



Australian Government
The Board of Taxation

11 August, 2016

Ms Kris Peach
Chair and CEO
Australian Accounting Standards Board
PO Box 204
Collins Street West
VICTORIA 8007

VOLUNTARY TAX TRANSPARENCY CODE

Dear Ms Peach

I am writing to inform you of the release by the Government as part of the 2016 - 17 Budget of the Voluntary Tax Transparency Code (**the Code**) as recommended by the Board of Taxation (**the Board**) in its report - *A Tax Transparency Code (the Transparency Report)*. A copy of the Transparency Report is enclosed with this letter and can be found on the Board's website www.taxboard.gov.au.

The Transparency Report includes a recommendation by the Board that the Australian Accounting Standards Board (**AASB**) develop certain guidance material to assist business in meeting the standard required by the Code and to establish a common definition of the term 'effective tax rate'. I would be grateful if you could raise these issues with your board and confirm the participation by the AASB in the implementation of the Code.

The Board's website also includes a list of entities that have indicated their intention to adopt the Code. A link to the relevant *Taxes Paid* reports will be included on the Australian Taxation Office website in due course. The Board can assist you (if required) make contact with some companies that have indicated their intention to adopt the Code, for the purposes of your consultations.

Background

The Code is a set of principles and 'minimum standards' to guide disclosure of tax information by businesses. The Code was developed by the Board at the Treasurer's request:

- To encourage large and medium-sized businesses to publicly disclose their tax affairs to highlight those that are paying their fair share and to encourage all businesses not to engage in aggressive tax avoidance; and
- For large businesses to take the lead, to become more transparent and help educate the public about their compliance with Australia's tax laws.

The Code is divided into two parts. A summary of the content of Part A and Part B is set out below:

Code disclosure	Who	Minimum standard of information
Part A	'Large' and 'medium' businesses	A reconciliation of accounting profit to tax expense and to income tax paid or income tax payable
		Identification of material temporary and non-temporary differences
		Accounting effective company tax rates for Australian and global operations (pursuant to AASB guidance)
Part B	'Large' businesses	Approach to tax strategy and governance
		Tax contribution summary for corporate taxes paid
		Information about international related party dealings

Parts A and B of the Code are recommended to apply to large businesses (with aggregated Australian turnover of \$A 500 million or more).

Part A of the Code is recommended to apply to 'medium businesses' (with aggregated Australian turnover of at least \$A 100 million but less than \$A 500 million).

The Code, in its current form, applies to companies and other entities treated as companies for Australian tax purposes. Other entities such as superannuation funds, trusts and partnerships may voluntarily adopt the Code.

Role of the AASB

As set out on page 19 of the Transparency Report, the Board considers that the AASB can play an important role in the effective operation of the Code by:

- developing certain guidance material to assist business in meeting the standard required by the Code; and
- to establish a common definition of the term 'effective tax rate'.

Developing certain guidance material

As noted on page 18 of the Transparency Report, Part A should include a reconciliation of accounting profit to income tax expense and then from income tax expense to income tax paid or payable. This reconciliation should identify material temporary and non-temporary differences.

By way of background, the Code asks businesses to reconcile from accounting profit to income tax expense and from income tax expense to tax paid or tax payable and identify the material temporary differences in the reconciliation. For example, whether the difference relates to depreciation or other timing differences. Furthermore the intention is for companies to provide visibility of each material reconciling item rather than a single consolidated one line reconciling item. A single line item does not provide the expected level of transparency the Board is seeking to encourage.

The term 'temporary difference' stems from International Financial Reporting Standards *IAS12 Income Taxes*. The AASB should provide any additional guidance on this as is deemed appropriate.

A common definition of the term 'effective tax rate'

As noted above, a key element of the information to be disclosed under Part A of the Code is the disclosure of 'effective tax rates' for Australian and global operations.

It is envisaged that the disclosure of an 'effective tax rate' will provide a cornerstone for comparisons and an assessment of whether the company is paying their fair share of tax by potential users. It is therefore important that the methodology underpinning the 'effective tax rate' is standardised. The definition should address such issues as the treatment of amended assessments, impairments, foreign currency translation, refunds and penalties.


The Board is of the view that your organisation has a role to play in developing guidance material and/or a common of definition of 'effective tax rate'. This would ensure consistency and comparability of this aspect of disclosure under the Code.

I understand that the development of this guidance may take some time. As an interim step the Code recommends business take commonly accepted methodologies for the calculation of an 'effective tax rate' (i.e. calculated as the company income tax expense divided by accounting profit). In addition the company should clearly define the basis on which the calculation has been made and the underlying assumptions.

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I am more than happy to discuss these matters (including the Board's consultation processes) with you further at a mutually convenient time. Should you have any initial questions, please do not hesitate to contact Ms Karen Payne on (02) 6263 2122.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Michael Andrew AO', with a stylized flourish at the end.

Michael Andrew AO
Chair
Board of Taxation

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