

Tax Transparency Report – 2021

McMillan Shakespeare Limited



McMillanShakespeareGroup

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1. Introduction

This Report provides information on McMillan Shakespeare Limited's ("Company") approach to Tax Governance and Strategy and details tax-related payments made for the year ended 30 June 2021. 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, insurance and warranty.

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 will be 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 at a Group level.

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 2021, the Group's ETR is 37% (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 temporary nature as the tax and accounting concepts align over time.

Income Tax Expense from 2021 McMillan Shakespeare's Accounts:

| | 2021 \$'000 | 2020 \$'000 |
|--|----------------|----------------|
| Current Tax | 29,305 | 28,839 |
| Adjustments for current tax of prior years | (38) | (1,369) |
| Deferred Tax | 6,814 | (4,885) |
| Total Income Tax Expense | 36,081 | 22,585 |

Reconciliation of accounting profit to income tax expense

McMillan Shakespeare's ETR is higher than the Australian corporate tax rate of 30% due to a number of items which are set out below:

| | 2021 \$'000 | 2020 \$'000 |
|--|----------------|----------------|
| Profit for the year before income tax expense | 97,146 | 24,916 |
| Tax at Australian Corporate Rate – 30% | 29,144 | 7,475 |
| Non-deductible costs | 604 | 774 |
| Non-deductible impairment expense | 2,382 | 12,946 |
| Non-deductible subordinated loan | 669 | 836 |
| Contingent consideration fair valuation | - | (277) |
| Impairment of deferred tax asset | 2,161 | - |
| Share-based payments | - | (154) |
| Overseas tax rate differential of subsidiaries | 1,477 | 2,354 |
| Non assessable fair value on previously held equity interest | (343) | - |
| Other | 25 | - |
| Over-provision of tax from prior year | (38) | (1,369) |
| Total Income Tax Expense | 36,081 | 22,585 |
| ETR | 37% | 91% |

The ETR of McMillan Shakespeare's global operations is 37% and this is higher than the Australian corporate tax rate of 30% due primarily to non-deductible impairment expense of the UK businesses, impairment of deferred tax asset in the UK and differences in overseas tax rates of subsidiaries.

Below is a description of the key adjustments:

- Non-deductible costs – relates to non-deductible expenses such as entertainment
- Impairment expense – impairment of goodwill relating to Maxxia Ltd and CLM in the UK which is non-deductible for tax
- Non-deductible subordinated loan – loss allowance recognised for accounting purposes on the subordinated loan provided to a joint venture prior to the acquisition of the remaining 50% of the shares of the joint venture
- Impairment of deferred tax asset – impairment of deferred tax asset within a business in the UK relating to deductible future capital allowances in the lease asset pool. The impairment follows from an assessment of the sufficiency of future taxable profits expected to be available within the UK business
- 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
- Non-assessable fair value on previously held equity interest – fair value adjustment of an equity interest for accounting purposes that is not assessable for tax

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.

| | 2021 \$'000 | 2020 \$'000 |
|---|----------------|----------------|
| Total Income Tax Expense | 36,081 | 22,585 |
| Exclude tax expense relating to Overseas entities | (3,302) | (168) |
| <u>Temporary differences:</u> | | |
| Intangible assets | 225 | 642 |
| Property, plant & equipment | (11,786) | 2,767 |
| Provisions & accruals | 923 | (545) |
| Section 40-880 deductions | (8) | (385) |
| Share based payments | 400 | - |
| Rent incentive | - | (1,909) |
| Amortisation of R&D Assets | - | 770 |
| Other | (1) | (6) |
| Current Year Australian Income Tax Payable | 22,532 | 23,751 |

5. Tax Contribution Summary

The following is a List of Tax Payments & Collections the McMillan Shakespeare Group makes on behalf of Governments within Australia (for year ended 30 June 2021):

| Taxes and Duties Paid | 2021 \$m | 2020 \$m |
|------------------------------|-----------------|-----------------|
| Income Tax | 22.5 | 23.8 |
| Payroll Tax | 5.0 | 5.3 |
| Fringe Benefits Tax | 0.5 | 0.8 |
| Total | 28.0 | 29.9 |

| Taxes Collected on Behalf of the Government | 2021 \$m | 2020 \$m |
|--|-----------------|-----------------|
| PAYG Withholding | 24.9 | 25.1 |
| GST | 7.3 | 21.9 |
| Total | 32.2 | 47.0 |

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, NZ and China. None of the related party dealings between the Australian Group and it's offshore subsidiaries have a material impact on the Australian taxable income of the Group.