

Tax Transparency Report – 2022

McMillan Shakespeare Limited



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1. Introduction

This Report provides information on McMillan Shakespeare Limited's ("Company") approach to Tax Governance and Strategy and details the tax-related payments made for the year ended 30 June 2022. The Company has chosen to voluntarily disclose this information consistent with the Australian Government's efforts to promote Tax Transparency.

2. Our business

Collectively, the McMillan Shakespeare Group's business divisions provide expertise in novated leasing, salary packaging, associated Fringe Benefits Tax administration and management, fleet leasing and asset management for 'tool of trade' vehicles and other business assets, retail finance, plan management and support co-ordination services to participants of the National Disability Insurance Scheme.

The Company has formed an Australian tax consolidated group for its 100% owned Australian tax resident subsidiaries. The Company also own subsidiaries in the United Kingdom & New Zealand. The overseas subsidiaries comply with the respective tax legislation of those countries.

3. Tax Governance & Strategy

Tax risk management is seen as an integral part of good corporate governance at McMillan Shakespeare.

The Company manages its tax framework and strategy in accordance with the Group's Tax Corporate Governance Policy ('Tax Policy'), which has been approved by the Board at a Group level. The Tax Policy is reviewed and updated as required. All updates must be endorsed by the Audit, Risk and Compliance Committee of the Group and approved by the Board.

The Tax Policy outlines the appropriate course of action required to ensure that all tax risks are managed appropriately and promptly. McMillan Shakespeare's tax risk appetite is "low" – the company does not engage in any tax avoidance schemes or aggressive tax positions. The Company is committed to ensuring that it is compliant with all statutory tax obligations in the jurisdictions in which it operates.

The company maintains a productive and transparent relationship with revenue authorities, as reflected by the voluntary disclosure of tax information contained in this report.

4. Income Tax Disclosures

Effective Tax Rate (ETR)

The ETR for the McMillan Shakespeare Group is calculated by dividing the Group's income tax expense by its accounting profit before tax, noting that this report is based on the Annual Report which includes overseas entities which are not part of the Australia tax consolidated group.

The ETR is calculated by reference to corporate income tax and does not include other types of taxes such as GST, payroll tax, FBT, land tax, superannuation contributions and PAYG withholding remitted to the ATO on behalf of McMillan Shakespeare's employees/eligible personnel. For 2022, the Group's ETR is 28% (see table below).

As the ETR is a concept based on accounting tax expense divided by accounting profit rather than tax payable over taxable income, it necessarily differs from a corporation's income tax liability, which is calculated based on Australian tax legislation that reflects government policies and intent with respect to the

taxation of corporations. In most cases, the difference between tax expense and tax payable are of a temporary nature as the tax and accounting concepts align over time.

Income Tax Expense from 2022 McMillan Shakespeare's Accounts:

	2022 \$'000	2021 \$'000
Current Tax	10,131	29,305
Adjustments for current tax of prior years	(1,014)	(38)
Deferred Tax	18,301	6,814
Total Income Tax Expense	27,418	36,081

Reconciliation of accounting profit to income tax expense

McMillan Shakespeare's ETR varies from the Australian corporate tax rate of 30% due to a number of adjustments set out below:

	2022 \$'000	2021 \$'000
Profit for the year before income tax expense	97,767	97,146
Tax at Australian Corporate Rate – 30%	29,330	29,144
Non-deductible costs	310	604
Non-deductible impairment expense	1,145	2,382
Subordinated loan impairment in UK	(2,460)	669
Loss on disposal of business	174	-
Impairment of deferred tax asset	-	2,161
Overseas tax rate differential of subsidiaries	(67)	1,477
Non assessable fair value on previously held equity interest	-	(343)
Other	-	25
Over-provision of tax from prior year	(1,014)	(38)
Total Income Tax Expense	27,418	36,081
ETR	28%	37%

The ETR of McMillan Shakespeare's global operations is 28% and this is lower than the Australian corporate tax rate of 30% due primarily to the impairment of UK intercompany loans originally treated as non-deductible, but subsequently accepted as deductible by HM Revenue & Customs during the 2022 year.

Below is a description of the key adjustments:

- Non-deductible costs – relates to non-deductible expenses such as entertainment

- Non-deductible impairment expense – impairment of goodwill for CLM in the UK, a business disposed of at 31 May 2022, and which is non-deductible for tax.
- Subordinated loan impairment in UK – subordinated loan impairments were historically treated as non-deductible for tax. HM Revenue & Customs (UK tax administrator) accepted the loan impairments as deductible during the 2022 year. Hence the credit to tax expense.
- Loss on disposal of business – this relates to the net accounting loss on disposal of the RFS Retail subsidiaries (Warranty business) which is not deductible for tax. A capital loss has been recognised for tax purposes.
- Overseas tax rate differential – difference between the corporate tax rate in Australian and the UK and NZ applied on the profits of the overseas subsidiaries.
- Over-provision of tax from prior year – this relates to the overprovision of tax from prior years which was reversed during the 2022 year.

Reconciliation of income tax expense to income tax payable

The table below reconciles income tax expense per Financial Statements to the income tax payable for the Australian tax consolidated group. Temporary differences represent the differences between the timing of when transactions are recognised for accounting and tax purposes.

	2022 \$'000	2021 \$'000
Total Income Tax Expense	27,418	36,081
Exclude tax expense relating to Overseas entities	1,938	(3,302)
<u>Temporary differences:</u>		
Intangible assets	496	225
Property, plant and equipment	(17,030)	(11,786)
Provisions and accruals	5,849	923
Section 40-880 deductions	335	(8)
Share based payments	482	400
Property leases	(255)	-
Other	-	(1)
Current Year Australian Income Tax Payable	19,233	22,532

5. Tax Contribution Summary

The following is a summary of Tax Payments & Collections the McMillan Shakespeare Group makes on behalf of Governments within Australia (for year ended 30 June 2022):

Taxes and Duties Paid	2022 \$m	2021 \$m
Income Tax	19.2	22.5
Payroll Tax	6.0	5.0
Fringe Benefits Tax	0.5	0.5
Total	25.7	28.0

Taxes Collected on Behalf of the Government	2022 \$m	2021 \$m
PAYG Withholding	27.5	24.9
GST	46.5	29.6
Total	74.0	54.5

6. International Related Parties

McMillan Shakespeare Limited is an Australian public company, listed on the Australian Stock Exchange. The Group has subsidiaries in the UK and NZ. The related party dealings between the Australian Group and offshore subsidiaries do not have a material impact on the Australian taxable income of the Group.