



# 2017 Tax Contribution Report



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This Tax Contribution Report (Report) provides stakeholders with the necessary information concerning Wesfarmers' Australian tax activities for the 2017 financial year.

#### *About Wesfarmers*

From its origins in 1914 as a Western Australian farmers' cooperative, Wesfarmers has grown into one of Australia's largest listed companies. With headquarters in Western Australia, its diverse business operations cover: supermarkets, liquor, hotels and convenience stores; home improvement; department stores; office supplies; and an Industrials division with businesses in chemicals, energy and fertilisers, industrial and safety products and coal. Wesfarmers is Australia's largest private sector employer with approximately 203,000 employees in Australia (including 4,200 Indigenous team members) and has a shareholder base of approximately 515,000.

#### *About this Report*

In this Report references to 'Wesfarmers' or 'the company' refer to Wesfarmers Limited (ABN 28 008 984 049) unless otherwise stated. References to 'the Group', 'we', 'us' and 'our' refer to Wesfarmers Limited and each of its subsidiaries incorporated in any jurisdiction globally. References in this Report to a 'year' are to the financial year ended 30 June 2017 unless otherwise stated. All dollar figures are expressed in Australian dollars (AUD) unless otherwise stated.

This Report should be read in conjunction with the company's **2017 Annual Report**.

## Message from the Chief Financial Officer



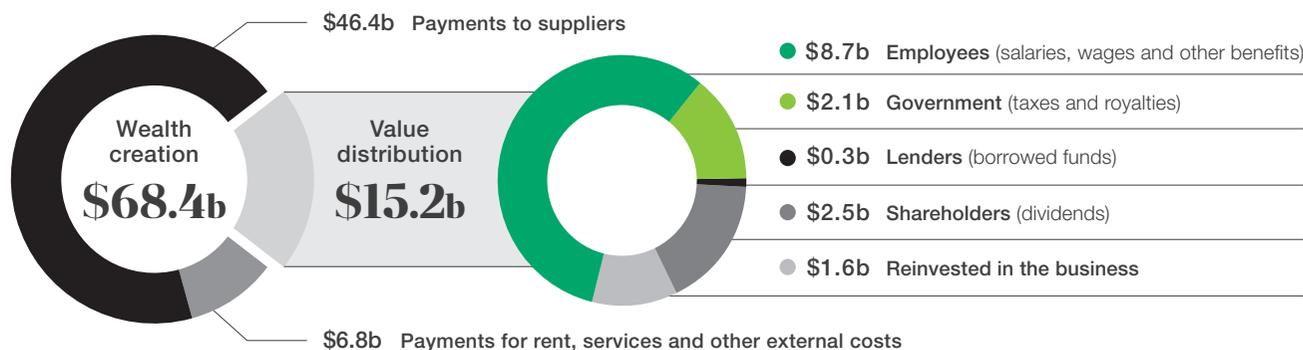
On behalf of the Board, I'm very pleased to present the Wesfarmers Tax Contribution Report for 2017.

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.

This Report is published on a voluntary basis to demonstrate our continued commitment to tax transparency. We are pleased to disclose our taxes paid in Australia and to detail our approach to tax planning.

ANTHONY GIANOTTI  
Chief Financial Officer

### Creating wealth and adding value



### Introduction

This Report details Wesfarmers' tax activities for the 2017 financial year together with our approach to tax strategy and governance. Wesfarmers makes a very significant contribution to the communities in which it operates. In the 2017 financial year, Wesfarmers generated \$68.4 billion of revenue which was distributed to our various stakeholders, including employees, suppliers, shareholders, governments and the community.

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 which is set out on page 7 of this Report.

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

## Effective company tax rate

### How it is calculated

The Australian company tax rate is 30 per cent of taxable income for companies other than small business entities. Taxable income represents net profit for tax purposes, that is, gross income less any deductions or exemptions allowed in the tax year.

The effective tax rate is calculated as income tax expense divided by accounting profit. The effective tax rate will differ from the company tax rate due to non-temporary differences.

Non-temporary differences are amounts which are recognised for either accounting purposes or tax purposes, but not both. For example, the receipt of dividend income from overseas subsidiaries is exempt income for tax purposes. We note that the Wesfarmers Group pays tax on the profit from which the dividend was paid in the country of origin.

Temporary differences exist where amounts are assessable or deductible for tax at a different time to when they are recognised under accounting practices. For example, different depreciation rates may be used for tax and accounting purposes. The differences will eventually reverse over time when an asset is fully depreciated.

Material temporary and non-temporary differences relevant to Wesfarmers are disclosed in note 3 of the company's **2017 Annual Report** on page 106.

### Australian operations

Wesfarmers had an effective tax rate of 29.9 per cent for the 2017 financial year, which compares to 28.9 per cent for the 2016 financial year (post adjustment for the impairment of Target's goodwill).<sup>1</sup> Wesfarmers' 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.

### Global operations

Wesfarmers' global effective tax rate for 2017 was 30.6 per cent. Wesfarmers' global effective tax rate is greater than its Australian operations due to losses incurred in foreign jurisdictions, namely the United Kingdom, reducing global profit. The effective company tax rates for the Group's Australian and global operations are outlined in the adjacent table.

	2017 %	2016 %
<b>Effective tax rate – Australia</b>		
Australian operations	<b>29.9</b>	67.8
Australian operations (excluding Target goodwill impairment) <sup>1</sup>	<b>29.9</b>	28.9
<b>Effective tax rate – Global</b>		
Global operations	<b>30.6</b>	60.8
Global operations (excluding Target goodwill impairment) <sup>1</sup>	<b>30.6</b>	28.1

<sup>1</sup> The \$1,208 million impairment of Target's goodwill recognised during FY2016 was a non-deductible item.

*Please refer to the company's 2017 Annual Report for further details regarding accounting disclosures. Alternatively contact us on [info@wesfarmers.com.au](mailto:info@wesfarmers.com.au).*

<sup>1</sup> Please refer to the 2016 Tax Contribution Report or the company's 2016 Annual Report for further details.

## Reconciliation of accounting profit to income tax expense and income tax payable

The reconciliation of accounting profit to tax expense and tax payable, and the effective tax rate information was previously published in the company's **2017 Annual Report** in notes 3 and 29 on pages 106 and 138, respectively. These disclosures were prepared for the statutory accounts in accordance with the relevant Australian Accounting Standards. The statutory accounts reflect the global accounting consolidated group, except where specifically noted otherwise.

Income tax expense, reported on a company's income statement, is calculated by multiplying accounting profit for the year, adjusted for non temporary differences, by the relevant corporate tax rate (30 per cent in Australia).

Income tax payable reported on a company's balance sheet, is calculated by multiplying accounting profit for the year, adjusted for both temporary and non-temporary differences, by the relevant corporate tax rate. Income tax payable represents the actual income tax payable to the Australian Tax Office (ATO) and other tax authorities.

A reconciliation of Wesfarmers' accounting profit to income tax payable is set out in the table below.

## Identification of material temporary and non-temporary differences

A detailed reconciliation of accounting profit to income tax expense and material temporary and non-temporary differences is disclosed on page 106 of the company's **2017 Annual Report**. We note that for the 2017 financial year, Wesfarmers' tax expense and income tax payable were not materially different.

	2017 \$m	2016 \$m
<b>Tax paid or payable reconciliation</b>		
Accounting profit	4,138	1,038
Income tax at the statutory rate of 30%	1,241	311
Non-temporary differences	12	362
Temporary differences: deferred tax	37	342
Associates and other	(25)	(31)
<b>Current year tax paid or payable</b>	<b>1,265</b>	984

## Tax policy, tax strategy and governance

Wesfarmers is committed to full compliance with its statutory obligations and takes a conservative approach to tax risk. Wesfarmers' Group Tax Policy includes an internal escalation process for referring tax matters to the corporate Group Tax function. The Executive General Manager, Group Finance must report any material tax issues to the Board. Tax strategy is implemented through Wesfarmers' Group Tax Policy.

Wesfarmers' approach to tax planning is to operate and pay tax in accordance with the tax law in each relevant jurisdiction. The Group aims for certainty on all tax positions it adopts. Where the tax law is unclear or subject to interpretation, advice is obtained, and when necessary the ATO (or other relevant tax authority) is consulted for clarity.

Wesfarmers seeks to have a transparent and cooperative relationship with the ATO and other relevant tax authorities. The ATO conducts a review of Wesfarmers' Australian consolidated income tax returns in accordance with the Pre-lodgement Compliance Review (PCR) that Wesfarmers is subject to. The PCR arrangement formalises the requirement for Wesfarmers to disclose to the ATO all material transactions undertaken.

*For the 2017 year, the gross value of international related party transactions in and out of Australia represented less than 0.3 per cent of revenue.*

## International related party dealings

Wesfarmers is an Australian based conglomerate, with some trading operations in other countries, including New Zealand (Home Improvement, Kmart, and Industrial and Safety) and the United Kingdom and Ireland (Home Improvement (including Homebase) and Industrial and Safety). Given its current profile, the Group has relatively limited international related party dealings. Wesfarmers always seeks to price international related party dealings on an arm's length basis to meet the regulatory requirements of the relevant jurisdictions.

Wesfarmers' related party dealings are summarised below.

- Wesfarmers' Australian retail businesses source material amounts of trading stock from overseas, particularly through Asian based third-party suppliers. To facilitate this, the Group has overseas based subsidiaries that coordinate these supplies. Wesfarmers' Australian businesses pay the overseas subsidiaries for these services.
- Certain Wesfarmers retail businesses operate across multiple jurisdictions. To meet customer demand and manage stock levels, trading stock is occasionally transferred between jurisdictions, for which arm's length consideration is paid by the recipient of the trading stock.
- Various aspects of Wesfarmers' business operations are insured with third party insurance providers. To more effectively access global reinsurance markets, Wesfarmers has a regulated off-shore captive insurance company in Singapore. Insurance policy premium payments are made by Wesfarmers to the subsidiary for this purpose, with the majority of the premiums on-paid to external re-insurance providers.
- Certain Wesfarmers businesses operating outside of Australia utilise intellectual property developed by Wesfarmers businesses in Australia. Where appropriate, and as required by international cross-border tax rules, a royalty payment is made by the off-shore subsidiary to the relevant Wesfarmers business in Australia.
- Various administrative and support services are provided by Wesfarmers corporate office and divisional parent entities to offshore subsidiary businesses. As required by international cross-border tax rules, arm's length consideration is paid for these services.

### Other jurisdictions

The Wesfarmers Group includes subsidiary companies that are incorporated in jurisdictions outside of Australia as summarised in the table below.

Country/Dependency	Nature of activities
Bangladesh <sup>1</sup>	Coordinating the sourcing of trading stock for Kmart
Bermuda	Insurance company – the company is an Australian tax resident which means that any profit is taxed in Australia at the 30 per cent Australian corporate tax rate (no new transactions since 2008, liquidation planned)
Botswana	Dormant (acquired through a previous business acquisition and never operated)
Cayman Islands	Dormant (never operated, liquidation planned)
China <sup>1</sup>	Coordinating the sourcing of trading stock for Kmart, Target and Industrial and Safety
Hong Kong <sup>1</sup>	Coordinating the sourcing of trading stock for Kmart and Target
India <sup>1</sup>	Coordinating the sourcing of trading stock for Kmart
Indonesia	Active trading operation – Industrial and Safety
Jersey	UK Landholder – the company pays tax in the United Kingdom on all earnings at the corporate tax rate of 20 per cent
New Zealand	Active trading operations, financing activities and dormant entities – Home Improvement, Kmart, and Industrial and Safety
Portugal	Manufacture and supply of trading stock – Industrial and Safety (Workwear)
Republic of Ireland	Active trading operations – Homebase
Singapore <sup>1</sup>	Insurance company
United Arab Emirates	Active trading operation – Industrial and Safety (Workwear)
United Kingdom	Active trading operations and dormant entities – Homebase, Industrial and Safety (Workwear)
United States of America	Dormant (never operated)

<sup>1</sup> The companies in these countries are subject to the Australian Controlled Foreign Company rules. Under these rules profits generated by these subsidiaries from trading with Wesfarmers Limited are taxable in Australia at the 30 per cent Australian corporate tax rate.

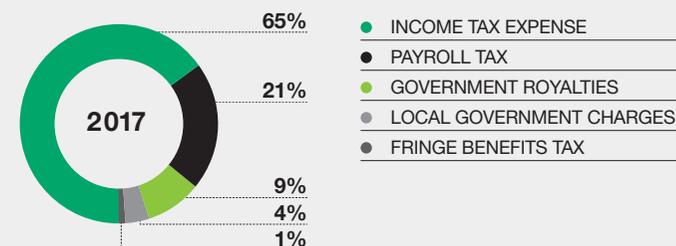
## Australian tax contribution summary for corporate taxes paid

### Taxes borne by Wesfarmers

The adjacent table and diagram detail the types of taxes contributed to Australian federal, state and local governments in the 2017 and 2016 financial years. The Australian taxes represent a significant proportion of Wesfarmers' \$2.1 billion in global tax payments in the 2017 financial year.

#### Taxes borne by Wesfarmers

	2017 \$m	2016 \$m
Income tax expense	1,225	880
Payroll tax	396	386
Government royalties <sup>1</sup>	163	79
Local government charges <sup>2</sup>	77	78
Fringe benefits tax	17	16
<b>Total</b>	<b>1,878</b>	<b>1,439</b>



<sup>1</sup> Government royalties are predominantly comprised of royalties paid by our Resources business to the relevant state government in relation to the coal operations.

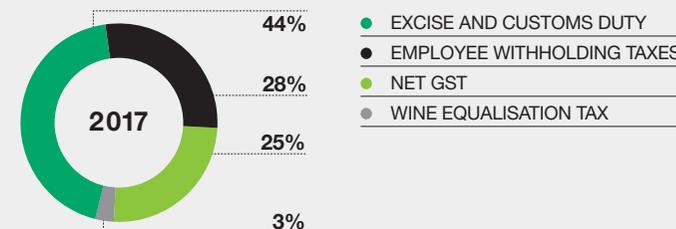
<sup>2</sup> Government charges are generally comprised of local government rates and fees.

### Taxes collected by Wesfarmers

In addition to taxes directly attributable, Wesfarmers collected and paid \$4.8 billion in Pay As You Go (PAYG) taxes, excise and customs duty, GST and Wine Equalisation Tax (WET) on behalf of the Australian government. Wesfarmers is obligated to withhold PAYG tax from salaries and wages paid to employees on behalf of the government. Excise duty and customs duty are liabilities arising predominantly from the sale of alcohol and cigarettes. An increase in the rate of excise has driven the increase in the 2017 financial year. Net GST is calculated as the total GST liable on taxable supplies less all GST credits attributable to the respective financial year. WET is a once-off tax on the wholesale value of wine sold through wholesale and some retail sales. The adjacent table and diagram show the percentage of each type of tax collected that comprises the \$4.8 billion collected in 2017 and the \$4.3 billion collected in 2016.

#### Taxes collected by Wesfarmers

	2017 \$m	2016 \$m
Excise and customs duty	2,128	1,735
Employee withholding taxes	1,350	1,292
Net GST	1,203	1,149
Wine Equalisation Tax	137	132
<b>Total</b>	<b>4,818</b>	<b>4,308</b>



*Wesfarmers' global tax contributions were \$2.1 billion in the 2017 financial year of which \$1.9 billion were Australian tax payments.*

## Further information

This Report may be read in conjunction with the following documents and resources.



The screenshot shows the Wesfarmers website with a header featuring the company logo and navigation links. A prominent banner reads "DELIVERING VALUE TODAY & TOMORROW" and "Wesfarmers is a leading Australian based company. The focus of our diverse operations is to provide a satisfactory return to our shareholders." Below this, there are sections for "LATEST NEWS" including "2017 Annual Report", "Change of Director's Interest Notice - W", and "2018 First Quarter Retail Sales Results". A "SHARE PRICE" section displays "\$43.11".

Please refer to the company's **2017 Annual Report**.



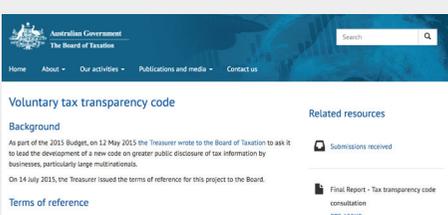
The screenshot displays the "WESFARMERS SUSTAINABILITY REPORT 2017" website. It features a navigation menu with "HOME", "OUR PRINCIPLES", "OUR BUSINESSES", "OUR STORES", "OUR DATA", and "OUR REPORT". The main content area includes a large image of two people in a retail setting and a green banner that says "Welcome to our Sustainability".

For further information regarding Wesfarmers' contribution to the communities it operates in, please refer to the **2017 Sustainability Report**.



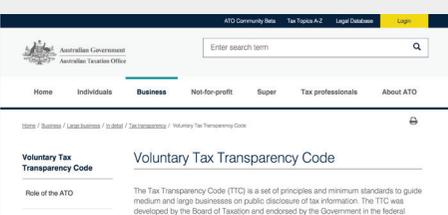
The screenshot shows the "data.gov.au" website. The page is titled "Corporate Tax Transparency" and is categorized under "Organisations / Australian Taxation Office / Corporate Tax Transparency". It includes a search bar and navigation options like "Dataset", "Groups", "Activity Stream", and "Use Cases". The main content area provides details about the "Corporate Tax Transparency" dataset, including a description of the reports and their scope.

For further detail and context around the ATO's tax transparency disclosures, please refer to the ATO website: <https://data.gov.au/dataset/corporate-transparency>



The screenshot shows the Australian Taxation Office (ATO) website page for the "Voluntary tax transparency code". It includes a search bar and navigation links. The main content area is titled "Voluntary tax transparency code" and includes a "Background" section with text about the 2015 Budget and the Board of Taxation's role. There are also "Related resources" and "Terms of reference" sections.

The Board of Taxation's voluntary tax code and register of companies that have pledged to adopt the code can be found at: <http://taxboard.gov.au/current-activities/transparency-code-register/>



The screenshot shows the ATO website page for the "Voluntary Tax Transparency Code". It includes a search bar and navigation links. The main content area is titled "Voluntary Tax Transparency Code" and includes a "Role of the ATO" section with text about the Tax Transparency Code (TTC) and its purpose.

Further context around the voluntary tax code can be found on the ATO's website: <https://www.ato.gov.au/Business/Large-business/In-detail/Tax-transparency/Voluntary-Tax-Transparency-Code/>

**Further information and publications about Wesfarmers' operations** are available from the Corporate Affairs department on (08) 9327 4428 (within Australia) or (+61 8) 9327 4428 (International) or from the Wesfarmers website.