As part of the Top 1000 program these will continue to be provided to the ATO as needed.

The main activities with related parties overseas are summarised below:

1. Management and administration services
2. Interest charged / received on intercompany loans
3. Use of technology and personnel globally
4. Sales of materials, goods and services

Globally BAE Systems has policies that govern pricing of transactions with related parties. These policies take into account transfer pricing principles and stipulate that arm's length pricing is to be used when dealing with related parties. This policy is adhered to in Australia.

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