

Voluntary Tax Transparency Report 2020

Basis of Preparation

The material in this disclosure has been prepared by Cuscal Limited and is general background information about Cuscal's consolidated group activities as at the date of this disclosure. This information is given in summary and rounded form and does not purport to be complete. The concept of materiality as contained in the draft AASB on Tax Transparency Code has been adopted to appropriately balance the information in this report to understand Cuscal's tax position without providing excessive information that compromises understandability. Information in this disclosure should not be considered as advice or recommendation.

The disclosure provides further detail in relation to Cuscal's financial position, in Australian dollars, as disclosed in its audited Financial Statements for the year ended 30 June 2020, which are prepared and audited under the Australian Accounting Standards by its auditors, Deloitte. To the extent relevant, this disclosure has been prepared in accordance with the draft AASB on tax transparency code. Any additional financial information in this disclosure, which is not included in the Financial Statements, was not subject to an independent audit by Deloitte. The information in this disclosure has been independently reviewed by Cuscal's tax advisors, Deloitte.

Cuscal Limited

Cuscal's primary business is payments. We are Australia's leading independent provider of end-to-end payments solutions. Cuscal is also an Authorised Deposit-taking Institution (ADI) and our extensive capabilities include card and acquiring products, mobile payments, fraud prevention, EFT switching and settlements and have historically run the rediATM Scheme.

For more than 40 years, we have been using our network of relationships to represent the interests of our clients on government and industry boards, committees and associations.

We have longstanding, productive working relationships with the Reserve Bank of Australia (RBA), Australian Prudential Regulation Authority (APRA), the Australian Payments Network Limited (AusPayNet) and the Australian Securities and Investments Commission (ASIC). We also have bilateral agreements with all major Australian banks and close partnerships with Visa International, Mastercard, eftpos and BPAY.

We use our industry expertise, combined with our thorough understanding of our clients' businesses, to create products and services which fulfill the needs of our clients and their customers. In addition, we use our in-house, development team to create bespoke solutions and get them to market quickly.

In recent years we have helped our clients capitalise on the digital revolution sweeping through the payments industry. We enabled over 60% of the financial institutions that were live on Day 1 of the New Payments Platform (NPP) and facilitated our clients to be the first Australian financial institutions to offer their customers all three global mobile wallets (Apple Pay, Google PayTM and Samsung Pay). We also offer one of Australia's most advanced white-label mobile banking apps.

Cuscal is now considered to be the largest independent provider of payment solutions in Australia, with the widest range of products and services.



Tax Governance Policy

Cuscal is the head entity of the tax consolidated group containing the following 100% owned entities as at 30 June 2020: Cuscal Management Pty Ltd, Integris Securitisation Services Pty Ltd, Votraint No. 1451 Pty Ltd, Strategic Payments Services Pty Ltd (SPS). 86 400 Holdings Pty Ltd, 86 400 Technology Pty Ltd and 86 400 Ltd exited the Cuscal consolidated Group on 29 February 2020 following the dilution of Cuscal's interest in these previously wholly owned entities by way of external capital raising.

Cuscal is an Australian entity subject to Australian Tax laws. Compliance with these requirements is crucial to maintaining a reputation as a trusted partner to our clients.

In managing its tax risk, Cuscal is guided by the ATO guidelines contained in its "Tax risk management and governance review guide" for large businesses.

Cuscal reviews its Tax Governance Policy (TGP) annually and updates it in line with any changes to the ATO's guidelines and Cuscal's business changes. An annual tax governance update is provided to Cuscal's Board Audit Committee which oversees the Group's compliance with the Board approved TGP.

In setting its tax risk management policies, Cuscal is guided by the following principles:

- Cuscal will not knowingly participate in the avoidance of tax or facilitate and/or promote the avoidance or evasion of tax by a third party;
- It is Cuscal's responsibility and duty to pay the appropriate taxes on its business transactions;
- Non-disclosure to the tax authorities is not an acceptable approach;
- A "no-risk" strategy in terms of tax risk is not the appropriate decision for the business.

Tax uncertainties may arise in relation to the application of the law or uncertainty over particular facts or uncertainty over the effective operations of systems to calculate the tax results. These uncertainties lead to tax risk. Cuscal's tax risk policy is about understanding where these risks arise and how they are to be dealt with.

The tax function is responsible for providing assurance to the Board that the existing tax risk management framework will allow all significant tax considerations to be assessed as part of every commercial decision relating to each transaction. Regular communication lines are established and reinforced as appropriate between the Board, the CFO and the Board Audit Committee as part of a robust tax risk management framework.

Cuscal has no tolerance for any publicised reputational damage attributable to tax positions taken, or for any breaches of tax legislation/compliance obligations. Cuscal's TGP sets out its tax risk appetite, the controls it has in place for managing tax risk and remedial actions required for any breaches. These cover the areas of Transactional Risk, Operational Risk, Financial Accounting Risk, Management Risk, Compliance Risk and Reputational Risk.

Cuscal's Group Risk Appetite Statement (RAS) governs the overall risk management for the Group including, tax risk management. The RAS for the Group includes that "Cuscal has no tolerance for acts of intentional non-compliance with obligations including deliberate tax avoidance and no tolerance for deliberate delay of remedial actions".

All breaches of tax compliance obligations and any outstanding tax issues are overseen by Cuscal's Enterprise Risk and Compliance Committee and reported to the Board Audit Committee, through the Chief Financial Officer (CFO) in line with Cuscal's Risk Appetite Statement.



Engagement with the ATO

Cuscal's TGP provides that the internal tax function can liaise with the ATO on general administrative queries, and that any significant and technical queries raised must be reported to the CFO; who, in turn, reports significant matters to the Board Audit Committee. It states that the internal tax function may seek written advice from the ATO, in the form of private binding ruling on any significant material matters on which the application of the tax law is unclear. The decision of whether or not to seek a private binding ruling rests with the CFO. Any such request for a written view from the ATO may be submitted by Cuscal's internal tax function or through assistance from external tax advisors.

ATO Streamlined Assurance Review

The ATO completed a Streamlined Assurance Review of Cuscal's tax returns for the years ended 30 June 2015 and 30 June 2016 under its review program for top 1000 taxpayers giving Cuscal as an overall assurance level of **Stage 3**, that is, **high**, which is the **highest level of assurance**.

There have been no ATO reviews for the year ended 30 June 2020.

Internal audit

An internal audit of Cuscal's tax controls was conducted in the year ended 30 June 2020 by its internal auditors, KPMG. There were no critical or high-risk items identified.

Tax Contribution Summary for the year ended 30 June 2020

For the year ended 30 June 2020, Cuscal paid the following taxes:

a) Taxes paid by Cuscal

	30 June 2020	30 June 2019
Income tax ¹	3.2	2.8
Employer taxes ²	3.4	3.8
Unrecoverable GST ³	0.9	1.0
Total	7.5	7.6

¹Income tax instalments paid for 2020 financial year based on the instalment rate advised by the ATO. The final tax paid for the year will be finalised on the lodgement of the Group's tax return due for lodgement on 15 Jan 2021

²Employer taxes comprises Fringe benefits tax instalments paid for the FBT year ended 31 March 2020 and payroll taxes paid for 2020 financial year

³GST not recovered represents the GST paid by Cuscal which relates to the derivation of input taxed supplies and is therefore not recoverable from the ATO



b) Taxes paid on behalf of others

	30 June 2020	30 June 2019
GST ¹	9.3	8.5
Superannuation contributions ²	5.8	5.5
Employer PAYG withheld ³	20.9	19.6
Total	36.0	33.6

Income Tax Expense Reconciliation

The Income tax expense (ITE) for the Cuscal consolidated Group (Cuscal) for the year ended 30 June 2020 as disclosed below has been calculated in accordance with the relevant Australian Accounting Standards. Cuscal does not have any offshore operations, hence the ITE disclosed below represents all of Cuscal Group's ITE for the year. The prima facie Australian corporate tax rate of 30% as applicable on Cuscal's operating profit or loss is adjusted for "non-temporary" differences as shown below. This reconciliation is disclosed in Note 5 to the audited Financial Statements for Cuscal Limited. The reconciliation to Tax Payable amount disclosed as liabilities in the Balance Sheet is also noted.

	30 June 2020 (\$M)
Operating profit before income tax expense	3.2
Prima facie income tax expense at 30%	1.0
Increase / (decrease) in income tax expense due to:	
Non-deductible expenses	0.1
Loss attributable to 86 400 ¹	1.6
Income tax expense on profit	2.7
Adjustments in respect of current tax of previous years	(0.1)
Net temporary differences	(0.8)
Current income tax charge	1.8
R&D offsets estimated	(0.3)
Tax Instalments paid	(2.3)
Tax Receivable as reported in balance sheet	(0.8)

¹ Cuscal collects and pays GST which is collected on sales to its customers

² Superannuation contributions is not a tax but has been included here as amounts paid on behalf of employees to satisfy Superannuation Guarantee obligations

³ PAYG withholding taxes to the ATO on behalf of its employees in relation to salary and wages

Effective Tax Rates (ETR) for Cuscal

The ETR for Cuscal for the last 5 years as disclosed below is calculated as a percentage of the Group's ITE over its "accounting profit or loss" for the year as defined by the Australian Accounting Standards.

	30 June 2020	30 June 2019	30 June 2018	30 June 2017	30 June 2016
Profit / (loss) before tax (\$m)	3.2	32.2	(7.7)	21.5	16.8
Income tax expense / (benefit) (\$m) [B]	2.7	10.0	(3.5)	6.3	3.5
Effective tax rate (ETR) % [B] / [A] ¹	84.8	31.0	45.5	29.3	20.8

¹ 86 400 Holdings LTD, 86 400 Technology LTD and 86 400 Ltd were wholly owned by Cuscal until 28 February 2020. These entities continue to form part of the accounting consolidated group and hence continue to be reflected in the financial statement results. The adjustment for losses refers to the portion of post dilution 86 400 losses not recognised, leading to a significantly higher effective tax rate. Excluding the impact on the P&L of 86 400 entities loss attributable to the period post dilution, the effective tax rate for the Cuscal tax consolidated group for 30 June 2020 would have been approximately 31%.

Reconciliation to ATO Tax Transparency Report

Total income disclosed in the ATO tax transparency report is the gross income for the Cuscal Group prior to any deductions, while the taxable income is derived from the operating profit before tax for the year after allowable deductions, adjusted for timing and permanent differences per Australian Accounting Standards. The prima facie tax payable at the corporate tax rate of 30% on taxable income is reduced by available tax offsets thereby reducing Cuscal's tax rate on taxable income to below the corporate tax rate of 30% as shown below.

	30 June 2019 (\$m)	30 June 2018 (\$m)	30 June 2017 (\$m)	30 June 2016 (\$m)
	(pending)			
Gross income [per ATO report]	271.4	269.4	262.1	267.0
Expenses	(239.2)	(277.1)	(240.6)	(250.2)
Net profit /(loss) before tax	32.2	(7.7)	21.5	16.8
Adjustments (non-temporary and temporary)	(9.8)	28.9	6.7	5.4
Adjustments (R&D expenses added back)	1.9	9.2	9.9	7.8
Tax losses claimed	-	-	(1.3)	(5.6)
Taxable income [per ATO report]	24.3	30.4	36.8	24.5
Tax payable at 30%	7.3	9.1	11.0	7.3
R&D incentive offset	(3.6)	(7.9)	(8.5)	(3.6)
Tax payable [per ATO report]	3.7	1.2	2.5	3.7



Variance of tax expense and/or tax payable, and 30% of taxable income

- Cuscal's tax payable amount, compared to the legislated 30% of taxable income, differs significantly due to the Research and Development (R&D) offset. Cuscal is entitled to claim R&D offset amounts, equal to 38.5% (40% until 30 June 2016) of eligible R&D expenditure incurred for the year. The result of claiming the R&D offsets is a net reduction to income tax payable of 8.5% (10% until 30 June 2016) of the eligible R&D expenditure.
- In the financial years ending 30 June 2015 to 30 June 2017 inclusive, Cuscal had also claimed tax losses it inherited as part of the acquisition of Strategic Payments Services Pty Ltd in December 2014. Cuscal performed tax analysis to ensure that it validly satisfied the requirements of the relevant tax legislation/rules that entitled Cuscal to utilise the transferred tax losses.
- The amount of income tax paid varies from the income tax expense used to calculate Cuscal's ETR in any given period, largely due to the impact of differences between when an amount of revenue or expense is recognised for accounting purposes and when income and deductions are recognised under the tax laws.

