Tax Transparency Report 2018

Message from the CFO, Andrew Bishop

ARTC adopts the Voluntary Tax Transparency Code as released by the Board of Taxation and supports the improved tax transparency and public accountability of large corporate tax payers.

This report communicates ARTC's approach to Tax Governance and compliance with all aspects, standard and optional disclosures, of the Tax Transparency Code.

In particular, this report provides details of the various taxes paid by ARTC for the financial year and reconciles income tax payable to the tax expense reported in its financial statements. ARTC made a net profit before tax of $102.2m ($149.6m in 2017) and paid net taxes (inclusive of direct and indirect taxes) of $71.0m ($79.0m in 2017) for the 2018 financial year as set out in Table 1 below. No income tax was payable in 2018 primarily due to tax deductible depreciation and utilisation of tax losses and offsets as set out in Table 3 below.

The information in this report complements the information disclosed in ARTC's 2018 audited Annual Report.

About ARTC

ARTC was incorporated in 1998 following an intergovernmental agreement between the Australian Government and all mainland States, to provide access to the interstate rail networks. ARTC's shares are wholly owned by the Australian Federal Government.

ARTC currently manages and maintains over 8,500km of standard gauge track across 5 states where we've invested billions of dollars to build, extend and upgrade our network to get freight off the road and onto rail. That's good for business, motorists, the environment and communities.

Who We Are

We are one of Australia's largest freight rail network owners with 20 years of experience in operating maintaining and building rail infrastructure.

Each day, across 5 states, our network transports intermodal containers, agricultural products, general freight and passenger services, as well as hundreds of thousands of tonnes of coal and minerals. This gets freight off roads which reduces congestion, is good for the environment and improves safety for motorists and communities.

We continue to meet the changing needs of our customers – rail operators and coal companies – and are committed to the health and safety of our people, the environment and local communities in which we operate.

What We Do

We were established to modernise rail in Australia. Our experienced team has delivered billions of dollars worth of investment to revive our rail network, providing the transport and logistics industry with a safe and reliable network to support the many industries that Australia's economy depends on.

We work with rail operators to provide access to rail for businesses and producers across Australia and, through this, we manage the seamless, safe transit of hundreds of freight and passenger trains across our network every day.

We are also building the Inland Rail route between Melbourne and Brisbane. This will transform the transport supply chain, providing a world-class rail network capable of meeting Australia's long-term freight needs.

This major infrastructure project will be a key focus for ARTC over coming years, in alignment with our existing business objectives, to enhance Australia's national freight rail network for the benefit of our customers and the Australian economy.

Our People

We are committed to the health and safety of our people, the environment and the communities in which we operate. In all our efforts, we aim to be inclusive and build pride and loyalty in our workforce.

We employ over 1,300 people across Australia with the majority of our staff living and working locally, maintaining our network across 27 provisioning centres. We are very conscious of the impact of our operations and are proud of our regional footprint and the investment and employment we provide to communities across Australia.

Tax payments are just one component of the significant contributions made by ARTC to the Australian economy.

Further information is available at www.artc.com.au

Tax Strategy, Risk Management and Governance

ARTC has developed a Board approved Tax Governance Policy to guide the way in which the Group manages its tax obligations and is consistent with the Group's corporate governance framework reflecting the ASX "Corporate Governance Principles and Recommendations" and the Group's low risk appetite. The Policy is supported by tax related procedures and processes which ensure ARTC effectively manages its tax risk.

ARTC's approach to taxation aligns with the Group's business strategy, code of conduct and values. As a Government Business Enterprise, ARTC is governed by the *Public Governance, Performance and Accountability Act* (2013) [PGPA Act] and Government Business Enterprise [GBE] Guidelines. ARTC considers the interests of its Shareholder in the adoption of low risk tax strategies and avoidance of non-compliant tax practices.

ARTC seeks to uphold the reputation of the Group and its Shareholder by giving due consideration to its social and corporate responsibility to pay the right amount of tax, at the right time, in the right jurisdiction and be transparent in the conduct of its tax affairs.

Assurance Regimes

ARTC is subject to a comprehensive three year Internal Audit Plan and annual external audit by the Australian National Audit Office under section 98 of the PGPA Act. Management implements and manages robust tax compliance procedures ensuring a comprehensive review of all lodged returns. This is achieved through an agreed timetable of preparation and review of each return including review and sign-off by external tax specialists.

Tax issues are regularly reported to the Board through the Audit and Compliance Committee for consideration and information.

ARTC

Tax Planning

ARTC does not undertake transactions of a contrived or artificial nature for the purpose of obtaining a tax benefit. All transactions are undertaken in the context of the commercial needs of the company, which are of primary importance. ARTC engages in Tax Planning in order to legitimately achieve the best after tax outcomes, that is, through claiming available deductions, tax rebates, offsets and credits.

Due consideration is given to ARTC's reputation, brand, corporate and social responsibilities in conjunction with the legal and fiduciary duties of directors and employees when considering appropriate Tax Planning and initiatives.

ARTC is committed to observing all applicable tax laws, rulings and regulations in meeting its tax compliance obligations in all jurisdictions where ARTC operates.

Professional opinions are obtained from reputable external advisors on matters where the amount of the tax involved is significant and the tax treatment is complex or relates to non-routine transactions.

Relationship with Tax Authorities

ARTC establishes pro-active, respectful and transparent relationships with tax authorities based on clear and early communication. Where management considers appropriate, ARTC engages with the tax authorities to obtain formal guidance (including private binding rulings) in relation to the taxation consequences of complex or non-routine transactions or where there is uncertainty in the application of the tax laws.

Australian Tax Contribution Summary 2018

ARTC pays various taxes to State and Federal tax authorities and collects and remits various taxes on behalf of those authorities as follows:

TABLE 1

Tax Type	Taxes Paid in 2018 Financial Year $'000s	% of Total Taxes Paid	Taxes Paid in 2017 Financial Year $'000s	% of Total Taxes Paid
Corporate Income Tax*	0	0.0	0	0.0
Net GST	14,198	20.0	25,293	32.0
FBT	104	0.1	166	0.2
Payroll Tax	9,016	12.7	8,487	10.7
Other Miscellaneous Taxes**	357	0.5	1,177	0.3
PAYGW	47,361	66.7	43,908	55.6
Total Australian Taxes Paid	**71,036**	**100.0**	**79,031**	**100.0**

*ARTC pays monthly instalments of income tax, based on the instalment rate issued by the ATO, during the year with a balancing payment made (or refund of instalments received) in December after finalisation and lodgement of the tax return. The figure shown represents the net tax paid in respect of the 2018 income year not the amounts physically paid during the income year. The reasons for net nil income tax payments are outlined in the following two sections of this report and summarised in Tables 2 and 3.

**Includes individually immaterial amounts in relation to Land Tax, Stamp Duty, Emergency Services Levy and Council rates etc.

Reconciliation of Accounting Profit to Income Tax Expense

Australian Accounting Standards require an entity to calculate and disclose various tax balances including its tax expense for the period. Note 5(h) of the 2018 Financial Statements includes a reconciliation of accounting profit before tax to tax expense to show the relationship between accounting profit and tax expense and explain, numerically, why tax expense does not equal 30% of accounting profit.

The reconciliation is reproduced below;

TABLE 2

Item	2018 $m	2017 $m
Profit/(Loss) before tax	102.2	149.6
Prima Facie tax @ 30% corporate tax rate	30.7	44.9
Tax effect of adjustments for non-taxable items		
Research & Development Tax Incentive	(0.0)	(0.1)
Adjustments in respect of prior periods	0.0	0.0
Change in recognised deductible temporary differences	17.2	(17.7)
Other	(0.0)	(0.0)
Total Tax Expense	**47.9**	**27.1**
Effective Tax Rate	**46.9%**	**18.1%**
Normalised Effective Tax Rate	**30.0%**	**29.9%**

Tax expense is an accounting concept which brings to account an estimate of the Company's tax payable for the period (current tax expense), and the tax effect of temporary differences i.e. items expected to be deductible or assessable in calculating current tax in future periods (deferred tax expense). Adjustments in respect of prior periods relate to the subsequent adjustment of estimates to finalise the income tax return for lodgement.

Effective Tax Rate (ETR) is defined in the Australian Accounting Standards as income tax expense divided by profit before tax for the period.

The most significant item impacting on tax expense and ETR is the 'Change in recognised deductible temporary differences'. ARTC has a significant potential Deferred Tax Asset (DTA) in relation to its Division 58 assets[1] arising from the treatment of leased assets in NSW and the cumulative impact of impairments and fair value reductions to the accounting value of infrastructure assets. The potential DTA is reviewed annually in accordance with applicable accounting standards in relation to the recognition of deductible temporary differences in the financial accounts. This can lead to changes in

[1] *Division 58 of the ITAA 1997 deals with assets acquired from a tax exempt entity in connection with the acquisition of a business. The Division allows the acquirer to claim tax depreciation deductions based on the deemed cost of the assets, which in ARTC's case results in higher depreciation for tax purposes than for accounting purposes.

the recognition of deductible temporary differences from period to period which skew the ETR. This is purely a matter for accounts preparation purposes and does not impact on ARTC's ability to actually claim the tax deductions in its future income tax returns.

ARTC had an ETR of 46.9% as a result of the DTA recognition issue. Excluding the DTA recognition issue, the normalised ETR is 30.0%.

Reconciliation of Tax Expense to Income Tax Payable

The tax law and accounting standards contain different rules around the timing of when amounts may be assessable or deductible. These differences give rise to temporary differences which are recognised in deferred tax expense.

The actual income tax paid differs from the tax expense as a result of deferred tax expense impacts:

TABLE 3

Financial Year	2018 $m	2017 $m
Total Tax Expense per accounts	47.9	27.1
Less movements in temporary differences recognised in deferred tax expense		
Property, plant & equipment - deductible temporary differences allowable*.	(45.1)	(25.8)
Other accrued amounts	(1.1)	0.7
Utilisation/(recognition) tax losses and offsets	(1.7)	(2.0)
Current Tax Expense	**0.0**	**0.0**
Less: adjustments to current tax in respect of prior periods	0.0	0.0
Plus: adjustments to current tax for this period	0.0	0.0
Income Tax Payable in respect of financial year	**0.0**	**0.0**

* The deductible temporary differences in relation to property, plant & equipment exist as a result of ARTC's ability to claim tax depreciation on its leased assets in NSW under Division 58 of the *Income Tax Assessment Act* (1997), in addition to the cumulative impact of impairments and fair value reductions to the accounting value of infrastructure assets.

Tax information disclosed by the ATO

In December each year the ATO publishes its Report of Entity Tax Information for the preceding income year. The report to be published in December 2019 is expected to include the following information in relation to ARTC relating to the recently lodged June 2018 tax return:

Name:	Australian Rail Track Corporation Limited
ABN:	75 081 455 754
Total income:	$831,888,761
Taxable income:	$0
Tax payable @ 30% (after R&D offsets):	$0

The total income represents ARTC's accounting income before offsetting expenses to arrive at the accounting profit before tax of $102.2m disclosed above.

Taxable income is calculated as all income assessable in the current income year less all expenses allowable as deductions under the income tax legislation but before applying any offsets or credits. The difference between taxable income and accounting profit before tax mostly consists of temporary differences i.e. expenditure is deductible for both tax and accounting purposes but in different periods. The most significant temporary difference is in relation to depreciation of property, plant & equipment resulting from ARTC's significant investment in infrastructure assets.

Tax payable is the taxable income multiplied by the Corporate Tax Rate (30%) reduced by any applicable offsets or credits.

The ATO has published additional explanatory information on its website which acknowledges that variations between an entity's tax expense as recorded in its statutory accounts and tax payable as recorded in a tax return can arise for a number of reasons, including:[2]

- Timing in the depreciation of capital assets will cause differences in the accounting and tax position of an entity; generally tax is more concessional to provide business with incentives to invest.
- R&D tax offsets. The majority of offsets claimed by companies are allowed under the R&D incentive. In some cases the high investment in R&D may result in the offset exceeding the tax otherwise payable (in such cases the offset is carried forward to offset tax payable in future income years).

[2] https://www.ato.gov.au/Business/Large-business/In-detail/Tax-transparency/Tax-transparency--reporting-of-entity-tax-information/?page=4#Tax_losses_and_economic_losses