

Tax Transparency

Macquarie Group

Year ended 31 March 2019



TAX TRANSPARENCY

Basis of preparation

Macquarie Group Limited and its subsidiaries (Macquarie) support 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).

The Tax Transparency report (the report) 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 (ETR), taxes paid and international related party dealings. The report covers year ended 31 March 2019 and comparative period 31 March 2018 and is presented in Australian dollars.

The report has been prepared in accordance with the Appendix to the Code issued by the Australian Accounting Standards Board and where applicable references financial information disclosed in the Financial Report within the Macquarie Group Annual Report.

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 Chief Financial Officer, 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.

PricewaterhouseCoopers has been externally engaged to perform agreed-upon-procedures and to provide a recommendations report in relation to the ATO's Tax risk management and governance review guide and Macquarie's tax risk management framework. This report includes the justified trust six mandatory key controls and an additional two Board level controls.

Macquarie may be entitled to 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 will not finance, or in any other way support, transactions where the objective of any of the parties might reasonably be expected to be the obtaining of a dividend withholding tax benefit.

Macquarie Operations

Macquarie is a global diversified financial group with offices in 25 countries. Macquarie's Australian tax liabilities are determined according to tax consolidation legislation. Macquarie Group Limited (MGL, the Company) together with all eligible Australian resident wholly owned subsidiaries of MGL, comprise a tax consolidated group with MGL as the head entity. Further details of Macquarie's taxation accounting policy and material subsidiaries including country of incorporation can be sourced from Note 1 and Note 17 of the Financial Report.

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 reflect commercial considerations, driven by the locations of Macquarie's operations and global client needs. 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.

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Effective tax rate

An ETR can be calculated as income tax expense divided by accounting profit.

Global Operations

Macquarie's ETR¹ for year ended 31 March 2019 is 22.7% (2018: 25.5%). Macquarie's ETR is largely driven by the geographical mix of income and nature of earnings in any particular period. Approximately 66%² of Macquarie's income during 2019 was earned by businesses outside Australia (2018: 65%).

The amount of income tax paid will vary depending upon 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.

Reconciliation of operating profit to income tax expense	March 2019 A\$m	March 2018 A\$m
Operating profit before income tax	3,867	3,464
Prima facie income tax expense on operating profit ³	(1,160)	(1,039)
Permanent differences:		
Rate differential on offshore income	289	173
Other items	(8)	(17)
Total tax expense	(879)	(883)

Reconciliation of income tax expense to cash taxes paid	March 2019 A\$m	March 2018 A\$m
Total tax expense	(879)	(883)
Movement in current tax payable	151	50
Movement in tax receivables	(22)	95
Other balance sheet movements	(54)	(47)
Temporary differences		
Interests in financial investments, associates and joint ventures	41	(23)
Property, plant and equipment	(16)	25
Operating and finance leases	(55)	(35)
Loan assets and derivatives	9	(21)
Tax Losses	(35)	18
Other assets and liabilities	(284)	375
Intangible assets	(17)	(37)
Total Corporate income tax cash paid	(1,161)	(483)

Australian Operations

Macquarie's ETR for the Australian operations for 2019 is 27.5% (2018: 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.

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

² International income/total income (excluding earnings on capital and other corporate items)

³ Prima facie income tax on operating profit is calculated at the rate of 30% (2018: 30%)

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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
	2019	2019	2019	2019
ANZ	540	85	43	668
Offshore	621	152	54	827
Total	1,161	237	97	1,495

During 2019, Macquarie also collected a range of taxes on behalf of governments in the countries where we operated. These included employee taxes of \$1,210m (2018: \$1,090m) and indirect taxes (primarily GST and VAT) of \$9,210m (2018: \$7,157m).

The above numbers do not include the amount of the Major Bank Levy paid in the year ended 31 March 2019 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% p.a. Macquarie's total expected Major Bank Levy liability for the year ended 31 March 2019 was \$67m (2018: \$49m).

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 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

Macquarie has entered into a number of advance pricing arrangements on either a bilateral or unilateral basis to manage and mitigate transfer pricing risk.

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 2019. 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 2019, 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.