



# Tax Transparency Report

For the year ended  
31 December 2018

**smart  
group**  
corporation

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## INTRODUCTION

In publishing this Tax Transparency Report, Smartgroup Corporation Ltd (Smartgroup) welcomes the opportunity to provide users with information about our tax activities. This report describes our approach to tax governance and strategy, provides information about our effective tax rate and details our tax contributions for the year ended 31 December 2018, in accordance with the recommendations of the Board of Taxation's voluntary tax transparency code (TTC) for medium-sized businesses.

### Our business

Smartgroup is an award-winning, ASX-listed company trusted by many of Australia's largest public and private organisations to provide employee benefits and administration services to their employees. Our services include efficient and easy-to-access outsourced salary packaging and novated leasing, innovative fleet management, payroll and workforce optimisation services. In 2018, our services were accessed by more than 343,000 employee customers Australia-wide.

Smartgroup operates wholly within Australia, with no overseas subsidiaries or related bodies corporate.

### Operational and financial highlights

Pleasingly, 2018 saw many positive operational achievements for Smartgroup. Despite tighter market conditions, we saw growth across all key financial and operational metrics, and our continued focus on customer service gained recognition from our clients, customers and the industry.

Innovation and customer experience remain a key priority for the business and digital innovation is a vital component of this strategy. For the fifth time in the past six years, Smartgroup was recognised in the 2018 Australian Financial Review (AFR) Most Innovative Companies list.

Our Smartsalary customers have recognised our elevated level of service in 2018, with an average Net Promoter Score (NPS) of +47 on a scale of -100 to +100 (improved from +44 in 2017). This score, which assesses how likely a customer is to provide a word-of-mouth referral, places Smartsalary among leading service providers worldwide.

During 2018, we expanded both our client base and the range of services we provide, allowing Smartgroup to further help our clients reduce administration and the cost of doing business, and to improve their employees' financial wellbeing.

Smartgroup continued its track record of delivering earnings growth in 2018, with revenues growing 18% to \$241.8 million (2017: \$205.4 million) and our statutory net profit after tax (NPAT) of \$59.3 million was up 44% on the prior year (2017: \$41.1 million).

Underlying tax expense has increased 21% to \$25.0 million (2017: \$20.7 million).

## TAX CORPORATE GOVERNANCE FRAMEWORK

### Tax Governance & Strategy

Smartgroup's approach to taxation risk aligns with its broader Risk Management Framework, Code of Ethics and Core Values, recognising the value of a robust tax system to Australian society and that the best interests of all Smartgroup stakeholders are served by avoiding aggressive or non-compliant tax practices. Smartgroup's approach to tax is principled, transparent and sustainable in the long term – we have no appetite for adopting aggressive and non-compliant tax practices.

The Board endorses the following principles:

- Commitment to ensure full compliance with all statutory obligations, and full disclosure to taxation authorities;
- Maintenance of documented policies and procedures in relation to tax risk management and completion of risk assessments including escalation and reporting to the Board where prescribed;
- Sustaining engagement with taxation authorities and actively considering the implications of tax planning for Smartgroup's reputation; and
- Management of tax affairs in a pro-active manner that seeks to maximise shareholder value, while operating in accordance with the law.

Smartgroup has in place a Tax Corporate Governance Framework to ensure that:

- all tax obligations of Smartgroup are met;
- key risks are managed in a proactive and effective manner;
- there is a clear link between the Board's risk appetite and the Smartgroup strategic goals;
- roles and accountabilities are clear in relation to tax compliance and tax risk management; and
- there is a positive risk-aware culture to support decision making.

### Taxation Risk

Smartgroup has a low tolerance for taxation risk (inherent risk in taxation matters). Accordingly, taxes are managed with the objective that all tax liabilities properly due under the law are correctly recorded, accounted for and paid. Risks to the proper calculation and payment of tax are reviewed regularly and senior management formally attests annually to the Board with regards to compliance with taxation legislation.

### International related party dealings

Smartgroup operates wholly within Australia, with no overseas subsidiaries or related body corporates. There were no transactions with overseas related parties during the 2018 year.

## FINANCIALS

### Effective tax rate

Smartgroup calculates the effective tax rate by the Group's income tax expense over its accounting profit from ordinary activities, adjusted for after tax profits of joint ventures accounted for using the equity method, rather than taxable income.

The effective tax rate reflects the amount of corporate income tax paid by Smartgroup as if it was charged at a constant rate. It does not include the impact of indirect taxes remitted to the Australian Tax Office (ATO) such as GST, Fringe Benefits Tax, and PAYG withholding tax on behalf of employees, nor any state taxes such as payroll taxes.

<sup>1</sup>Our effective tax rate is less than the corporate rate of 30% due to tax credits received related to qualifying research and development activities.

### Reconciliation of accounting profit to income tax payable

In any year, a difference will exist between the income tax expense calculated and the total income tax payable for the same period. Income tax expense is an accounting concept whereas the income tax payable is affected by the size and timing of corporate tax instalment payments, and permanent or timing-based differences related to what is defined as income according to the relevant Australian tax legislation and Australian accounting standards.

	2018
<b>Effective tax rate</b>	<b>\$'m</b>
Income tax expense	25.0
Accounting profit before tax	84.3
<b>Effective tax rate<sup>1</sup></b>	<b>29.7%</b>

	2018
<b>Accounting profit to income tax expense</b>	<b>\$'m</b>
Prima facie income tax expense on accounting profit at Australian tax rate of 30%	25.3
<b>Permanent differences:</b>	
Share of profit in equity accounted joint venture	0.1
Non-deductible expenses	0.3
Adjustments to current tax of prior periods <sup>1</sup>	(0.4)
Other permanent differences	(0.3)
<b>Income tax expense</b>	<b>25.0</b>

	2018
<b>Income tax expense to income tax payable</b>	<b>\$'m</b>
<b>Income tax expense</b>	<b>25.0</b>
Additions through business combinations	0.2
Movements in temporary differences	5.0
R&D tax offset	(0.3)
Adjustments to current tax of prior periods	(0.2)
<b>Income tax payable – current year</b>	<b>29.7</b>

## TOTAL TAX CONTRIBUTIONS

The following table outlines our tax contribution for the 2018 financial year:

	Tax authority	Australian (Federal) \$'m	Australian (State) \$'m	Total \$'m
<b>Paid</b>	Income Tax	31.5	-	31.5
	Fringe Benefits Tax	0.4	-	0.4
	Payroll Taxes	-	3.6	3.6
	Goods and Services Tax paid	62.7	-	62.7
	Pay-As-You-Go remitted	15.1	-	15.1
<b>Collected</b>	Goods and Services Tax collected	(43.5)	-	(43.5)
	Pay-As-You-Go withheld	(15.1)	-	(15.1)
<b>Total</b>		<b>51.1</b>	<b>3.6</b>	<b>54.7</b>

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