



**Vodafone Hutchison Australia Pty Limited  
Board of Taxation – Tax Transparency Code  
Report for the financial year ended 31 December 2016**





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## 1. Executive Summary

Vodafone Hutchison Australia Pty Limited (**VHA**) is an Australian telecommunications company providing mobile voice, text and data services to individual customers and businesses and in October 2016, VHA announced it would enter the fixed broadband market in late 2017. VHA is a 50:50 joint venture between Vodafone Group Plc and Hutchison Telecommunications (Australia) Limited (of which, CK Hutchison Holdings Limited is the majority shareholder, with an 87.87% stake). As of 31 December 2016, VHA had approximately 5.6 million customers.

We recognise that tax is a critically important way for governments to raise the revenue needed for reliable public services and infrastructure and believe that increasing public understanding of, and trust in, the tax system is strongly in the interests of every business and wider society.

VHA supports the introduction of the Board of Taxation's Tax Transparency Code. We welcome the opportunity to further engage with the Australian community to enable them to better understand the tax profile of VHA, and its approach, strategy, internal governance and international interactions in regard to tax. In that vein, we are pleased to provide this report, which covers the year to 31 December 2016 for VHA, and to support the growing global tax transparency movement. It is important to note that the figures in this document are reported on an actual cash paid basis (excepting section 3 on page 7 which covers our accounting profit). In our view, a public record of the amount of cash transferred from VHA to state and federal governments is the highest form of transparency with no room for ambiguity as a consequence of accounting treatments.

VHA takes its taxation obligations seriously. Our approach is underpinned by the principle that we will act with integrity, honesty and transparency in all matters related to tax, including a policy of full transparency with all tax authorities. In all its actions, VHA seeks to be a good corporate citizen and transparent in its affairs, is committed to abiding by all laws as they currently stand and will always pay all taxes properly due under the law.

We make a significant contribution to the Australian economy through our tax payments, other contributions to government finances, including spectrum licence payments, investment in telecommunications infrastructure, and as an employer of approximately 2,500 people in Australia. VHA's total contribution in cash to government in the financial year ended 31 December 2016 was \$242 million, including \$88 million in direct tax contributions (which include spectrum licence payments). Details of our actual levels of spend since 2013 for annual spectrum licences (including telecommunications industry levies) and known spectrum auctions is listed on page 5 of this document.

While participation in the Australian Tax Transparency Code is voluntary, VHA recognises the growing public interest in the tax activities of Australian companies and we are pleased, therefore, to contribute to this discussion. We are committed to being transparent about our contributions to the finances of the Australian government and to supporting the public's understanding of how tax liabilities are assessed, charged and reported.

Vodafone Group Plc, one of VHA's ultimate shareholders, also publishes an annual tax transparency report which can be accessed here [www.vodafone.com/sustainability/tax2016](http://www.vodafone.com/sustainability/tax2016). Vodafone Group Plc reports on all countries in which it has a separate legal entity and its report includes a disclosure on their Australian operations, including VHA.



**James Marsh**  
Chief Financial Officer  
November 2017





## 2. VHA Tax Contributions

VHA makes a significant contribution to the Australian economy as a major investor, taxpayer, employer and purchaser of local goods and services. We are committed to acting with integrity, honesty and transparency in our tax strategy, policies and practices. This Report sets out our total contribution to public finances in Australia for the financial year 1 January 2016 to 31 December 2016.

In summary, VHA paid a total of \$88 million in cash in direct contributions to the Australian government and raised a total of \$154 million on their behalf in indirect taxes.

<b>Tax contribution</b>	<b>Dec 2016</b>
Direct contributions paid:	\$88,018,000
Indirect taxes paid:	\$154,446,000
<b>Total</b>	<b>\$242,464,000</b>

As a well-known brand in Australia, VHA understands and fully accepts its responsibilities in relation to tax transparency and disclosure. As part of this, we also recognise our role in promoting understanding of the Australian tax structure, especially in relation to companies' tax activities. There are several areas that can be a common source of confusion and require some additional context.

### *i. Taxation is not the only route used by governments to raise revenue from businesses*

Governments use mechanisms other than tax to derive revenues from business activities, including a wide range of licensing regimes, revenue or production sharing agreements and, for telecommunications companies, radio spectrum auctions and spectrum payments.

These additional sources of government revenues are often substantial, sometimes exceeding the monies raised through taxation and represent a critical contribution to public finances. It is therefore essential to take these other government revenue raising mechanisms into account when assessing the extent to which a company plays a part in funding wider society.

While we are not required by the Code to provide additional context in regard to the amount of revenue collected by government from VHA, we have included the amount of money we have spent on the purchase of spectrum and telecommunications industry levies over the past 4 years, as this contributes a significant amount of income to government finances. For a complete picture we have also included our expenditure on spectrum auctions and annual licenses which have already been committed, along with our anticipated expenditure in future years.

In 2016, VHA paid \$70 million to the government for spectrum licenses and telecommunications industry levies. During the current financial year ending 31 December 2017, VHA committed expenditure close to \$840 million in total for spectrum licences. The commitment to pay \$297 million to acquire 700MHz licences following a spectrum auction and \$544 million to renew our 2100MHz will be reflected in future tax transparency reports. Excluding future auctions, VHA's committed future spend on spectrum licences and telecommunications levies to December 2020 is \$1.1 billion. This, together with actual spend since December 2013, means we will have spent \$2.1 billion over an 8 year period on spectrum licenses and auctions as well as telecommunications industry levies.

<b>Actual spectrum expenditure</b>	<b>Dec 2013</b>	<b>Dec 2014</b>	<b>Dec 2015</b>	<b>Dec 2016</b>
Spectrum annual licences and auction payments (including telecommunications industry levies)	\$704m	\$91m	\$96m	\$70m





**ii. 'Corporate tax' is not the same as 'all taxes paid by a company'**

Corporate tax is only a small part of the tax contribution any business makes and forms just one of numerous taxes paid to governments by businesses. Examples of the other taxes and non-tax contributions we make to the government are as follows.

Direct revenue contribution – taxation:

- Fringe benefits tax
- Payroll tax
- Municipal taxes
- Insurance premium tax
- Stamp duty

Direct revenue contribution – non-taxation:

Telecommunication licence fees and spectrum licence fees paid to Government include:

- ACA Number Levy
- Annual Carrier License fee
- Apparatus License fees
- Telecommunications Industry Levy
- Spectrum licence fees
- USO Levy
- Ombudsman Fees

Indirect revenue contribution:

- Goods and Services Tax (GST)
- Pay As You Go withholding (PAYG)
- Withholding tax

Indirect taxes encompass the taxes collected by companies on behalf of governments. These taxes would not be collected (or generated to the same extent) if the company did not employ people, offer services or products to the customers responsible for paying the tax in question, or procure goods and services from its suppliers on which such taxes are due.

**iii. Corporate Tax is calculated on profits, not revenue.**

In Australia, as in many other countries, corporate tax is payable based on the profit the company generates and not on revenue or a company's turnover.

If a company makes little or no profit, it will generally incur lower tax charges than another similar company with higher profits. This approach is common to almost all countries. Without it, companies enduring periods of low profitability would be faced with disproportionate tax demands and significant disincentives for investment; in the worst cases, they would be unable to afford to pay their tax bills at all and could be at risk of bankruptcy. In addition, in some markets, other taxes that are levied on revenue (together with non-taxation based contributions such as spectrum fees) have the effect of reducing profit and so reduce corporation tax liabilities.

In recent years, the Australian Tax Office (ATO) has released its own annual tax transparency report. Their report outlines the total income, taxable income and tax paid by more than 1,500 large corporates. To support the release of the data, the ATO stated:





*“These figures alone do not tell the complete story of a company’s tax affairs or their level of engagement with the ATO. No tax paid does not necessarily mean tax avoidance. Even companies with very high total income sometimes make losses.”*

Over the last 7 years, due to a combination of high operating and capital costs, VHA has not made any profit on its activity. In fact, VHA has incurred consecutive years of losses, including for the year ended December 2016. Despite this, VHA still paid direct contributions, in cash, to government of \$88 million.

VHA does, however, make significant spectrum licence and other regulatory payments to the government, totalling \$70 million in 2016, for which we are entitled to a tax deduction, in line with all other telecommunications companies. Further, VHA also makes significant interest payments to banks for loans which finance spectrum licence costs and this contributes to consecutive years of tax losses as explained earlier.

Information on our annual turnover and profit is disclosed in our Annual Report for the year ended 31 December 2016 (available from the Australian Securities Investment Commission (ASIC) website for a small fee at: [www.asic.gov.au](http://www.asic.gov.au))





### 3. Reconciliation of Accounting Profit

The table below provides a summary extract of the calculation of income tax expense as disclosed in VHA's Annual Report for 31 December 2016, prepared in accordance with Australian Accounting standards. Income tax expense is the accounting term used in our Annual Report and is equivalent to corporate tax, which is the term used in this document.

For accounting purposes, income tax expense is calculated by multiplying accounting profit by the relevant tax rate (30%). It is then adjusted for both permanent and temporary differences as there are tax laws that limit those items against which a deduction can be made (permanent), or when a deduction can be implemented (temporary).

There are types of expenditure for which the government has made a specific policy decision not to allow companies to make deductions for tax purposes, despite the fact these are real costs incurred by companies; it is these which give rise to permanent differences. For example, certain interest costs under the 'thin capitalisation provisions' and certain entertainment expenses.

Temporary differences generally arise when the timing of a deduction for costs or expenditure is different for accounting and tax purposes. For example, in its annual accounts VHA accrues expenditure as incurred in one year but a tax deduction is only available the following year.

As explained above, VHA has had consecutive years of operating losses, as a result of its significant investment in spectrum, network assets and associated interest costs. These losses could be recorded as a deferred tax asset, however, in accordance with Australian Accounting Standards, a deferred tax asset should only be recorded when it is 'probable' that the business would be consistently profitable in order to utilise the asset. As this is not yet the case for VHA, no deferred tax asset was recorded in VHA's financial statements.

Description	31 December 2016
<b>Reconciliation of income tax expense to tax payable:</b>	
Loss from operations before tax	(\$241,762,000)
Income tax at Australian tax rate 30%	(\$72,529,000)
Add: Permanent differences: non-deductible items	\$47,392,000
Adjustment for prior period deferred tax assets	\$25,137,000
<b>Income tax payable</b>	<b>\$0</b>
<b>Tax losses:</b>	
Carried forward tax losses (no deferred tax asset recognised)	\$4,912,699,000
<b>Potential future tax benefit at 30%</b>	<b>\$1,473,810,000</b>

As a result of the factors set out above VHA's effective tax rate, a ratio of the corporate income tax due compared to our profits (or losses), was 0%.





## 4. Tax Policy, Tax Strategy and Governance

### 4.1 Approach to risk management and governance

VHA operates in a highly regulated industry providing telecommunication services to its customers. We are committed to acting with integrity, honesty and transparency in our tax strategy, policies and practices and to paying the full amount of tax legally due.

VHA adheres to the [Vodafone Group Tax Risk Management Policy](#) which sets out its tax risk management framework, principles, roles and responsibilities, and the CK Hutchison Group's internal Tax Governance Framework.

#### VHA Tax Principles

VHA's tax team follows a clearly defined set of principles and behaviours, set by Vodafone Group Plc and which are also aligned with the Vodafone Group and CK Hutchison Group's Code of Conduct.

#### We will:

- comply fully with all relevant legal and regulatory obligations in line with our broader social responsibilities and our stakeholders' expectations;
- act with integrity in all tax matters, disclosing all relevant facts to tax authorities in all countries in which we operate under a policy of full transparency based on open and honest relationships with those authorities;
- pursue clarity and predictability on all tax matters, wherever feasible; and
- seek to protect shareholder value in line with our broader fiduciary duties.

#### We will not:

- seek to establish arrangements that are artificial in nature, are not linked to genuine business requirements and would not stand up to scrutiny by the relevant tax authorities;
- artificially transfer profits from one jurisdiction to another to minimise tax payments; or
- pay more tax than is properly due under a reasonable interpretation of the law and upon receipt of a lawful demand.

### 4.2 Approach to engagement with Australian Tax Office (ATO)

It is VHA's policy to be transparent and proactive in all interactions with tax authorities. VHA's approach to engagement with the ATO is to ensure compliance with all legislation and to establish a good working relationships with the ATO. Where additional guidance is required, VHA approaches the ATO for an opinion, usually via the issuance of a Private Binding Ruling. A Private Binding Ruling is advice from the ATO that sets out how a tax law applies to VHA's specific facts and circumstances – it does not, however, grant any special concessions to VHA.

In prior years, a pre lodgement compliance review of our income tax return has been traditionally undertaken by the ATO. VHA has now been able to demonstrate to the ATO our genuine commitment to working together with the ATO in a transparent way in order to mitigate tax risks and minimise compliance costs using, for example, the ATO's early engagement process. As the ATO is also satisfied with VHA's end-to-end tax governance processes, the ATO has reduced VHA's risk rating and no longer requires VHA to undertake this review.

## 5. International related party dealings

VHA's operations are conducted wholly in Australia, with no foreign subsidiaries or permanent establishments. VHA's ultimate shareholders, Vodafone Group Plc and CK Hutchison Holdings Limited, are both based overseas, and as a consequence, VHA does enter into some transactions with both shareholders and other members of their respective groups. All related party







transactions are priced in accordance with OECD transfer pricing principles. VHA also abides with Australian transfer pricing legislation and all dealings with related parties are conducted in accordance with the arm's length principle.

The following material transactions were entered into by VHA during the year:

- Fees payable to the ultimate shareholders in United Kingdom and Hong Kong as a consequence of VHA's borrowings from independent banking syndicates. In order to manage the foreign exchange risk arising from these bank borrowings, swaps (a financial instrument) are entered into with Vodafone Group Plc and CK Hutchison's Cayman Islands subsidiary;
- Brand fees and other content related costs paid to a Vodafone company in the United Kingdom;
- Purchase of devices, equipment and support from Vodafone's Luxembourg procurement entity, which allows VHA to acquire products at more competitive rates. It is worth noting that VHA is not required to make all its acquisitions from this company; and
- International roaming expenses paid and income received. VHA enters into contracts with numerous related and non-related parties worldwide, in order to provide communication services to our customers when they are travelling.

## 6. International Sales to Australians by Multinationals

Recently the Australian government introduced new laws (Multi National Anti-Avoidance Laws) to address certain arrangements where sales to Australians were not subject to tax within Australia. VHA does not enter into any such arrangements and as such these laws do not apply to VHA operations.

## 7. Contact

For further information in relation to this report, please contact:

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