

# Metcash Limited

## Tax Transparency Report 2020





## Metcash Limited Tax Transparency Report

### 1. Introduction

Metcash Limited (**Metcash**) is a signatory to the voluntary Tax Transparency Code (**TTC**) released by the Board of Taxation in May 2016 and is pleased to present its Tax Transparency Report for the financial year ended 30 April 2020.

As a signatory to the TTC, Metcash welcomes the increased tax transparency and the focus on ensuring that corporates pay their fair share of Australian tax.

This report satisfies each of the Part A and Part B requirements of the TTC including;

- Our approach to tax policy, tax strategy and tax governance;
- Our tax contributions;
- A reconciliation of accounting profit to income tax expense, and from income tax expense to income tax payable; and
- Our effective tax rates for our Australian and global operations.

This report should be read in conjunction with the Metcash 2020 annual report which can be found on the Metcash website at [www.metcash.com](http://www.metcash.com).

It should be noted that due to rounding, numbers presented throughout this document may not add up precisely to the totals provided.

### 2. Overview of Metcash

Metcash is Australia's leading wholesaler and distributor, supplying and supporting both independent retailers and company owned stores in the food and grocery, liquor and hardware sectors. We believe that it is important to Australia that there is a sustainable, independent, family-owned business sector. Independent retailers support their local communities. We help them to be the 'Best Store in Town' by providing merchandising, operational and marketing support across our Food, Liquor and Hardware pillars.

In **Food**, we proudly support a network of over 1,600 independently owned stores Australia-wide, including the well known IGA and Foodland brands. Our retailer partners mix the charm, knowledge and convenience of a local store, with the quality and competitive prices of a national one. The stores we support sit at the heart of the local community, sourcing a range of the best products from local producers and contributing to the local economy.

In **Liquor**, we are the largest supplier to independent liquor retailers and the second-largest broad range liquor wholesaler in Australia. Through our Independent Brands Australia (**IBA**) banner group, we support over 2,700 stores across leading independent retail brands such as Cellarbrations, The Bottle-O, IGA Liquor, Duncan's, Thirsty Camel, Big Bargain and Porters.



**In Hardware**, we are the largest independent hardware group in Australia and a true leader when it comes to servicing the trade market. We support leading independent hardware brands Mitre 10 and Home Timber & Hardware along with Hardings, Thrifty-Link Hardware and True Value Hardware. We supply more than 1,600 stores nationwide.

### 3. Metcash’s Approach to Tax Policy, Tax Strategy and Tax Governance

Metcash’s Board and senior management are committed to the highest standards of corporate governance, including tax governance, which underpins our approach to sustainably enhancing shareholder value and protecting the interests of all stakeholders.

In relation to tax governance, Metcash pursues an approach that is transparent and sustainable. This approach is guided by a Board approved “Board Tax Policy”. Under this policy, the Board has endorsed the following principles:

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

The responsibilities arising under the Board Tax Policy are owned by Metcash’s Audit, Risk & Compliance Committee (**ARCC**) with active oversight from the Board. Operationally, the Group Tax Manager (with oversight from the Chief Financial Officer (**CFO**) and General Manager Finance) is responsible for ensuring the implementation of Metcash’s tax risk framework and that the necessary policies and procedures are maintained and consistently applied. The CFO (supported by the General Manager Finance and Group Tax Manager) is responsible for regular reporting to the ARCC.

In the event that the application of a tax law is unclear, external advice is sought. Metcash does not pursue aggressive tax planning and does not carry on business in any tax havens or low tax jurisdictions.

The Metcash Board attests that effective policies and processes are in place to manage all tax risks.

### 4. Metcash’s Engagement with Revenue Authorities

Consistent with the principles endorsed by the Board, Metcash is committed to maintaining open and transparent relationships with the Australian Taxation Office (**ATO**) and other revenue authorities.

Metcash engages with the ATO on a frequent basis in the context of reviews, audits and Ruling Request applications. Metcash also proactively engages with the ATO to provide context to proposed transactions, changes in business arrangements or to request guidance. Our open, transparent and co-operative engagement with the tax authorities has been acknowledged by the ATO.



## 5. International related party dealings

Whilst Metcash almost exclusively carries on business in Australia, it does conduct some trading activities through a wholly owned subsidiary in New Zealand (**NZ**). The revenues of the NZ business represent approximately 1% of Metcash's total revenues.

The New Zealand enterprise carries on a liquor wholesaling and distribution business. Its international related party dealings are limited to recharges for support services provided to the NZ business and intercompany balances that may arise from time to time. These international related party dealings are not material to Metcash's Australian taxable income. The NZ business pays tax in NZ at the corporate tax rate of 28%.

Metcash applies the transfer pricing principles and documentation requirements under the local country laws and the Organisation for Economic Co-operation and Development (**OECD**) guidelines in pricing its international related party dealings.

Metcash prepared and lodged a Country by Country Report with the ATO for the year ended 30 April 2020. In compliance with both Australian filing requirements and the OECD BEPS Action Plan, the Country by Country Report contains details about Metcash's international related party dealings, revenue, profits and taxes paid by jurisdiction. Under the intergovernmental exchange of information agreements, this Country by Country Report is available to overseas tax authorities.

## 6. Income tax expense and income tax payable

Outlined in the table below is a reconciliation of the accounting profit to income tax expense for the Metcash Australian tax consolidated group<sup>1</sup> and the Metcash consolidated worldwide group<sup>2</sup> for the year ended 30 April 2020. This reconciliation should be read in conjunction with Note 4 (Income Tax) of our financial statements for the year ended 30 April 2020.

Differences between Metcash's accounting profit and taxable income are due to both temporary and non-temporary (or permanent) differences. Non-temporary differences arise where amounts recognised as income or expenses under the Australian Accounting Standards and Interpretations issued by the Australian Accounting Standards Board (**AASB**) do not give rise to equivalent taxable or deductible amounts under the Australian tax law (or vice versa).

Temporary or timing differences arise where amounts are recognised as income or expenses under the accounting standards in a different period to which they are taxable or deductible under the tax law.

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<sup>1</sup> The Metcash Limited Australian tax consolidated group comprises Metcash Limited and each of its wholly owned Australian resident subsidiaries.

<sup>2</sup> The Metcash consolidated worldwide group comprises the Metcash Limited Australian tax consolidated group, the New Zealand subsidiary and all non-wholly owned Australian resident subsidiaries that are consolidated with Metcash Limited for accounting purposes.



**Table One. Reconciliation of accounting profit to income tax expense**

	Australian Tax Consolidated Group \$m	Consolidated Worldwide Group \$m
<b>Profit Before Tax</b>	<b>2.5</b>	<b>14.4</b>
Prima facie income tax @ 30%	0.7	4.3
<b>Tax effect of amounts which are not (taxable)/deductible</b>		
Impairment of goodwill	67.7	67.7
Share of accounting profits from equity accounted investments	(1.5)	(1.5)
Non-deductible expenses	0.2	0.2
Other	0.1	0.1
Adjustments in relation to prior years	(1.0)	(1.3)
<b>Income Tax Expense</b>	<b>66.3</b>	<b>69.6</b>

Outlined in the table below is a reconciliation of income tax expense to income tax payable for the Metcash Australian tax consolidated group and the Metcash consolidated worldwide group for the year ended 30 April 2020. More than 99% of Metcash's corporate tax liabilities are paid in Australia.

**Table Two. Reconciliation of income tax expense to income tax payable**

	Australian Tax Consolidated Group \$m	Consolidated Worldwide Group \$m
<b>Income Tax Expense</b>	<b>66.3</b>	<b>69.6</b>
Temporary (timing) differences	(0.2)	(0.2)
Adjustments in relation to prior years	1.0	1.3
<b>Income Tax Payable</b>	<b>67.0</b>	<b>70.7</b>

## 7. Effective Tax Rate

Outlined in the table below is the effective tax rate for the Metcash Australian tax consolidated group and the Metcash consolidated worldwide group for the year ended 30 April 2020. The effective tax rate is calculated as income tax expense divided by profit before tax.

However, as disclosed in Note 3 of our financial statements for the year ended 30 April 2020 the profit before tax for both the Metcash Australian Tax Consolidated Group and the Metcash consolidated worldwide group included a significant impairment expense of \$242.4 million. This impairment was recorded against the carrying value of assets (primarily goodwill) in the Food segment.

Given the quantum of this impairment, the calculation of our effective tax rate (income tax expense divided by profit before tax) is distorted and is essentially meaningless. With a view to providing a more meaningful measure of our effective tax rate we have disregarded the impact of this impairment in presenting our effective tax rate below.



**Table Three. Effective tax rate**

	Australian Tax Consolidated Group \$m	Consolidated Worldwide Group \$m
<b>Effective Tax Rate<sup>3</sup></b>	29.1%	29.1%

## 8. Tax Contribution Summary

Metcash pays a range of different taxes to the Australian Federal, State and Territory governments each year. The tables below summarise the taxes that were paid and collected/remitted by the Metcash Limited Australian tax consolidated group during the year ended 30 April 2020.

**Table Four. Taxes paid during the year ended 30 April 2020**

Description	\$m
Income tax <sup>4</sup>	78.1
Excise duties	504.2
Customs duties	248.2
Payroll tax	23.1
Other taxes	2.8
<b>Total Taxes Paid</b>	<b>856.3</b>

**Table Five. Taxes collected/remitted during the year ended 30 April 2020**

Description	\$m
Net Goods and Services Tax	143.6
Employee PAYG withholding tax	116.4
Wine Equalisation Tax	161.1
<b>Total Taxes Collected/Remitted</b>	<b>421.1</b>

<sup>3</sup> Metcash's effective tax rate for the year ended 30 April 2020 is marginally lower than the Australian corporate tax rate of 30%. This is primarily due to the income tax treatment of the accounting profits recognised in relation to our equity accounted investments. These profits are taxed at the investment level and any dividends received or receivable from these investments are fully franked.

<sup>4</sup> Income tax paid represents cash taxes paid during the 2020 financial year and does not reflect the income tax liability relating to that year.