

Tax Transparency Report

For the year ended 31 December 2019



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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 2019, in accordance with the recommendations of the Board of Taxation's voluntary tax transparency code (TTC).

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 2019, our services were accessed by more than 358,000 employee customers Australia-wide.

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

Operational and financial highlights

Smartgroup finished 2019 with steady growth across key financial and operational metrics, with industry and customer recognition for our high standards of service.

Although the year saw a decline in Australian new car sales, a changing regulatory environment and increasing competition on pricing, products and services, Smartgroup continued its track record of delivering earnings growth in 2019, with revenues growing 3% to \$249.8 million (2018: \$241.8 million) and our statutory net profit after tax (NPAT) of \$61.4 million was up 4% on the prior year (2018: \$59.3 million).

Underlying tax expense increased 9% to \$27.3 million (2018: \$25.0 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 correct 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 2019 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 were 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.

Effective tax rate	2019 \$'m	2018 \$'m
Income tax expense	27.3	25.0
Accounting profit before tax	88.7	84.3
Effective tax rate¹	30.8%	29.7%

Accounting profit to income tax expense	2019 \$'m	2018 \$'m
Prima facie income tax expense on accounting profit at Australian tax rate of 30%	26.6	25.3
Tax effect of amounts which are not (taxable)/deductible in calculating taxable income:		
Share of profit in equity accounted joint venture	-	0.1
Non-deductible expenses	0.1	0.3
Adjustments to current tax of prior periods	0.1	(0.4)
Other permanent differences ²	0.5	(0.3)
Income tax expense	27.3	25.0

¹ Effective tax rate increased in 2019 due to non-deductible M&A costs for 3 acquisitions and an increase in non-deductible loan funded share plan (LFSP) expense. The effective tax rate in 2018 is less than the corporate rate of 30% due to tax credits received for qualifying research and development activities. No qualifying activities were undertaken in 2019.

² 2019 permanent differences primarily comprise non-deductible LFSP expense, including the modification of vesting conditions for the former CEO (refer to the 2019 Annual Report for further details). 2018 comprises non-deductible LFSP expense and R&D offsets.

FINANCIALS (CONTINUED)

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.

Income tax expense to income tax payable	2019 \$'m	2018 \$'m
Income tax expense	27.3	25.0
Additions through business combinations	0.0	0.2
Movements in temporary differences	2.6	5.0
R&D tax offset	–	(0.3)
Adjustments to current tax relating to prior periods	(1.3)	(0.2)
Income tax payable – current year	28.6	29.7

ATO published tax information

The ATO discloses tax information relating to Smartgroup's income tax return which includes total revenue, taxable income and income tax payable. 2017 has been published with 2018 yet to be published, and the 2019 return is not due at the time of this report. Amounts are disclosed below.

Tax information	2017 \$'m
Revenue	200.3
Taxable income	87.4
Tax payable	24.6

TOTAL TAX CONTRIBUTIONS

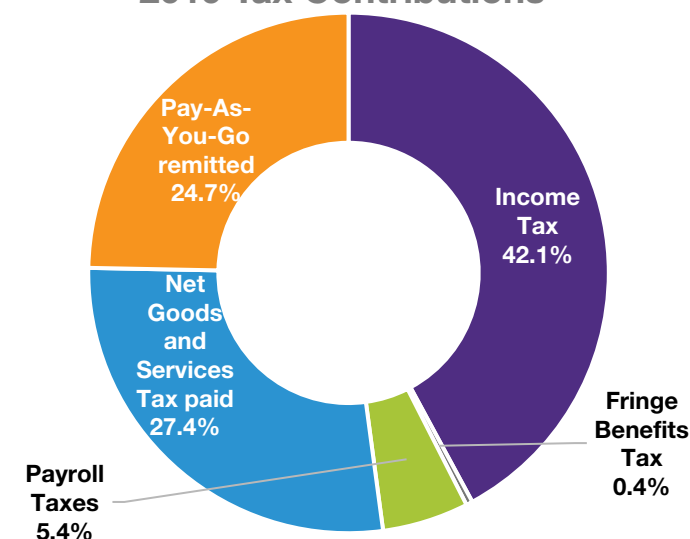
The following table outlines our tax contributions for the respective financial years:

2019 \$'m	Tax authority	Australian (Federal)	Australian (State)	Total
Paid	Income Tax	31.5	–	31.5
	Fringe Benefits Tax	0.3	–	0.3
	Payroll Taxes	–	4.0	4.0
	Stamp Duty	–	0.0	0.0
	Goods and Services Tax paid ¹	57.1	–	57.1
	Pay-As-You-Go remitted	18.5	–	18.5
Collected	Goods and Services Tax collected ¹	(36.6)	–	(36.6)
	Pay-As-You-Go withheld	(18.5)	–	(18.5)
Total		52.3	4.0	56.4

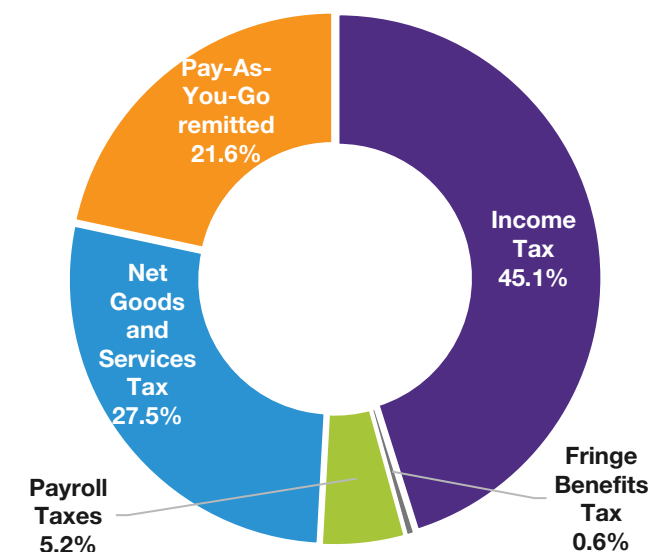
2018 \$'m	Tax authority	Australian (Federal)	Australian (State)	Total
Paid	Income Tax	31.5	–	31.5
	Fringe Benefits Tax	0.4	–	0.4
	Payroll Taxes	–	3.6	3.6
	Stamp Duty	–	–	–
	Goods and Services Tax paid ¹	62.7	–	62.7
	Pay-As-You-Go remitted	15.1	–	15.1
Collected	Goods and Services Tax collected ¹	(43.5)	–	(43.5)
	Pay-As-You-Go withheld	(15.1)	–	(15.1)
Total		51.1	3.6	54.7

¹ 2018 Goods and Services Tax paid and collected include adjustments in relation to the historic GST treatment of one Smartgroup product. These amounts were voluntarily disclosed to the ATO in 2018. On a net basis, 2019 goods and services tax paid was \$1.3m higher than 2018.

2019 Tax Contributions



2018 Tax Contributions



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