****

Post-implementation review of the Tax Transparency Code

Consultation Paper

February 2019

© Commonwealth of Australia 2019

This publication is available for your use under a [Creative Commons Attribution 3.0 Australia](http://creativecommons.org/licenses/by/3.0/au/deed.en) licence, with the exception of the Commonwealth Coat of Arms, the Treasury logo, photographs, images, signatures and where otherwise stated. The full licence terms are available from <http://creativecommons.org/licenses/by/3.0/au/legalcode>.

Creative Commons attribution licence 3.0 icon. 

Use of Treasury material under a [Creative Commons Attribution 3.0 Australia](http://creativecommons.org/licenses/by/3.0/au/deed.en) licence requires you to attribute the work (but not in any way that suggests that the Treasury endorses you or your use of the work).

**Treasury material used ‘as supplied’.**

Provided you have not modified or transformed Treasury material in any way including, for example, by changing the Treasury text; calculating percentage changes; graphing or charting data; or deriving new statistics from published Treasury statistics — then Treasury prefers the following attribution:

*Source: The Board of Taxation*.

**Derivative material**

If you have modified or transformed Treasury material, or derived new material from those of the Treasury in any way, then Treasury prefers the following attribution:

*Based on the Board of Taxation data*.

**Use of the Coat of Arms**

The terms under which the Coat of Arms can be used are set out on the   
Department of the Prime Minister and Cabinet website (see   
[www.pmc.gov.au/government/commonwealth-coat-arms](http://www.pmc.gov.au/government/commonwealth-coat-arms).

**Other uses**

Enquiries regarding this licence and any other use of this document are welcome at:

Manager  
Media and Speeches Unit  
The Treasury  
Langton Crescent   
Parkes ACT 2600  
Email: [medialiaison@treasury.gov.au](mailto:medialiaison@treasury.gov.au)

Contents

Post Implementation Review of the Tax Transparency Code 4

Introduction 4

Objective 4

Overview of proposed changes to the TTC 5

Consultation process 10

Annexure A: About the Board of Taxation 11

Annexure B: Draft Revised Tax Transparency Code 12

# Post Implementation Review of the Tax Transparency Code

The Board of Taxation (the Board) is conducting a post-implementation review of the Tax Transparency Code (the TTC).

## Introduction

As part of the 2015-16 Budget, the then Treasurer asked the Board to lead the development of a new voluntary code on greater public disclosure of tax information by businesses, particularly large multinationals. Over the following nine months, the Board developed the TTC in conjunction with a working group made up of representatives from the Australian Taxation Office (ATO), Treasury, academia, businesses and professional firms. The Board completed its report to Government on 16 February 2016. On 3 May 2016, the Government released the Board’s final report on the TTC, and endorsed the TTC as part of the 2016-17 Budget announcements.

At the time of its development, the TTC was one of the most advanced and comprehensive tax transparency regimes in the world. Since its introduction, there have been developments both locally and globally in the tax transparency landscape. At the request of the former Minister for Revenue and Financial Services, the Hon. Kelly O’Dwyer MP, the Board commenced a post implementation review of the TTC to gather feedback on the TTC and identify improvements in the context of global developments in the tax transparency landscape, with a focus on simplicity and usefulness of the disclosures. The timing of this review is also consistent with the Board’s recommendation in its original report that the TTC be reviewed after three years of operation.

The Board established a Working Group to undertake the review. Board members Mr Michael Andrew AO (Chair), Mrs Ann-Maree Wolff, Ms Karen Payne and Mr Neville Mitchell were appointed to oversee this review.

## Objective

As part of this review, the Board conducted targeted consultations to gathered feedback on the TTC from a wide range of stakeholders including business and industry groups, tax advisers, current signatories to the TTC, investor groups and financial analysts, and social justice groups.

The purpose of this Consultation Paper is to invite stakeholders to provide feedback on a draft revised TTC that has been developed by the Board utilising the feedback collected at earlier consultation sessions.

# Overview of proposed changes to the TTC

During the course of the review, the Board sought feedback from stakeholders regarding the content of the TTC in an effort to identify changes and enhancements that would make the TTC easier to adopt and to increase the usefulness for users. The Board also considered global trends in tax transparency to identify improvements that could be incorporated into the TTC.

Different stakeholder groups have different objectives for the TTC and accordingly, different priorities in seeking to improve the TTC. In developing these proposals, the Board has weighed up these different priorities and acknowledged the trade-off between the provision of meaningful information to users and the desire to simplify and streamline disclosure obligations for business. Where possible, the Board’s proposed changes utilise existing information and disclosure requirements and are aligned with global reporting regimes, to minimise compliance costs for businesses.

The Board is not proposing any changes to the current thresholds for ‘large businesses’ (those with TTC Australian turnover of AUD 500 million or more) and ‘medium businesses’ (those with TTC Australian turnover of greater than AUD 100 but less than AUD 500 million) in the TTC.

In this Consultation Paper, a ‘tax transparency report’ refers to any information published in accordance with the TTC, regardless of its format. For example, this may be a stand-alone ‘taxes paid report’, part of a broader sustainability report, or enhanced disclosures in annual financial statements.

The draft revised TTC is included as Annexure B to this Consultation Paper. Below, we have provided a description of the key changes proposed.

1. Minimum standards and best practice

The original version of the TTC contained minimum standards for large and medium businesses, and some optional elements for large businesses. The Board recommends that the minimum standards be supplemented with ‘best practice’ elements which expand upon the optional elements in the original version of the TTC in order to encourage continuous improvement in tax transparency.

Whilst this may appear to be a minor change in the way the TTC is framed, the Board believes that replacing the concept of ‘optional’ with ‘best practice’ will encourage more signatories to enhance their disclosures over time to bring them in line with best practice disclosures. Those businesses that are not able to initially meet best practice standards can work towards this standard in future tax transparency reports.

1. New minimum standard – ‘basis of preparation’ statement

The Board has proposed the inclusion of a ‘basis of preparation statement’ as a new minimum standard in the TTC. The basis of preparation statement would provide explanatory information about the basis on which the disclosures have been prepared, including treatment of non-wholly owned entities/operations, source of information, reporting currency, glossary of definitions, and approach to materiality. It should also indicate whether the business has followed the Australian Accounting Standards Board (AASB) guidance in preparing its disclosures, and explain the reasons for any departures from this guidance.

Where external/audit assurance has not been obtained for the disclosures under the TTC, the basis of preparation statement would also provide information on the internal processes undertaken by the business to collate and verify the information contained in the report.

1. New minimum standard – reconciliation to ATO public data disclosures

The prospect of linking tax transparency reports produced under the TTC to the ATO annual corporate tax transparency disclosures appealed to many stakeholders during the earlier consultation undertaken by the Board.

Stakeholders identified difficulties in reconciling the data in the ATO disclosures to information included in tax transparency reports. There are a number of reasons for this:

* Many taxpayers prepare and release their tax transparency reports in conjunction with their annual financial statements in order to leverage the financial reporting processes to mitigate compliance costs. Accordingly, tax transparency reports are in many cases prepared and released many months prior to the completion of the tax returns for the relevant years. The financial statements will include an estimate of the tax payable in respect of the relevant year.
* Many tax transparency reports disclose tax paid for a particular year based on the cash tax paid in that reporting period. This enables consistency with other transparency regimes which might apply to that business in other jurisdictions. The ATO data release discloses the tax payable that is referable to the relevant taxation period. Due to the instalment system in Australia, some of the tax referrable to a particular year is paid throughout the relevant year, and some is paid after the end of that year. This can result in a misalignment between the tax payments reported in tax transparency reports and in the ATO data release.
* Most tax transparency reports are based on an accounting consolidated group, whilst the ATO data is disclosed for individual taxpayer entities. There may be more than one entity in the ATO data set that is captured in a single tax transparency report. Of the 160 businesses that have adopted the TTC, approximately 150 are subject to the ATO mandatory corporate tax transparency disclosures, and account for approximately 180 individual taxpayer entities in the ATO data set. There is currently no simple method to identify which individual taxpayer entities have data included in published tax transparency reports.

Social justice groups also raised questions regarding the integrity of the information published voluntarily by companies, indicating that they placed greater reliance on the data published by the ATO. An ability to reconcile the data published by the ATO to tax transparency reports will facilitate greater usage of those reports in explaining the context relevant to the ATO data published in respect of individual taxpayer entities.

The absence of accounting profit or loss in the ATO disclosures was also raised by a number of stakeholders. The overall accounting position of a taxpayer or group is a critical piece of information in understanding the tax profile of the relevant entity, arguably more so than the ‘total income’ that is currently included in the ATO disclosures. Reconciling the data published by the ATO with tax transparency reports can provide a more complete picture of the tax position of the relevant entity or group.

The Board considers that preparation of a reconciliation or ‘bridge’ between the ATO disclosures and the disclosures in a tax transparency report would address many of the issues raised by stakeholders. The Board therefore proposes that where a business’s tax transparency report pursuant to the TTC does not directly address the information relevant to their entities that form part of the ATO’s public disclosures that the business should provide the following information:

* The accounting profit which correlates to ‘total income’ reported by the ATO in respect of relevant entities;
* A reconciliation of the income tax paid and payable in the TTC disclosures to ‘tax payable’ reported by the ATO; and
* Any further explanation necessary to assist users of the tax transparency information to understand how the information reported by the ATO reconciles to the TTC disclosures.

This will require businesses to indicate which entities in the ATO disclosures are covered by TTC disclosures.

Businesses may choose to use this ‘bridge’ document to provide additional contextual information useful in understanding the ATO’s disclosures, such as tax losses carry forward, to the extent this is not already covered in the tax transparency report.

There can be a significant time lag between the time of publishing transparency reports under the TTC and the release of the ATO mandatory data disclosure, and many businesses release their tax transparency reports prior to completion and lodgement of their tax returns for the relevant year. Accordingly, for these businesses the reconciliation or bridge would not feature in the transparency report for that year. Businesses could therefore adopt one of the following approaches to address this issue:

* Option 1: Publish an addendum to their tax transparency report after lodgement of their income tax return for the relevant year; or
* Option 2: Include a reconciliation for the previous income year in each tax transparency report.

1. Other improvements to minimum standards

The Board has reviewed the existing minimum standards set out in the TTC, and is proposing to update these to provide additional guidance to businesses adopting the TTC to improve the quality and usefulness of disclosures. The Board is proposing the following changes to the minimum standards:

* Expand the reconciliation of accounting profit to income tax paid and income tax payable. The current minimum standard is a reconciliation to income tax paid or income tax payable.
* Provision of additional guidance as to the minimum acceptable information to be included in the tax policy, tax strategy and governance summary in Part B of the TTC.
* The tax contribution summary in Part B should be expanded to include disclosure of other Australian taxes and imposts paid to Government, including Petroleum Resources Rent Tax, royalties, excise, payroll tax, stamp duties, Fringe Benefits Tax and state taxes, as a mandatory element. This will provide a more complete picture of the total tax contribution of a business to Australia.
* Clarify the requirements of the international related party dealings summary in Part B to ensure businesses provide meaningful information. Those businesses that do not have any material international related party dealing should also state this in their tax transparency report.

The Board is also proposing to include additional commentary to clarify that taxes collected on behalf of others (for example, GST, PAYG withholding, superannuation guarantee) should be clearly distinguished from tax paid on behalf of the business itself. Similarly, amounts paid to Government that are akin to a “fee for service” (such as WorkCover insurance, local council charges and levies, other fees and charges) should be clearly labelled as such.

1. Best practice recommendations

During the course of the review, the Board has identified the following best practice disclosures that it considers should be incorporated into Part B of the TTC for ‘large businesses’:

* Businesses should disclose information regarding material tax disputes with the Australian Taxation Office, to the extent not already disclosed in annual financial statements.
* Businesses adopting the TTC should provide basic information regarding the structure and composition of the group and approach to tax structuring. Current best practice in this area includes the following disclosures:
  + name and place of incorporation of all subsidiaries in the group (where not already disclosed in financial statements);
  + explanation of activities undertaken in no or low tax jurisdictions; and
  + the business’ approach to allocation of value between international related parties (for example, the use of arm’s length principles in line with the OECD guidelines).
* Businesses should provide details of their approach to co-operative compliance with the ATO and other tax authorities, for example, the use of Advanced Pricing Arrangements (APAs) or Advanced Compliance Agreements (ACAs), involvement with pre-lodgement compliance reviews, and compliance with the ATO’s justified trust program.

The Board notes that from 1 January 2019, entities preparing financial statements in accordance with Australian Accounting Standards will be required to apply AASB Interpretation 23 *Uncertainty over Income Tax Treatments*. Under AASB Interpretation 23, if it is probable that the tax authority will not accept the entity’s treatment, the uncertain tax position must be reflected in measuring income tax expense, and current and deferred tax assets and liabilities. Accordingly, the Board is not proposing to include the disclosure of uncertain tax positions in the TTC as these will be incorporated in financial statements from 2019.

As stated in the Board’s initial report to the Treasurer, the TTC has been developed to provide information to ‘general users’ (the ‘person in the street’ and the community at large) and ‘interested users’ (shareholders, analysts, investors, social justice groups, the media and politicians). It is not designed to meet the information requirements of revenue and regulatory authorities. As such, the Board continues to recommend against the mandatory publication of OECD Country-by-Country reports (or excerpts from such reports) in Australia.

# Consultation process

The Board is seeking views on the proposed changes to the TTC as set out in this Consultation Paper. Submissions can be made until 26 March 2019.

### Written

The Board invites interested parties to make written submissions to this review until 26 March 2019. Submissions can be made to taxboard@treasury.gov.au or addressed to the Treasury as follows:

Board of Taxation Secretariat

The Treasury – Sydney Office

Level 5, 100 Market Street

Sydney NSW 2000

[taxboard@treasury.gov.au](mailto:taxboard@treasury.gov.au)

Phone: (02) 6263 4366

### In person

At this stage, the Board is not planning any further consultation sessions. However, if you would like to provide feedback to the Board in person, please contact the Board on the above details.

### Providing a confidential response

All information (including name and address details) contained in formal submissions will be made available to the public on the Board of Taxation website, unless it is indicated that you would like all or part of your submission to remain confidential. Automatically generated confidentiality statements in emails do not suffice for this purpose. Respondents who would like part of their submission to remain confidential should provide this information marked in a separate document.

A request made under the *Freedom of Information Act 1982* for a submission marked ‘confidential’ to be made available will be determined in accordance with that Act.

# Annexure A: About the Board of Taxation

The Board of Taxation is an independent advisory board, charged with contributing a business and broader community perspective to improving tax policy, legislative design and the administration of Australia’s tax system.

The Board also comprises three ex-officio members, being the Secretary to the Treasury, the Commissioner of Tax, and the First Parliamentary Counsel.

The Board advises the Treasurer, the Minister for Revenue and Financial Services and the Treasury. It consults widely to fulfil its role as the key interface between business and community stakeholders and the Government on tax policy.

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Chair | CEO |  | Ex-officio members | | |
| \\FS2\Indiv$\ADF\Desktop\Black Economy Taskforce\Michael Andrew Photo.jpg |  |  |  | Photo of Chris Jordan | Photo of Peter Quiggin PSM |
| **Michael Andrew AO**  Former Global Chairman  KMPG | **Karen Payne**  Former Partner Minter Elliison |  | **Philip Gaetjens**  Secretary  The Treasury | **Chris Jordan AO**  Commissioner  ATO | **Peter Quiggin**  First Parliamentary Counsel |
|  | C:\Users\buj\AppData\Local\Microsoft\Windows\Temporary Internet Files\Content.Outlook\3TWX1PPD\J Jaques 2 Feb 2017.jpg | [http://www.cochlear.com/wps/wcm/connect/87499b23-d601-4283-a89a-b79d3ed480e0/corporate_seniorexecutives_nevillemitchell_338x225_33.3kb.jpg?MOD=AJPERES&CACHEID=87499b23-d601-4283-a89a-b79d3ed480e0](http://www.google.com.au/url?sa=i&rct=j&q=&esrc=s&frm=1&source=images&cd=&cad=rja&uact=8&ved=0CAcQjRw&url=http://www.cochlear.com/wps/wcm/connect/au/about/company-information/leadership-team/senior-executives&ei=d6o1Vd2UIMTTmAX4gIGwBw&bvm=bv.91071109,d.dGY&psig=AFQjCNHvAZZU2hpB2Fi5MioGpErQIQ2cvQ&ust=1429666793499622) |  |  |  |
| **Mark Pizzacalla**  Senior Partner  BDO | **Julianne Jaques**  Barrister  Victorian Bar | **Neville Mitchell**  Director,  Sonic Healthcare,  Fisher & Paykel Healthcare,  Osprey Medical | **Craig Yaxley**  Partner in Charge  WA State Taxes  KPMG | **Ann-Maree Wolff**  Head of tax  Rio Tinto | **Rosheen Garnon**  Director  Creative Partnerships Australia |

# Annexure B: Draft Revised Tax Transparency Code

# 1. Introduction

The following is an update to the Tax Transparency Code (TTC) which was included in the Board of Taxation report to Government “*A Tax Transparency Code”* dated February 2016.

The TTC disclosure is divided into two parts. A summary of the content of Part A and Part B is set out below.

|  |  |  |
| --- | --- | --- |
| TTC disclosure | Who | Minimum standard of information |
| Part A | ‘Large’ and ‘medium’ businesses | A reconciliation of accounting profit to tax expense and to income tax paid or income tax payable\* |
| Identification of material temporary and non‑temporary differences |
| Accounting effective company tax rates for Australian and global operations (pursuant to AASB guidance) |
| Part B | ‘Large’ businesses | Approach to tax strategy and governance |
| Tax contribution summary for Australian taxes and imposts paid |
| Information about international related party dealings |

‘Large businesses’ should adopt Part A and Part B of the TTC. ‘Large businesses’ are defined as businesses with aggregated TTC Australian turnover of AUD 500 million or more.

‘Medium businesses’ should adopt Part A of the TTC. ‘Medium businesses’ are defined as businesses with aggregated TTC Australian turnover of at least AUD 100 million but less than AUD 500 million.

The Board of Taxation maintains a register of businesses that have adopted the TTC on its [website](http://taxboard.gov.au/current-activities/transparency-code-register/). Businesses that intend to adopt the TTC should notify the Board by email to [taxboard@treasury.gov.au](mailto:taxboard@treasury.gov.au).

# 2. Why adopt the TTC?

Increasing transparency about the tax affairs of businesses operating in Australia provides benefits to both businesses and the wider community. These benefits include:

* A business is able to demonstrate good governance on tax matters, engagement at the Board / senior management level on tax governance and a commitment to responsible tax practices;
* Increased tax transparency can help protect a business’ ‘social licence to operate’ and lower reputational risk;
* Publishing additional tax information can make a business more attractive to investors by highlighting good governance, a lower tax risk profile and/or providing additional information with which to make investment decisions; and
* By adopting the TTC, a business is contributing to informed public debate on tax matters and helping restore public trust in multinational companies.

Participating in tax transparency sends a strong message to investors and other stakeholders that the business is principled in its approach to managing its tax obligations and values responsible tax practices.

The TTC was developed by the Board of Taxation on behalf of the Government. Notwithstanding that the TTC is voluntary, the Government expects all responsible large and medium businesses operating in Australia to adopt it.

# 3. Who should disclose?

The TTC is targeted to larger businesses. Most of the public interest is focussed on the tax affairs of large business, including both Australian‑headquartered businesses and foreign multinationals.

For the purpose of the TTC:

1. An Australian‑headquartered business is generally taken to mean an Australian company (or entity that is treated as a company for Australian tax purposes), or an accounting consolidated group headed by an Australian parent.
2. A foreign multinational business is generally taken to mean an accounting consolidated group headed by a non‑Australian parent.

Businesses that do not meet the definitions of ‘large business’ or ‘medium business’ as set out below are encouraged to consider adopting the TTC to demonstrate their commitment to responsible tax practices.

There may be a number of entities within an accounting consolidated group which are subject to the TTC. The TTC does not specify the means by which these disclosures should occur, therefore groups can choose the level of aggregation or grouping of entities for disclosures under the TTC and which entity is the discloser(s). For example, groups can choose to produce one disclosure covering all relevant entities, individual disclosures by entity or aggregations of entities.

Similarly, some taxpaying entities (such as multiple entry consolidated (MEC) groups) may produce more than one set of financial reports for different parts of the group, and this may impact the way in which they choose to make their TTC disclosures. Groups should produce their disclosures in a manner which best matches the natural accounting and reporting systems of that organisation to mitigate compliance costs in adoption of the TTC, whilst ensuring that the disclosures are presented in a way that is relevant and easily understood by potential users.

## Large businesses

The full content of the TTC (Part A and Part B) should be disclosed by ‘large businesses’. ‘Large businesses’ are defined as businesses with a ‘TTC Australian turnover’ of AUD 500 million or more, calculated as follows:

* In respect of an Australian‑headquartered business: the TTC Australian turnover is the turnover of the Australian entity, or the income tax consolidated group headed by an Australian parent; and
* In respect of a foreign multinational business: the TTC Australian turnover is the turnover of the accounting consolidated group headed by a foreign parent to the extent that the turnover relates to:
  + - any Australian entities or an Australian tax consolidated group; and
    - any foreign entities to the extent that the turnover is attributable to a permanent establishment in Australia.

## Medium businesses

In addition, businesses with a TTC Australian turnover greater than AUD 100 million but less than AUD 500 million (‘medium businesses’) should adopt Part A of the TTC. Specifically, ‘medium businesses’ can adopt Part A either in their Australian general purpose financial reports or via publication of a ‘taxes paid’ report or another document at their option. Medium businesses are encouraged to consider adopting Part B of the TTC in addition to Part A.

# 4. Types of entities covered by the TTC

Most large businesses in Australia operate through company structures or through entities that are treated as companies for Australian tax purposes. The Board has designed the TTC with these types of structures in mind.

Unlike companies, most partnerships and trusts are ‘tax transparent’. That is, the tax on profits is typically paid by the partners, beneficiaries or unit holders, rather than by the business entity. In addition, superannuation funds are taxed under special rules that significantly differ from the taxation of companies, partnerships and trusts.

The code is framed in the context of companies and entities taxed like companies. Nonetheless, a superannuation fund, trust or partnership may wish to voluntarily adopt the TTC, by adapting its principles as far as possible. For example, it could reconcile its accounting profits to taxable income, rather than to tax paid, with an explanation as to the tax treatment of that taxable income to material categories of recipients of income.

# 5. What information should be disclosed?

The TTC includes both minimum standards and best practice recommendations. Businesses adopting the TTC should ensure that all minimum standards have been met, as relevant based on whether the business is medium or large as defined in Section 3. The best practice recommendations are additional disclosures that represent best practice in tax transparency disclosures, and have been included to support those businesses that wish to provide more fulsome tax disclosures. Businesses adopting the TTC are encouraged to meet both the minimum standards and best practice recommendations to demonstrate a commitment to transparency and responsible tax practices.

## Part A – medium and large businesses

### Minimum Standard: A reconciliation of accounting profit to income tax payable and income tax paid

|  |
| --- |
| Minimum standard for ‘large businesses’ and ‘medium businesses’  Businesses should disclose a reconciliation of accounting profit to income tax expense, and from income tax expense to income tax payable on accounting profit and income tax paid during the relevant period.  The reconciliation should identify material temporary or non‑temporary differences. |

In the interests of minimising compliance costs, inclusion of a reconciliation in the ‘taxes paid’ report or another document prepared at a global level is acceptable provided that reconciliation identifies material temporary and non‑temporary differences. Where Australian general purpose financial statements are not prepared the reconciliation should be in a ‘taxes paid’ report or another document.

### Minimum Standard: Effective tax rates for Australian and global operations

|  |
| --- |
| Minimum standard for ‘large businesses’ and ‘medium businesses’  Businesses should disclose an Australian accounting effective tax rate (ETR) and a global ETR for the worldwide accounting consolidated group calculated based on company tax expense. |

The ETRs should be calculated as company income tax expense (i.e. tax expense by reference to company tax only) divided by accounting profit. Calculation of the ETR based on company tax expense only will enable the users of the disclosure to make comparisons both to the company tax rate and to other companies.

ETRs can be calculated on different bases (for example total profit vs underlying earnings), inviting possible criticism that they can potentially be misleading to those seeking to understand how a given ETR compares to the company tax rate. Businesses should clearly define the basis on which the disclosed ETR was calculated and any underlying assumptions.

Businesses in certain industries may choose to publish an additional ETR based on a ‘total tax expense’ figure that includes taxes other than company tax. Where businesses choose to do so, the basis on which the additional ETR has been calculated should be clearly identified.

The TTC specifies that the global ETR should be calculated ‘for the worldwide accounting consolidated group’ of which the Australian operations form a part.

The AASB has developed guidance material to assist businesses in meeting the minimum standards required by the TTC. In particular, the AASB guidance establishes a common definition of ETR to ensure consistency and comparability of disclosures made under the TTC. Businesses are expected to follow the AASB guidance in preparing their TTC disclosures.

The Board’s report does not recommend that businesses publish ETRs calculated using the ATO’s ‘effective tax borne’ methodology as part of the TTC disclosure. The Board’s consultations revealed little support for publication of effective tax borne calculations, as they are too complex and not suitable for public disclosure under the Tax Transparency Code (TTC).

### Minimum Standard: Basis of preparation statement

|  |
| --- |
| Minimum standard for ‘large businesses’ and ‘medium businesses’  Businesses making TTC disclosures outside of general purpose financial statements should provide a ‘basis of preparation’ statement for TTC disclosures, outlining the basis on which the disclosures have been prepared and any assurance processes undertaken for the TTC disclosures. |

TTC disclosures made within general purpose financial statements are subject to the relevant accounting standards, including associated requirements related to the auditing of that information. To provide users with comfort over the source and quality of TTC disclosures outside of general purpose financial statements, businesses should provide a ‘basis of preparation’ statement (or similar) outlining the basis on which the disclosures have been prepared. This should include the source of information, reporting currency, glossary of definitions, approach to materiality, treatment of non-wholly owned entities/operations, and whether the business has followed the AASB guidance in preparing their disclosures.

The basis of preparation statement should also indicate if any external assurance has been obtained over the disclosures, and where this has not been obtained, provide an overview of the internal processes undertaken to collate and verify the information contained in the report.

### Minimum standard: Reconciliation to ATO corporate tax transparency disclosures

|  |
| --- |
| Minimum standard for ‘large businesses’ and ‘medium businesses’  Business should provide a reconciliation of the data published by the ATO under the mandatory corporate tax transparency measures (in particular, total income, and tax paid) to disclosures in tax transparency reports (in particular, accounting profit). |

The TTC provides an opportunity for businesses to provide meaningful context to the information published annually by the ATO under the mandatory corporate tax transparency measures. Businesses adopting the TTC should provide a reconciliation of the figures published by the ATO to the disclosures made under the TTC. In particular, businesses should provide the following information:

* The accounting profit which correlates to ‘total income’ reported by the ATO in respect of relevant entities;
* A reconciliation of the income tax paid and payable in the TTC disclosures to ‘tax payable’ reported by the ATO; and
* Any further explanation necessary to assist users of the tax transparency information to understand how the information reported by the ATO reconciles to the TTC disclosures.

This will require businesses to indicate which entities in the ATO disclosures are covered by TTC disclosures.

Due to the significant time lag between the time of publishing TTC disclosures and the release of the ATO mandatory data, businesses may wish to publish an addendum to TTC disclosures after lodgement of their income tax return for the relevant year, or include a reconciliation for the previous income year in each TTC report or other document.

## Part B – large businesses only

### Minimum Standard: Tax policy, tax strategy and governance summary

|  |
| --- |
| Minimum standard for ‘large businesses’  Business should provide information on the business’s ‘tax policy’ or ‘tax strategy’ including:   * whether the business has a formal tax policy and it’s content; * its approach to risk management and governance arrangements, including the level of oversight by the Board and processes to carry out risk assessments on significant transactions; * attitude towards tax planning, including the:   + accepted level of risk in relation to taxation;   + approach to engagement with the ATO. |

The minimum standard is consistent with the UK legislative tax transparency measure for all qualifying entities to publish a tax strategy on the internet.

### Best Practice Recommendation: Additional Information

Businesses should consider including the following information which the Board has identified as of interest to the community:

* an overview of the business’s operations (perhaps adapted from directors’ reports);
* its approach to engagement with other tax authorities;
* a description of the assurance regimes it is subject to, for example, internal audit, external audit, Advance Compliance Agreements, Advance Pricing Arrangements (APAs) and ATO pre‑lodgement compliance reviews;
* significant ongoing or recently settled tax disputes with the ATO and/or other revenue authorities, to the extent not already disclosed in financial statements; and
* details of the outcome of ATO compliance activities, for example, a ‘risk rating’ or the outcome of a streamlined risk review.

Businesses should also consider providing information regarding the structure and composition of the group, and its approach to tax structuring. Current best practice in this area includes the following disclosures:

* name and place of incorporation of all subsidiaries in the group (where not already disclosed in financial statements);
* explanation of activities undertaken in no or low tax jurisdictions; and
* the business’ approach to allocation of value between international related parties (for example the use of arm’s length principles in line with the OECD guidelines).

### Minimum Standard: Australian Tax contribution summary

The tax contribution of a business to Australia includes more than just corporate income tax.

|  |
| --- |
| Minimum standard for ‘large businesses’  Business should disclose the following information in relation to their tax contribution:   * Australian corporate income tax paid; and * other Australian taxes and imposts paid to Government, for example Petroleum Resources Rent Tax, royalties, excises, payroll taxes, stamp duties, fringe benefits tax and state taxes. |

The Board suggests that businesses consider the use of charts, diagrams and trend data to improve communication of this information to the public.

Businesses could also consider disclosing Government imposts collected on behalf of others (for example GST and Pay As You Go withholding taxes) but should ensure that these are clearly distinguished from taxes paid on behalf of the business itself.

Businesses should carefully consider whether amounts disclosed in the tax contribution summary are taxes or are in the nature of “fees for services”. The Board considers that amounts which are more properly classified as “fees for services” (for example, WorkCover insurance and local council charges) should not be included in the tax contribution summary. If disclosed these should be disclosed separately to the taxes paid by the business.

### Minimum Standard: International related party dealings summary

A business’s dealings with international related parties have particular relevance for the ‘interested users’ of the TTC. There is public interest in ensuring that international related party dealings are being conducted in a manner consistent with Australian tax law and international taxation norms (the arm’s length principle).

|  |
| --- |
| Minimum standard for ‘large businesses’  Businesses should provide a qualitative disclosure of key categories of dealings with offshore related parties which have a material impact on the business’s Australian taxable income, including the nature of those dealings and the country in which the related party is located.  Specifically, businesses should outline the top three dealings (by amount) between the Australian business and offshore related parties and provide sufficient information to enable stakeholders to understand how these arrangements fit in with the broader business and the country in which the related party is located.  Large businesses with no material international related party dealings should state this in their TTC disclosures. |

In accordance with best practice, large businesses may also wish to provide additional context in relation to the size of their international related party dealings relative to their whole business. For example, a business could express its international related party dealings as a percentage of its total revenue or expenditure, as relevant.

The Board acknowledges the risks of businesses publicly disclosing the information noted above, including the risk of reputational damage caused by misunderstanding of this information. However, the Board believes it is necessary for the TTC to include this information in light of community concern and media coverage of tax issues. Businesses may address these risks by carefully explaining the commercial context of these arrangements.

# 6. How should the TTC be disclosed?

Where a business is required to adopt only Part A of the TTC (‘medium businesses’) the content can be displayed either as an improved tax disclosure in the business’s Australian general purpose financial reports or via publication of a ‘taxes paid’ report (or similar) or another document. This ensures that businesses are subject to similar TTC content recommendations regardless of whether they prepare Australian general purpose reports.

If a business is required to adopt Part A and Part B of the TTC (‘large businesses’) the content can be displayed either wholly within a ‘taxes paid’ report (or similar), or Part A can be displayed in general purpose financial statements and Part B displayed in a ‘taxes paid’ report (or similar).

A ‘taxes paid’ report that is separate from the financial statements is likely to be more accessible to general users of the TTC and will also allow for more extensive qualitative information to be included. The report could be a stand‑alone report or could be included in a broader corporate social responsibility report or any integrated reporting initiative. For large businesses, disclosure of both Part A and Part B content in the taxes paid report may be more user‑friendly to general users of the TTC.

Foreign multinational businesses that are ‘large businesses’ should include the accounting disclosures of tax information noted in section 5 above in their ‘taxes paid’ report, if they do not prepare Australian general purpose financial statements. This would ensure that these businesses are subject to similar TTC content recommendations as Australian ‘large businesses’, which are usually required to prepare general purpose financial statements.

In explaining their tax affairs in the ‘taxes paid’ report businesses should consider what a reasonable user of the information would expect to be included. For example, an explanation of timing differences of when tax will be paid or market conditions which have had a material effect on the amount of tax paid.

Where a business chooses not to present the minimum standards in a single ‘taxes paid’ report, they should ensure that the disclosures are easily accessible and directly reference any other sources which contain elements of the minimum standards. For example, where a ‘taxes paid’ report does not restate the tax reconciliation required under Part A because it exists in the financial statements, the report should indicate where that tax reconciliation can be found, and ideally provide a link to that source. A business should not rely on information contained in financial statements that must be purchased from the Australian Securities and Investment Commission to meet the minimum standards unless the business provides access to those financial statements on their public website.

To the extent that legislative or regulatory frameworks restrain businesses from complying with the minimum standard of the TTC businesses should clearly disclose these restrictions and make a concerted effort to meet the spirit of the TTC within those restrictions.

The timing of the release of the annual ‘taxes paid’ report is not prescribed.

The ATO maintains a [central website](https://data.gov.au/dataset/voluntary-tax-transparency-code) that links to all publicly issued reports. Following publication of information in accordance with the TTC, businesses are asked to notify the ATO each year by emailing [ttc@ato.gov.au](mailto:ttc@ato.gov.au) and providing an electronic link. The ATO should also be notified if the electronic link changes.

Business should ensure that information published under the TTC remains accessible to the public for a minimum of five years after publication.

Where an addendum is published to a ‘taxes paid’ report or similar (for example, to provide a reconciliation to data released by the ATO under the mandatory corporate tax transparency disclosures), this should ideally be located on the same website that houses the original publication. Where this is published in another location, this link should also be provided to the ATO.

Where a business has adopted the TTC, it is expected to publish information in accordance with the TTC each year unless and until it withdraws from the TTC. Businesses wishing to withdraw from the TTC should notify both the Board of Taxation (by email to [taxboard@treasury.gov.au](mailto:taxboard@treasury.gov.au)) and the ATO (by email to [ttc@ato.gov.au](mailto:ttc@ato.gov.au)).