



# 2021 Tax Transparency Report

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**BAE SYSTEMS**

# Meeting our obligations

BAE Systems has a heritage that stretches over 70 years of operations in Australia. We are the nation's biggest and most diverse defence company, leading the development of next-generation capability across land, sea, air and cyber domains.

BAE Systems Australia is committed to delivering value to our customers, and capability into the hands of the Australian Defence Force.

Our growth is underpinned by delivering our major programs, including six Hunter Class Frigates, upgrades to the Jindalee Operational Radar Network (JORN), Hawk Lead-In Fighter sustainment and upgrades, and Hobart Class Destroyer (DDG) maintenance and capability enhancements.

Our long term strategy is underpinned by continued investment in innovation, and product development. Our ongoing investments in research and technology will enable us to continue to find new ways to deliver leading technologies and counter measures to support the broader national security agenda.

Across Australia we have a highly skilled workforce of more than 6000 personnel that are at the forefront of the nation's future defence capability.

We are an Australian company that is committed to meeting 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 tax consolidated group. This does not include ASC Shipbuilding as it is a separate entity for tax reporting purposes. However ASC Shipbuilding is included in BAE Systems Australia's statutory reporting group for accounting purposes.

The following pages set out further information about BAE Systems Australia's tax contribution to the Commonwealth and State Governments, including information about 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 Holdings Limited

# 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. BAE Systems Australia's effective tax rate was 27.79% for the year ended December 2021 (28.93% for 2020). The effective tax rate was calculated as follows:

$$\text{Total Income Tax Expense (ITE)} \div \text{Total Profit Before Tax (PBT)} = \$28,547,000 \div \$102,765,000$$

The effective tax rate falls slightly below 30% due to our investment in research and development and the tax incentives that are available for these costs. This research and development expenditure is targeted at enhancing the capability of the Australian Defence Force.



# Reconciliation of Accounting Profit to Income Tax Expense and Income Tax Payable/Paid

The BAE Systems Australia accounting consolidated group consists of BAE Systems Australia and its subsidiaries, which includes ASC Shipbuilding. The BAE Systems Australia tax consolidated group does not include ASC Shipbuilding as the Commonwealth of Australia retains a sovereign share in this company and therefore the requirements for the consolidation of ASC Shipbuilding under the Income Tax Assessment Act 1997 are not met.

The difference in the composition of the accounting and tax consolidated groups 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 financial information for the BAE Systems Australia accounting consolidated group and for ASC Shipbuilding. The subtraction of the financial information of ASC Shipbuilding from the BAE Systems Australia accounting consolidated group then allows for the reconciliation to the financial information of the BAE Systems Australia tax consolidated group.

We have set out below the financial information contained within the tax notes to the audited statutory accounts lodged with the Australian Securities and Investments Commission (ASIC) for the BAE Systems Australia accounting consolidated group and the stand-alone ASC Shipbuilding entity. The income tax expense is calculated by multiplying 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 reported for BAE Systems Australia so that we can reconcile the reported accounting profit for the BAE Systems Australia tax consolidated group to income tax expense and income tax payable/paid.

	Year Ended December 2021			Year Ended December 2020
	Consolidated BAE Systems Australia	ASC Shipbuilding	BAE Systems Australia	Consolidated BAE Systems Australia
	\$'000	\$'000	\$'000	\$'000
<b>Profit before tax</b>	<b>120,233</b>	<b>17,468</b>	<b>102,765</b>	<b>96,886</b>
Tax at the Australian tax rate of 30%	36,070	5,240	30,830	29,066
<b>Increase in income tax expense due to:</b>				
Non-deductible (income)/expenses	5,807	33	5,774	819
Non-deductible employee share payments	610	139	471	456
R&D tax credits utilised	(6,054)	-	(6,054)	-
Recognition of DTA	(145)	-	(145)	(148)
Lower tax rate in the UK for permanent establishment	-	-	-	(7)
Adjustments relating to prior years	(2,329)	-	(2,329)	(1,927)
<b>Income tax expense on continuing operations</b>	<b>33,959</b>	<b>5,412</b>	<b>28,547</b>	<b>28,259</b>
Deferred tax benefit/(expense)	8,823	1,064	7,759	2,634
Prior year tax adjustments	556	(43)	599	1,435
<b>Current year tax payable</b>	<b>43,338</b>	<b>6,433</b>	<b>36,905</b>	<b>32,328</b>
Current year tax payable next year	(2,420)	772	(3,192)	(472)
Prior year tax paid in current year	(84)	1,037	(1,121)	25,403
<b>Tax paid during year as per statement of cash flow</b>	<b>40,834</b>	<b>8,242</b>	<b>32,592</b>	<b>57,259</b>

# Tax Policy, Tax Strategy and Governance

BAE Systems Australia's approach to tax strategy and tax governance is set out in our global group's Tax Principles and BAE Systems Australia's Tax Policy. The Tax Principles have been established under our internal governance framework and has been approved globally by BAE Systems Australia's Board. BAE Systems Australia's Tax Policy has similarly been established in Australia and approved by BAE Systems Australia's Board. These documents set out BAE Systems Australia's approach to managing our tax affairs. Our strategy is to act with responsibility in relation to tax compliance.

BAE Systems Australia has established a tax governance framework that seeks to deliver:

- > Clear lines of accountability and responsibility for compliance through the Group's Operational Framework.
- > Compliance with all applicable tax laws and regulations in line with our stakeholders' expectations.
- > Management of the Group's tax expense and tax risk in a way that is consistent with our values and protects value for the Group.
- > Transparent working relationships with tax authorities.

Our approach to compliance is one where we:

- > Seek to ensure compliance with all applicable tax laws and regulations.
- > Aim to pay the right amount of tax in the right territory.
- > Interpret tax laws in a reasonable way using our best judgement.
- > Do not engage in any artificial tax structuring that is contrary to the intentions of the relevant legislation and guidance.
- > Do not tolerate activities designed to facilitate tax evasion offences.
- > Apply arm's length principles to pricing of all intra-group transactions for goods or services in accordance with domestic legislative requirements and the Organisation for Economic Cooperation and Development guidelines.
- > Seek to ensure that everything we do aligns to our commercial operations and has appropriate economic substance.
- > Utilise tax relief or incentives made available by governments where appropriate.

Where significant tax risks are identified, they will be reported to the BAE Systems Australia Board. Operational processes to manage tax risks have been developed and may include seeking external advice and initiating discussions with the Australian Taxation Office (ATO).

## Engagement with Revenue Authorities

BAE Systems Australia promotes collaborative professional working with all tax authorities in order to build open, transparent and trusted relationships. Where available in the relevant territory, BAE Systems Australia engages in cooperative working arrangements with tax authorities on the basis that those tax authorities will also work in accordance with, and in the spirit of, such frameworks.

BAE Systems Australia seeks to engage in open and early dialogue with tax authorities to discuss tax compliance and risk and disclose any significant uncertainties in relation to tax matters. BAE Systems Australia seeks to resolve issues in real time and before returns are filed where possible.

BAE Systems Australia has continued to maintain 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 where the ATO reviewed our income tax returns prior to lodgement. Following this we 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.

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

BAE Systems Australia paid or collected more than \$232 million in Commonwealth and State taxes for the year ended 31 December 2021, as follows:

Taxes we collect	
Tax Type	\$
Goods and Services Tax (GST)	62,204,597
PAYG Withholding (from salaries and wages)	112,675,903
<b>Total</b>	<b>174,880,500</b>

Taxes we pay	
Tax Type	\$
Corporate Income Tax	32,591,171
Payroll Tax	24,315,369
Fringe Benefits Tax (FBT)	688,000
<b>Total</b>	<b>57,594,540</b>

Note: The above taxes 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 primarily 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 Australia applies arm's-length principles in the pricing of all cross-border intra-group transactions in accordance with domestic legislative requirements and the Organisation for Economic Co-operation and Development guidelines.



