

BOQ TAX REPORT 2021

Year Ended 31 August 2021

BOQ TAX REPORT

For the year ended 31 August 2021

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CHIEF FINANCIAL OFFICER'S INTRODUCTION

I am pleased to present the Bank of Queensland Limited (**BOQ** or **BOQ Group**) Tax Report for the year ended 31 August 2021. This Tax Report is published on a voluntary basis and meets the requirements set out in the Australian Board of Taxation's Voluntary Tax Transparency Code.

BOQ is a supporter of tax transparency, and prides itself on having open and honest relationships with the tax regulators in all jurisdictions in which it operates. BOQ takes its tax compliance responsibilities seriously and has policies and procedures in place to satisfy tax obligations in a lawful manner.

BOQ makes a wide range of tax-related payments to tax authorities in Australia and New Zealand (**NZ**). In addition to income tax, BOQ is also subject to fringe benefits tax (**FBT**), goods and services tax (**GST**) and payroll tax. BOQ also collects and pays 'pay as you go' (**PAYG**) taxes on behalf of its employees. Stamp duty and withholding taxes are also collected and paid on behalf of customers and investors.

On 1 July 2021 BOQ acquired Members Equity Bank Limited (**ME Bank**). Any taxes paid or collected by ME Bank during BOQ's period of ownership are included in this Tax Report.

In the 2021 financial year, the BOQ Group paid \$167 million in taxes and collected \$228 million in taxes (refer to Page 7 for composition). BOQ's tax expense for accounting purposes of \$169 million represents an effective tax rate of 31.4 per cent.

Consistent with prior years, the BOQ effective tax rate remains above the corporate tax rate of 30 per cent. For the 2021 year, this is largely due to capital note distributions and costs related to the ME Bank acquisition, which are treated as non-deductible for tax purposes.

As a financial institution, a number of BOQ's products are classified as input taxed supplies (e.g. deposit accounts and loans) for GST purposes. As a result, GST is not included in amounts charged to customers (e.g. fees and interest) and BOQ is unable to recover input tax credits for the GST included in the price of purchases related to making these input taxed supplies. BOQ also makes supplies that are taxable (subject to GST). BOQ can recover the full amount of GST incurred on inputs related to taxable supplies. As a result of the mix of BOQ's business operations, GST is ordinarily a cost borne by BOQ. In 2021, BOQ incurred \$35 million of GST that it was unable to recover.

In addition, for the personal income tax year ended 30 June 2021, \$75 million of PAYG withholding taxes were remitted to the Australian Taxation Office (**ATO**) on behalf of BOQ employees.

This report provides the following information in relation to BOQ:

- Overview of BOQ Group;
- Tax strategy and governance;
- Income taxes disclosed in BOQ's 2021 Annual Report;
- ATO tax transparency disclosure; and
- Taxes paid and collected.

The information in this report is in addition to information published in the BOQ 2021 Annual Report which was prepared in accordance with Australian Accounting Standards and complies with the International Financial Reporting Standards.



Ewen Stafford

Chief Financial Officer and Chief Operating Officer
13 April 2022

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OVERVIEW OF BOQ GROUP

BOQ is a full service financial institution, listed on the Australian Securities Exchange (**ASX**), regulated by the Australian Prudential Regulation Authority (**APRA**) as an authorised deposit-taking institution. During BOQ's long history, it has evolved from a Queensland focused, retail branch-based bank to a national diversified financial services business with a focus on niche commercial lending segments, highly specialised bankers, and branches run by small businesses owners who are anchored in their communities.

As a retail and business bank, BOQ's main operations include taking deposits from customers, and providing loan facilities to borrowers, as well as the provision of equipment finance and insurance. The majority of BOQ's profits are earned within Australia. BOQ also earns profits in NZ although the contributions are not material. BOQ books profits and pays tax in the jurisdiction where the service is provided to the customer. BOQ does not provide any services to customers or have profits in any jurisdictions outside of Australia and NZ.

For Australian tax purposes, BOQ has elected to form an income tax consolidated group (the **BOQ Tax Consolidated Group**). The BOQ Tax Consolidated Group is made up of Bank of Queensland Limited (as the Head Company of the BOQ Tax Consolidated Group) and its wholly owned Australian subsidiaries (including ME Bank, from 1 July 2021). For income tax purposes, the members of the BOQ Tax Consolidated Group are treated as if they were a 'single taxpayer'.

BOQ generates franking credits in Australia in respect of income tax paid by the BOQ Group. These franking credits are passed on to shareholders in the form of franked dividends. Historically, dividends on ordinary shares and distributions on capital notes paid by BOQ have been fully franked.

Following the acquisition of ME Bank in 2021, BOQ now employs over three thousand people in Australia and manages the employment related taxes in respect of these employees.

As at 31 August 2021 BOQ had two NZ subsidiary companies (one of which is dormant) and one NZ branch. These NZ entities are subject to the NZ tax regime. Profits of the NZ entities are taxed at the NZ corporate tax rate of 28 per cent (as compared to the Australian corporate tax rate of 30 per cent). BOQ has minor cross border charges related to management services and interest that are immaterial to BOQ's operations. From FY17, Country-by-Country (**CbC**) reporting applied to the BOQ Group.

TAX STRATEGY AND GOVERNANCE

BOQ's tax strategy is focused on integrity, compliance, certainty and maximising shareholder value.

This strategy is implemented through BOQ's Tax Risk Management Policy (**TRM Policy**). The TRM Policy is approved by the Board of Directors and is subject to annual review. The TRM Policy outlines the following governance parameters that are to be followed at all times:

- The commercial, social and customer-focused objectives of the BOQ Group are of the highest priority, and all tax planning and advice is to be undertaken in this context and with regard to these goals;
- The BOQ Group is committed to being a responsible corporate taxpayer in complying with all laws in respect of taxation applicable to the BOQ Group's business operations;
- The integrity of the BOQ Group, and both the financial and non-financial impacts of decisions are to be considered when assessing tax positions and strategies;
- The BOQ Group has an obligation to pay the legally correct amount of taxes due, as established by the laws in the jurisdictions in which it operates. This includes an obligation to lodge returns and pay taxes on time;
- The BOQ Group seeks to achieve certainty relating to all tax positions adopted, however acknowledges that this may not always be possible. All tax positions adopted by the BOQ Group are to be no less than "reasonably arguable". However, it is the preference of the Board that significant tax positions adopted generally carry a higher level of certainty than "reasonably arguable", and the usual standard to be applied would be that the tax position has a high degree of probability of withstanding challenge; and
- The BOQ Group will not enter into artificial or contrived arrangements to achieve a tax benefit.

In accordance with the TRM Policy, BOQ undertakes regular reviews and testing of tax governance and controls, consistent with the broader BOQ Group operational risk framework.

BOQ has developed an open, cooperative and professional relationship with the ATO. This has been achieved by proactively engaging the ATO to discuss key tax issues and seeking private binding rulings on material tax issues that are considered uncertain. The BOQ Group has maintained this relationship throughout the tax risk and assurance reviews regularly undertaken by the ATO.

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INCOME TAXES DISCLOSED IN BOQ'S 2021 ANNUAL REPORT

BOQ reported income tax expense of \$169 million in the 2021 financial year. BOQ's effective tax rate of 31.4 per cent for the 2021 financial year has been calculated by dividing BOQ's income tax expense by the statutory accounting profit before income tax. The primary drivers of BOQ's income tax expense and effective tax rate are as follows:

Reconciliation of statutory accounting profit to Income tax expense	%	\$m
Profit before income tax		538.0
Tax using BOQ's statutory tax rate ¹	30.0	161.0
ME Bank acquisition costs ²	0.9	5.0
Capital note distributions ³	0.8	4.4
Other items	(0.3)	(1.4)
Total income tax expense	31.4	169.0

Income tax expense is an accounting concept which represents the amount of income tax accrued for accounting purposes. Income tax expense includes both current and deferred tax (i.e. tax that will be paid / received in a later income year). As a result, there will usually be differences between the income tax expense and the amount of tax paid for the period to the relevant tax authorities.

The primary differences between BOQ's income tax expense and the amount of income tax paid by BOQ for the 2021 financial year are as follows:

Reconciliation of Income tax expense to Income tax paid	\$m
Income tax expense	169
Leasing adjustment ⁴	(40)
Movement in provisions for impairment	(17)
Consolidation – Taxation of Financial Arrangements (TOFA) ⁵	5
Income tax paid	117

Notes

Note 1 – Australian statutory tax rate is 30 per cent.

Note 2 – ME Bank acquisition costs are not deductible. Instead they are included in the calculation of the tax cost base of ME Bank assets.

Note 3 – Capital Notes are treated as equity instruments for tax purposes. As a result, distributions are not deductible.

Note 4 – The leasing adjustment relates predominately to differences between the tax and accounting treatment of finance leases. For tax purposes, BOQ is required to treat all lease payments as assessable and is eligible to claim depreciation deductions in relation to the leased assets. In the 2021 financial year BOQ was eligible to take an immediate tax deduction for some leased assets under the temporary full expensing incentive.

Note 5 – The tax consolidation outcomes related to the ME Bank acquisition result in a TOFA adjustment that is assessable to the BOQ over 4 years on a straight-line basis.

ATO TAX TRANSPARENCY DISCLOSURE

Each year the ATO publishes information about the tax affairs of public companies with a total income of \$100 million or more. As BOQ is one of those companies, the ATO is expected to publish the following information about BOQ for the year ended 31 August 2021 in December 2022.

BOQ Tax Consolidated Group	\$m
Total income	1,829.8
Taxable income	378.9
Tax payable	113.7

Tax payable disclosed by the ATO will be equal to the Australian corporate income tax paid by the BOQ Group. This differs from the total income tax amount in the BOQ Annual Report as a result of corporate income tax paid in NZ.

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TAXES PAID AND COLLECTED

The tables below illustrate the types of taxes paid and collected by the BOQ Group in the 2021 financial year to the Australian (Federal and State) and NZ tax authorities. The majority of BOQ's operations are in Australia.

Taxes paid by the BOQ Group				
Tax Authority	Corporate income tax ¹ \$m	Employer / payroll taxes ² \$m	Indirect taxes net of recoveries ³ \$m	Total taxes paid \$m
Australia (Federal)	114	1	35	150
Australia (State)	-	14	-	14
NZ ⁴	3	-	-	3
Total	117	15	35	167

Taxes collected by the BOQ Group				
Tax Authority	Employee taxes remitted ⁵ \$m	GST collected ⁶ \$m	Withholding taxes ⁷ \$m	Total taxes collected \$m
Australia	75	144	2	221
NZ ⁴	-	7	-	7
Total	75	151	2	228

Notes

Note 1 – Corporate income tax relates to the year ended 31 August 2021, the relevant return period for the BOQ Group income tax returns in both Australia and New Zealand. This includes corporate tax related to the ME Bank operations from 1 July 2021.

Note 2 – Consists of payroll and FBT taxes paid resulting from BOQ's role as an employer. Figures represent payroll tax for the 30 June 2021 year and FBT for the 31 March 2021 year which are the relevant annual return periods for those taxes. As ME Bank only joined the BOQ Group on 1 July 2021, no amounts have been included in relation to payroll and FBT taxes paid by ME Bank.

Note 3 – Consists of GST which cannot be recovered from the ATO. This includes GST paid by ME Bank from 1 July 2021 which cannot be recovered from the ATO.

Note 4 – NZ taxes paid have been presented in Australian dollars using the conversion rate at 31 August 2021. Where NZ taxes paid are below \$500,000, the amount has been rounded down to nil.

Note 5 – Consists of PAYG withholding taxes collected on behalf of employees and paid by BOQ for the 30 June 2021 year which is the relevant annual return period for PAYG. As ME Bank only joined the BOQ Group on 1 July 2021, no amounts have been included in relation to PAYG withholding taxes collected and paid by ME Bank.

Note 6 – Consists of GST paid by BOQ Group customers (including ME Bank customers from 1 July 2021) and remitted to the relevant Tax Authority as GST payable.

Note 7 – Predominately consists of amounts withheld from customers during the year ended 30 June 2021 where they have not quoted a tax file number (TFN) or Australian business number (ABN) or informed the BOQ Group that they are exempt from quoting either a TFN or ABN. As ME Bank only joined the BOQ Group on 1 July 2021, no amounts have been included in relation to withholding taxes collected by ME Bank.

INDEPENDENT AUDITOR'S - AGREED UPON PROCEDURES

PricewaterhouseCoopers have been engaged to perform Agreed Upon Procedures in relation to the BoQ Tax Report 2021, and to provide a report of their factual findings to the Board of Directors of Bank of Queensland Limited. No material adverse findings were included in this report.

Bank of Queensland Limited

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