



# BOQ TAX REPORT 2016

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YEAR ENDED 31 AUGUST 2016





# BOQ TAX REPORT

CONTENTS	
CHIEF FINANCIAL OFFICER'S INTRODUCTION	3
OVERVIEW OF BOQ GROUP	4
TAX STRATEGY AND GOVERNANCE	4
INCOME TAXES DISCLOSED IN BOQ'S 2016 ANNUAL REPORT	5
TAXES PAID	6
INDEPENDENT AUDITORS' REPORT	7



## CHIEF FINANCIAL OFFICER'S INTRODUCTION

I am pleased to present the Bank of Queensland Limited Group's ('BOQ' or 'BOQ Group') Tax Report for 2016. BOQ takes its tax compliance responsibilities seriously and has policies and procedures in place to ensure that all tax obligations are satisfied 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 paid on behalf of customers and investors.

In the 2016 financial year, BOQ paid \$171 million in taxes (refer to Page 6 for composition). BOQ's tax expense for accounting purposes of \$158 million represents an effective tax rate of 31.9%. This is above the corporate tax rate of 30% largely as a result of convertible preference share and capital note distributions, which are treated as non-deductible distributions for tax purposes.

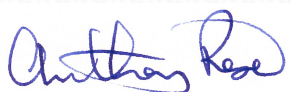
As a financial institution, a number of BOQ's products are classified as input taxed supplies (e.g. deposit products and loans) for GST purposes. As a result, GST is not included in amounts charged to customers (e.g. fees and interest) and BOQ is unable to recover input tax credits for the GST included in the price of purchases related to 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, BOQ is a net payer of GST. In 2016, BOQ incurred \$19 million of GST that it was unable to recover.

In addition, for the personal income tax year ended 30 June 2016, \$71 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 2016 Annual Report
- Taxes paid.

The information in this report is in addition to information published in the BOQ 2016 Annual Report which was prepared in accordance with Australian Accounting Standards and complies with the International Financial Reporting Standards.



Anthony Rose

**Chief Financial Officer**

29 March 2017



# BOQ TAX REPORT

## 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 and ranked among the top 100 companies by market capitalisation on the ASX. BOQ has grown from being the first Permanent Building Society in Queensland in 1874 to the current day network of retail branches and other points of presence spanning every state and territory in Australia.

BOQ's main operations include – as a retail bank – 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 Tax Consolidated Group) and its wholly owned Australian subsidiaries. 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 then passed on to shareholders in the form of franked dividends. BOQ has a strong history of paying franked dividends on ordinary shares, convertible preference shares and capital notes.

BOQ employs over two thousand people in Australia and manages the employment related taxes in respect of these employees.

BOQ has one NZ company and two NZ branches. 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% (as compared to the Australian corporate tax rate of 30%). BOQ has minor cross border charges related to management services, interest and royalties that are immaterial to BOQ's operations.

## 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 BOQ Board and reviewed by the BOQ Board at least every 2 years. The TRM Policy outlines the following governance parameters that are to be followed at all times:

- The BOQ Group will comply with all relevant tax laws in the jurisdictions in which it operates.
- The integrity of the BOQ Group and both 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 significant tax positions or issues that may carry reputational risk are expected to have much higher levels of certainty.
- The BOQ Group will not enter into artificial or contrived arrangements to achieve a tax benefit.

BOQ has developed and fostered good working relationships with the ATO. This has been achieved by proactively contacting the ATO to discuss key tax issues, seeking private binding rulings on material tax issues that are considered uncertain, etc. Given the size of the BOQ Group, the ATO has undertaken various tax risk reviews. BOQ has approached these risk reviews in an open, cooperative and professional manner.



## INCOME TAXES DISCLOSED IN BOQ'S 2016 ANNUAL REPORT

BOQ reported income tax expense of \$158 million in the 2016 year. BOQ's statutory effective tax rate of 31.9% for the 2016 year has been calculated by dividing BOQ's income tax expense by the accounting profit. The primary drivers of BOQ's income tax expense and effective tax rate are as follows:

	%	\$m
Profit before income tax		496.0
Tax using BOQ's statutory tax rate <sup>1</sup>	30.0	148.8
Convertible preference share and capital note distributions <sup>2</sup>	1.4	6.8
Amortisation – Customer related intangibles and brands <sup>3</sup>	0.6	3.0
Other items	(0.1)	(0.6)
Total income tax expense / effective tax rate	31.9	158.0

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 2016 year are as follows:

	\$m
Income tax expense	158
Leasing adjustment <sup>4</sup>	(11)
Movement in provisions for impairment	(5)
Movement in accruals and other provisions	(6)
Income tax paid	136

### Notes

Note 1 – Australian statutory tax rate is 30%.

Note 2 – Convertible Preference Shares and Capital Notes are treated as equity instruments for tax purposes. As a result, distributions are not deductible.

Note 3 – Accounting amortisation of customer related intangibles and brands 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.



# BOQ TAX REPORT

## TAXES PAID

The table below illustrates the types of taxes paid by the BOQ Group in the 2016 financial year to the Australian (Federal and State) and NZ tax authorities. The majority of BOQ's operations are in Australia.

Tax Authority	Corporate income tax <sup>1</sup> \$m	Employer / payroll taxes <sup>2</sup> \$m	Indirect taxes net of recoveries <sup>3</sup> \$m	<b>Total taxes paid</b>  \$m	Employee taxes remitted <sup>4</sup> \$m
Australia (Federal)	135	2	19	<b>156</b>	71
Australia (State)	-	14	-	<b>14</b>	-
NZ <sup>5</sup>	1	-	-	<b>1</b>	-
<b>Total</b>	<b>136</b>	<b>16</b>	<b>19</b>	<b>171</b>	<b>71</b>

### Notes

Note 1 – Corporate income tax relates to the year ended 31 August 2016, the relevant return period for the BOQ Group income tax returns in both Australia and New Zealand.

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 2016 year and FBT for the 31 March 2016 year which are the relevant annual return periods for those taxes.

Note 3 – Consists of GST which cannot be recovered from governments.

Note 4 – Consists of PAYG withholding taxes collected on behalf of employees and paid by BOQ for the 30 June 2016 year which is the relevant annual return period for PAYG.

Note 5 – NZ taxes paid have been presented in Australian dollars using the conversion rate at 31 August 2016.





## INDEPENDENT AUDITOR'S REVIEW REPORT

To the Directors of Bank of Queensland Limited

We have reviewed the tables presented on pages 5 to 6 (the Tables) of the Tax Report for the year ended 31 August 2016 (the Report) of Bank of Queensland Limited (BOQ).

### *Directors' responsibility*

The directors and management of BOQ are responsible for the preparation of the Tables in accordance with the the basis of preparation described on pages 5 to 6 of the Report. This responsibility includes establishing and maintaining internal control relevant to the preparation of the Tables that is free from material misstatement whether due to fraud or error.

### *Auditor's responsibility*

Our responsibility is to express a conclusion on the Tables based on our review. We have conducted our review in accordance with Standard on Review Engagements ASRE 2405 *Review of Historical Information Other than a Financial Report* in order to state whether, on the basis of the procedures described, anything has come to our attention that causes us to believe that the Tables are not presented fairly, in all material respects, in accordance with the basis of preparation as described on pages 5 to 6 of the Report. No opinion is expressed as to whether the basis of preparation described on pages 5 to 6 is appropriate for the preparation of the Tables.

ASRE 2405 requires us to comply with the requirements of the applicable code of professional conduct of a professional accounting body.

A review consists of making enquiries, primarily of persons responsible for financial and accounting matters, applying analytical and other review procedures, and reconciliation of information in the Tables to books, accounts and other relevant records. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

The Tables as presented on pages 5 to 6 of the Report have been prepared for the directors of BOQ. We disclaim any assumption of responsibility for reliance on this review report or on the Tables presented on pages 5 to 6 of the Report to which it relates to any person other than BOQ.

### *Conclusion*

Based on our review, which is not an audit, nothing has come to our attention that causes us to believe that the Tables presented on pages 5 to 6 of the Report do not present fairly, in all material respects, in accordance with the basis of preparation as described on pages 5 and 6 of the Report.

### *Basis of accounting and restriction on distribution and use*

Without modifying our conclusion, we draw attention to the basis of preparation to the Tables which is described on pages 5 and 6 of the Report. The Report has been prepared to assist the directors of BOQ in meeting the reporting principles of the Voluntary Tax Transparency Code (TTC). As a result, the Tax Report and this Auditor's Report may not be suitable for another purpose. Our opinion is not modified in respect of this matter. Our report is intended solely for the directors of BOQ and should not be used by parties other than the directors of BOQ. We disclaim any assumption of responsibility for any reliance on this report, or on the Report to which it relates, to any person other than the directors of BOQ or for any other purpose than that for which it was prepared.



# BOQ TAX REPORT



## *Matters Relating to the Electronic Publication of the Reviewed Tax Report*

This review conclusion relates to the tables presented on pages 5 to 6 of the Report for the year ended 31 August 2016 included on BOQ's website. BOQ's directors are responsible for the integrity of BOQ's website. We have not been engaged to report on the integrity of the BOQ's website. The review conclusion refers only to the subject matter described above. It does not provide a conclusion on any other information which may have been hyperlinked to/from these statements. If users of the Report are concerned with the inherent risks arising from publication on a website, they are advised to refer to the hard copy of the reviewed Report to confirm the information contained in this website version of the Report.

A handwritten signature of the KPMG firm, written in black ink, appearing as 'KPMG.' with a stylized flourish.

KPMG

Sydney

29 March 2017