# WESFARMERS' RESPONSE TO SENATE INQUIRY INTO THE BCA COMMITMENT TO THE SENATE

## APRIL 2018

## INTRODUCTION

Wesfarmers supports a reduction in the Australian company tax rate to 25 per cent.

Investment is supported by lower company tax rates. Lower corporate tax rates attract additional investment which leads to increased employment, higher wages and, ultimately, higher tax revenue.

If the company tax rate is not reduced, there is a risk that Australia's company tax rate will become increasingly globally uncompetitive. That will result in lower economic activity in Australia because capital outflows will increase in search of higher returns in other jurisdictions, and capital inflows to fund investments in Australia will be reduced.

The competitiveness of Australian businesses relative to international businesses with Australian operations is also at risk as a result of relatively high Australian company tax rates. International competitors, many of whom employ much less Australian labour as a proportion of their Australian turnover than Australian-based businesses, compete on terms that are materially advantageous relative to Australian-based businesses.

We believe that long-term growth is supported by increasing workforce participation and increasing productivity through stronger investment. Accordingly, Australia should configure its tax and transfer architecture to promote stronger economic growth through participation and productivity.

There is potential to significantly increase the productive capacity of the economy by reducing the extent to which the tax and transfer system interferes with the decisions of individuals and businesses, including investment and workforce participation decisions.

## QUESTION 1

Wesfarmers is among Australia's top 10 taxpayers and importantly, we are the largest private sector employer in Australia.

Our primary objective is to provide a satisfactory return to shareholders and we recognise we can only do this if we create value for shareholders, employees and the communities in which we operate over the long term.

We know that Wesfarmers' success is dependent on the wellbeing of the economies and communities where our businesses operate and our conservative approach to tax strategy is one of the many ways we act to ensure sustainability of our operations.

In the 2017 financial year, $8.7 billion was paid in wages and salaries to our employees, $46.4 billion to our suppliers and $6.8 billion for rent, services and other external costs. We reinvested $1.6 billion in our businesses, while distributing $2.5 billion to our shareholders in the form of fully-franked dividends.

Wesfarmers paid $2.1 billion of taxes and royalties in the 2017 financial year, predominantly to governments in Australia, compared to $1.5 billion in the previous financial year. The Group also collected an additional $4.8 billion in taxes and duties for the Australian Government, including employee Pay As You Go tax, excise and customs duty, and GST.

The following table includes Wesfarmers' income tax expense and income tax paid for the financial years ending 30 June 2013 to 2017. Note that while Wesfarmers' operations are predominately located in Australia and subject to Australian corporate tax, the figures in this table relate to the consolidated activity of the Group across all jurisdictions. It is evident that Wesfarmers' income tax expense is materially in-line with Australia's company tax rate of 30 per cent.

| Financial year ending 30 June ($m) | 2017 | 2016 | 2015 | 2014[1] | 2013[1] |
|---|---|---|---|---|---|
| Profit before tax (income statement) | 4,138 | 1,038 | 3,444 | 2,449 | 3,036 |
| Income tax expense (income statement) | 1,265 | 631 | 1,004 | 939 | 908 |
| Income tax paid (statement of cash flows) | 951 | 1,009 | 1,102 | 1,172 | 1,040 |
| | | | | | |
| Income tax expense (% PBT) | 30.6 | 60.8 | 29.2 | 38.3 | 29.9 |
| Income tax expense (% PBT, ex-significant items)[2] | 30.6 | 28.1 | 29.2 | 30.0 | 29.9 |

*Source: Wesfarmers Annual Reports*

*Notes:*

1. *Figures for FY2014 and FY2013 are for continuing operations only, so exclude the sales of Wesfarmers' share in Air Liquide WA, Wesfarmers' insurance underwriting business, and Wesfarmers' insurance broking and premium funding business, all of which were completed in FY2014.*
2. *Excludes the impairments of goodwill recognised during FY2016 and FY2014, which were non-deductible items.*

## Supplementary information

In February 2016, the Board of Taxation provided its final report to the Australian Government on a voluntary tax transparency code (TTC). The report contained recommendations for additional disclosure of tax information by companies split between Part A and Part B disclosures.

Wesfarmers has made Part A and Part B disclosures on a voluntary basis since the 2016 financial year, with retrospective statements to the 2015 financial year. Part A and Part B disclosures are available in the Wesfarmers Annual Report and the separate Wesfarmers Tax Contribution report, respectively.

The Wesfarmers Tax Contribution Report sets out information on:

- Effective company tax rate
- Reconciliation of accounting profit to income tax expense and income tax payable
- Identification of material temporary and non-temporary differences
- Tax policy, tax strategy and governance
- International related party dealings
- Australian tax contribution summary for corporate taxes paid

The table below includes supplementary information sourced from the Wesfarmers Tax Contribution Report relating to the Australian share of Wesfarmers' total income tax expense.

| Financial year ending 30 June ($m) | 2017 | 2016 | 2015 |
|---|---|---|---|
| Australian income tax expense[1] | 1,225 | 880 | 975 |
| Effective tax rate for Australian operations (%) | 29.9 | 67.8 | 29.3 |
| Effective tax rate for Australian operations[2] (ex-significant items, %) | 29.9 | 28.9 | 29.3 |

*Source: Wesfarmers Tax Contribution Reports*

*Note:*

1. *FY2016 figure excludes the tax effect of the impairment of Curragh ($255 million) and Target non-current assets ($17 million)*
2. *Excludes the impairment of goodwill recognised during FY2016, which was a non-deductible item*

Wesfarmers' Australian effective tax rate is generally marginally lower than Australia's company tax rate of 30 per cent due to various non-temporary adjustments, including research and development concessions and profits from associates which are classed as income for accounting but not for tax.

**QUESTIONS 2 & 3**

From our origins in 1914 as a Western Australian farmers' cooperative, Wesfarmers has grown into one of Australia's largest listed companies and private sector employers, with more than 223,000 employees and approximately 515,000 shareholders.

Wesfarmers' diverse business operations cover: supermarkets; home improvement; department stores; office supplies; chemicals, energy and fertilisers; industrial and safety products; and coal. Wesfarmers' businesses operate in Australia, New Zealand, the United Kingdom and Ireland, with the portfolio including some of these countries' leading brands.

The primary objective of Wesfarmers is to provide a satisfactory return to shareholders. To deliver on this objective, the Group seeks to:

- Continue to invest in Group businesses where capital investment opportunities exceed return requirements
- Acquire or divest businesses where doing so is estimated to increase long-term shareholder wealth
- Manage the Group's balance sheet to achieve an appropriate risk profile, an optimised cost of capital and flexibility to take advantage of opportunities as they arise.

The Group's primary objective to provide a satisfactory return to shareholders is driven by four overarching strategies. These are:

- Strengthening existing businesses through operating excellence and satisfying customer needs
- Securing growth opportunities through entrepreneurial initiative
- Renewing the portfolio through value-adding transactions
- Ensuring sustainability through responsible long-term management

As a diversified conglomerate, Wesfarmers continually assesses investment opportunities in line with this framework for delivering a satisfactory return to shareholders. Such opportunities are commercial in confidence and may materially change the future financial performance of the Group. Many have a high degree of uncertainty, reducing the value of any forecasts of future performance. While the Group regularly updates the market on the strategies of each of its operating divisions, the Group does not provide public guidance or forecasts of investment intentions or future financial results as this would not be in the interests of shareholders.

A more efficient and flexible economy is likely to be able to respond more easily to macroeconomic shocks. A more transparent and accountable tax and transfer system would improve this flexibility and perceptions of Australia's economic prospects.

If the company tax rate was reduced, Wesfarmers' net cashflows after tax would increase to the extent of the reduction and this in turn would allow the company the option to re-invest in the Group's businesses. Any such decision would be made at the time and have regard to Wesfarmers' primary objective to provide a satisfactory return to shareholders.

From Wesfarmers' perspective, the Group will, of course, continue to operate its Australian businesses even in an environment that may not be as competitive and as conducive to economic growth and investment as it could be. However, had the company tax rate been reduced to 25 per cent for the 2017 financial year, Wesfarmers would have had an additional $160 million from available cashflows to reinvest. This could have increased the 2017 financial year capital expenditure by 10 per cent and, for example, could have allowed the Group to develop an additional:

- 8 Kmart stores, creating approximately 800 jobs; or

- 5 Coles supermarkets, creating approximately 400 jobs. In addition, these 5 new Coles stores would have supported approximately 600 construction jobs.

## CONCLUSION

It is clear that our primary strategies to drive growth are related to investment in both our existing businesses and through value-adding transactions, and that increasing the competitiveness of Australia's company tax regime will support such investment.

Wesfarmers thanks the Committee for the opportunity to make this submission on such an important issue for Australia's economy. We hope the information provided in this document is of use to you in your deliberations and look forward to a positive outcome from your hard work.