

GWA Group Limited ('GWA')

Tax Transparency Report

For the year ended 30 June 2020

GWA's purpose is to make life better through products, services and technologies that create superior solutions for people to enjoy and sustain water, our planet's most precious resource. GWA is a member of the ASX 300 index of listed Australian companies, and the owner and distributor of an extensive range of market leading brands including Caroma, Methven, Dorf and Clark.



METHVEN

CLARK

dorf

1 Introduction

GWA has a strong commitment to financial and regulatory compliance and transparency and welcomes the opportunity to present a report on its taxes paid and provide detail on its tax strategy.

In this respect, we have followed the recommendations outlined in the Board of Tax's Tax Transparency Code. We support the adoption of this voluntary code and believe it provides stakeholders with a comprehensive understanding of GWA's tax activities.

2 Tax strategy and governance

The Board believe that GWA's corporate governance framework, of which taxation is an important element, is critical in maintaining high standards of corporate responsibility and fostering a culture that values ethical behaviour, integrity and respect. These principles are reflected in GWA's Corporate Governance Statement¹ and guide GWA's approach to its tax compliance, reporting and payment obligations.

GWA's Board Tax Corporate Governance Policy requires GWA to pursue a tax strategy that is transparent and sustainable in the long term. In conducting its activities, GWA:

- ▶ Does not shift and/or accumulate profits in low or zero-tax jurisdictions;
- ▶ Does not use the secrecy rules of jurisdictions to hide assets or income;
- ▶ Pays tax where the underlying economic activity occurs; and
- ▶ Manages tax affairs in a pro-active manner that seeks to maximise shareholder value, while operating in accordance with the law.

3 Approach to engagement with the ATO

GWA, together with its Australian subsidiaries has formed a tax consolidated group for Australian tax purposes with GWA Group Limited as the head company of the Australian tax consolidated group.

GWA's approach to engagement with the Australian Taxation Authority ('ATO') is to be compliant with tax legislation, and maintain open and honest dialogue to ensure efficient and collaborative hearing of tax matters.

¹ <http://www.gwagroup.com.au/corporate-governance>

In FY21 the ATO performed a Combined Assurance Review of GWA as part of their Top 1,000 Tax Assurance Program, covering the 30 June 2017, 2018 and 2019 tax periods. During this process GWA demonstrated it has an effectively designed tax control framework. Further, no adjustments to tax payable were required for the tax periods reviewed. This was a consistent outcome to the ATO's FY18 Streamlined Assurance Review of GWA as part of their Top 1,000 Tax Performance Program, which covered the 30 June 2014, 2015 and 2016 tax periods.

4 Tax contribution summary

In FY20, over 90% of GWA's corporate income tax was paid in Australia, consistent with more than 90% of GWA's profit before tax being recognised in Australia.

The below table summarises Federal and State taxes GWA has paid pertaining to the year ended 30 June 2020 in Australia.

	30 June 2020 \$'000	30 June 2019 \$'000
Corporate income tax	16,655	17,064
Net GST	23,519	25,711
Payroll taxes (including FBT)	3,351	3,587
Employee pay as you go ('PAYG') ²	14,115	15,075
Total	57,640	61,437

5 Income tax expense and payable

The income tax expense ('ITE') disclosed in GWA's annual reports³ is calculated based on International Financial Reporting Standards ('IFRS'). In any one year there may be a difference between the ITE calculated to the total cash taxes paid to a relevant taxation authority during that same year. This is attributed to:

- ▶ The timing of corporate tax instalment payments made to the relevant tax authorities; and
- ▶ Timing differences between IFRS and tax legislation regarding when a transaction is assessable or deductible.

GWA's Effective Tax Rate ('ETR') is calculated as ITE divided by accounting profit before income tax. For the year ended 30 June 2020, GWA's consolidated ETR was 28.8% (30 June 2019: 17.2%). The ETR deviates from the Australian corporate tax rate of 30% due to:

- ▶ Transactions with a permanent accounting tax difference i.e. when there is a difference in treatment between IFRS and tax legislation of the assessability and deductibility of transactions. In FY20 and FY19 this included non-deductible integration costs on the acquisition of Methven Limited. In FY19 this also included the non-assessable accounting gain on disposal of the Door and Access Systems' business⁴ largely causing FY19's lower ETR;
- ▶ Differences in tax rates for overseas operations compared to the Australian corporate tax rate (e.g. New Zealand's corporate tax rate was 28%, 19% in the UK, and 25% in China); and
- ▶ The additional tax benefit arising from Research and Development ('R&D') expenditure under the ATO's 'Research and Development Tax Incentive' scheme to encourage R&D activity in Australia⁵.

² PAYG is withheld and paid to tax authorities on behalf of GWA's employees.

³ <http://www.gwagroup.com.au/investor-relations/annual-reports/>

⁴ Brought forward capital losses were utilised to offset the gain on disposal. Refer to Note 11 of the 2019 Annual Report.

⁵ R&D tax offsets are calculated by adding back to taxable income 100% of the eligible expenditure incurred on R&D as non-deductible, and taking a 38.5% tax offset (calculated as 38.5% of the eligible expenditure) against tax payable.

5.1 Reconciliation of accounting profit to income tax expense

30 June 2020	Consolidated worldwide group \$'000	Australian tax consolidated group \$'000
Net profit before tax	61,653	59,920
Tax expense using the Australian corporate tax rate of 30%	18,496	17,976
Non-deductible expenses	256	84
Effect of tax rate in foreign jurisdictions	(178)	-
Non-deductible transaction & integration costs on the acquisition of Methven Limited	71	71
Rebateable research and development	(129)	(129)
Other items	196	99
	18,712	18,101
Adjustments for prior years	(945)	(817)
Income tax expense ('ITE')⁶	17,767	17,284
Effective tax rate ('ETR')	28.8%	28.8%

30 June 2019	Consolidated worldwide group \$'000	Australian tax consolidated group \$'000
Net profit before tax	113,629	112,317
Tax expense using the Australian corporate tax rate of 30%	34,089	33,695
Non-deductible expenses	196	132
Effect of tax rate in foreign jurisdictions	(24)	-
Non-deductible transaction & integration costs on the acquisition of Methven Limited	1,454	1,435
Non-assessable accounting gain on disposal of the Door and Access Systems' business	(15,760)	(15,760)
Rebateable research and development	(158)	(158)
Other items	(131)	(199)
	19,666	19,145
Adjustments for prior years	(81)	(99)
Income tax expense ('ITE')	19,585	19,046
Effective tax rate ('ETR')	17.2%	17.0%

5.2 Reconciliation of income tax expense to cash tax paid

Consolidated worldwide group	30 June 2020 \$'000	30 June 2019 \$'000
Income tax expense ('ITE')	17,767	19,585
Timing differences	(853)	(2,447)
Current year tax instalments payable next year	(137)	(947)
Prior year tax instalments paid this year	1,068	6,662
Income tax paid per cash flow statement	17,845	22,853

The above timing differences largely related to the utilisation of accounting provisions leading to their deductibility for tax purposes. Refer to Note 10 of GWA's 2020 Annual Report.

⁶ Comprises of ITE for continuing and discontinued operations. Refer to Note 5 of the 2020 Annual Report.

6 International related party dealings

GWA's operations overseas are conducted through a combination of subsidiary legal entities and independent third parties, all of whom are subject to local tax regimes. These subsidiary legal entities and their foreign jurisdictions for the year ended 30 June 2020 are disclosed in Note 24 of GWA's 2020 Annual Report.

GWA's Australian tax consolidated group for the year ended 30 June 2020 had the following international related party dealings with these subsidiary operations overseas:

- ▶ Sale of stock to subsidiaries in New Zealand, China and the United Kingdom;
- ▶ Purchase of stock from subsidiaries in New Zealand and China;
- ▶ Royalty, management and procurement services charged to and from overseas subsidiaries; and
- ▶ Provision of loans to overseas subsidiaries.

All of GWA's international related party dealings reflect arm's length terms (i.e. as though the companies are independent of each other) in accordance with Australia's transfer pricing requirements and OECD⁷ guidelines.

7 ATO tax transparency disclosures

The ATO publishes discrete taxation information of large Australian taxpayers⁸ which includes GWA. Information published about GWA is sourced from GWA's Australian tax consolidated group income tax return.

The following information pertaining to GWA's Australian tax consolidated group for the year ended 30 June 2020 is yet to be published by the ATO:

	30 June 2020	30 June 2019
	\$	\$
Total income	326,129,153	345,955,827
Taxable income	59,586,827	56,880,595
Tax payable	16,655,352	16,139,929

A description of the terms in the table above and their application to GWA are:

- ▶ Total income pertains to income (e.g. sales, interest) derived during the period, prior to deduction of expenses which include rebates GWA provides to customers⁹. Tax is not calculated on total income;
- ▶ Taxable income is calculated based on total income less expenses incurred, adjusted for tax timing differences and tax permanent differences as described in Section 5 of this report; and
- ▶ Tax payable is then calculated at the corporate income tax rate (30%) of taxable income, reduced by available tax offsets including rebateable R&D as described in Section 5 of this report.

⁷ Organisation for Economic Co-operation and Development.

⁸ Large Australian taxpayers are those with total income greater than \$100m for Australian public corporations and foreign-owned corporations, or greater than \$200m for Australian-owned resident private companies.

⁹ For IFRS purposes, the cost of rebates to customers is recognised within income.