



Tax Transparency Report 2020

ARTC

Australian
Rail Track
Corporation

ABN 75 081 754
11 Sir Donald Bradman Drive
Keswick Terminal, SA 5035

EXECUTIVE SUMMARY

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 taxpayers.

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

The details of the various taxes paid and collected by ARTC for the financial year and reconciliation of income tax payable to the tax expense stated in its financial statements is provided in this report.

ARTC made a net loss before tax of \$776.6m (loss of \$413.7m in 2019) and paid taxes (inclusive of direct and indirect taxes) of \$132.6m (\$106.6m in 2019) and collected taxes of \$149.3m (\$133.9m in 2019) for the 2020 financial year as set out in Tables [1](#) and [2](#) below. No income tax was payable in 2020 primarily due to tax deductible depreciation as set out in Table [4](#) below.

The information in this report complements the information disclosed in ARTC's 2020 audited Annual Report.

ABOUT ARTC

Our company was created due to the Commonwealth and mainland State Governments Inter-Governmental Agreement in 1997, for the establishment of a "one-stop shop" for rail operators seeking access to the interstate standard gauge rail network between Brisbane and Perth.

Our purpose is to improve Australia's productivity by making rail the mode of choice in the national logistics chain.

Our principal activities during the year were the provision of rail access and infrastructure management of rail networks, either owned or leased by ARTC and the delivery of the Inland Rail Project.

We are a company incorporated under the Corporations Act and a Government Business Enterprise (GBE) as prescribed under the Public Governance, Performance and Accountability (PGPA) Act. Our shares are owned by the Commonwealth of Australia which is represented by the Minister for Infrastructure, Transport and Regional Development, and the Minister for Finance.

We are governed by a Board of Directors appointed by our Shareholder Ministers.

Who We Are

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

Our network extends for more than 8,500 route kilometres and transports agricultural products, general freight and passenger services, as well as millions of tonnes of coal and minerals through New South Wales, Queensland, South Australia, Victoria and Western Australia and includes the Hunter Valley coal rail network.

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 continue to build new rail projects throughout Australia, including the 1,700km Inland Rail project currently underway to enable 24-hour transit between Melbourne and Brisbane.

We are building Inland Rail on behalf of the Australian Government for all Australians, with local knowledge and insights from landowners, businesses, and communities.

Inland Rail progressed significantly in 2019-20 with construction continued and nearing completion along the Parkes to Narromine section in NSW, while extensive planning and design was carried out across other sections of the project in Queensland, NSW, and Victoria ahead of further construction works commencing.

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.

In June 2020, we employed over 1,800 people across our operations in five states – New South Wales, Victoria, Queensland, Western Australia, and South Australia. 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

We 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 cautious risk appetite to taxation matters. The Policy is supported by tax related procedures and processes which ensure we effectively manage our tax risk.

Our 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 cautious tax strategies and avoidance of non-compliant tax practices.

We seek to uphold the reputation of the Group and our Shareholder by giving due consideration to our 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 our tax affairs.

Assurance Regimes

We are 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.

Tax Planning

We do 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. We engage in Tax Planning to legitimately achieve the best after tax outcomes, that is, through claiming available deductions, tax rebates, offsets and credits.

Due consideration is given to our 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.

We are committed to observing all applicable tax laws, rulings, and regulations in meeting its tax compliance obligations in all jurisdictions where we operate.

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

We establish pro-active, respectful, and transparent relationships with tax authorities based on clear and early communication. Where management considers appropriate, we engage 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 2020

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 – TAXES PAID IN AUSTRALIA

Tax Type	2020 \$'000s	2019 \$'000s
Corporate Income Tax*	0	0
GST Paid	119,983	92,701
Fringe Benefits Tax*	110	104
Employer Payroll Tax	11,614	11,149
Other Miscellaneous Taxes**	975	715
Total taxes paid	132,682	104,669

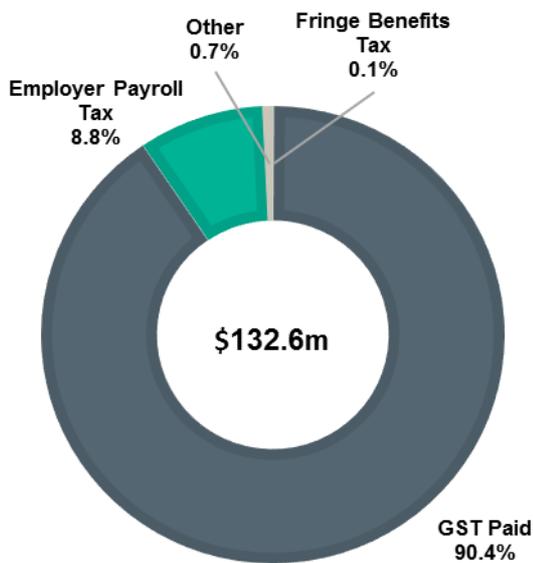
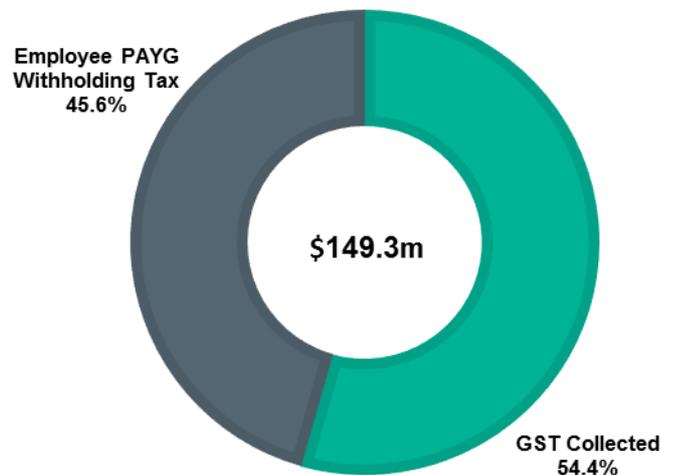


TABLE 2 – TAXES COLLECTED AND REMITTED IN AUSTRALIA

Tax Type	2020 \$'000s	2019 \$'000s
GST Collected	81,200	77,451
Employee PAYG Withholding Tax	68,164	56,511
Total taxes collected	149,364	133,962



*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 figures shown represent the net tax paid in respect of the 2020 income and FBT year not the amounts physically paid during the year. The reasons for net nil income tax payments are outlined in the following two sections of this report and summarised in Tables 3 and 4.

**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 2020 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 3 – RECONCILIATION OF ACCOUNTING PROFIT TO INCOME TAX EXPENSE

Item	2020 \$m	2019 \$m
Profit/(Loss) before tax	(776.6)	(413.7)
Prima Facie tax @ 30% corporate tax rate	(232.9)	(124.1)
<i>Tax effect of adjustments for non-taxable items</i>		
Adjustments in respect of prior periods	0.0	0.0
Change in recognised deductible temporary differences	315.1	159.5
Other	1.5	(0.8)
Tax Expense	83.7	34.6
Effective Tax Rate	10.8%	8.37%
Normalised Effective Tax Rate	29.8%	30.1%

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 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 assets¹ 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 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 claim the tax deductions in its future income tax returns.

ARTC had an ETR of 10.8% due to the DTA recognition issue. Excluding the DTA recognition issue, the Normalised ETR is 29.8%.

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.

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 due to deferred tax expense impacts:

TABLE 4 – RECONCILIATION OF TAX EXPENSE TO INCOME TAX PAYABLE

Tax expense	2020 \$m	2019 \$m
Total Tax Expense per accounts	83.7	34.6
<i>Less movements in temporary differences recognised in deferred tax expense</i>		
Property, plant & equipment - deductible temporary differences allowable*	(79.1)	(61.9)
Other accrued amounts	(3.8)	(3.8)
Recognition/(utilisation) tax losses and offsets	0.8	31.1
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 due to 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 accelerated tax depreciation and 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 2021 is expected to include the following information in relation to ARTC's recently lodged June 2020 tax return:

TABLE 5 – REPORT OF ENTITY INFORMATION

Name:	Australian Rail Track Corporation Limited
ABN:	75 081 455 754
Total income:	\$853,518,896
Taxable income:	\$0
Tax payable @ 30%:	\$0

The total income represents ARTC's accounting income before offsetting expenses to arrive at the accounting loss before tax of \$776.6m disclosed at Table 3 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 (including the Inland Rail route between Melbourne and Brisbane discussed above). ARTC's ability to claim tax

depreciation deductions in relation to its past and current significant infrastructure projects is a key driver of the nil tax payable position.

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 website² 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 reasons consistent with the matters noted above.

² <https://www.ato.gov.au/Business/Large-business/In-detail/Tax-transparency/Tax-transparency--reporting-of-entity-tax-information/?anchor=Taxandreportdata#Taxandreportdata>