Suncorp Tax Transparency Report 2018-19

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Create a better today for our customers

SUNCORP

Suncorp Group Limited
ABN 66 145 290 124

Message from the Group Chief Financial Officer

Suncorp is committed to contributing fairly to the communities in which we operate, and to full transparency regarding our tax payments and policies.

Our 2018-19 *Tax Transparency Report* details contributions made by Suncorp in Australia and New Zealand for the financial year ended 30 June 2019, and is an important part of this commitment.

Suncorp voluntarily adopted the Tax Transparency Code in 2016 in accordance with the recommendations and guidelines contained in the Board of Taxation's Voluntary Tax Transparency Code. This includes reporting annually on our tax contributions and our approach to tax strategy.

I am pleased that this report reflects our commitment to transparency and open communication with our stakeholders.

JEREMY ROBSON
GROUP CHIEF FINANCIAL OFFICER

Suncorp Group Limited is a leading financial services provider in Australia and New Zealand, enabling more than nine million customers to better protect and enhance their financial wellbeing.

With a heritage dating back to 1902, we have grown to become a top-20 ASX-listed company with more than 13,000 people and $96 billion in assets. We offer banking, wealth management and insurance products and services through our well-recognised brands including Suncorp, AAMI, GIO, Apia, Shannons and Vero, as well as those from our partners.

Through these products and services we:

- protect what matters to our customers
- help our customers recover from injury
- support our customers' everyday financial needs, and
- enable customers and businesses to reach their financial goals

Suncorp Tax Strategy

Suncorp's tax strategy is to support sustainable returns to shareholders and to contribute to the community through the payment of taxes, while complying with revenue laws and operating within Suncorp's governance parameters.

Sustainable returns	Contribute to the community through the payment of taxes	Compliance with revenue laws	Operating within Suncorp's governance framework

Tax Governance

Suncorp has a low tolerance for tax risk. This is in line with the company's broader approach to risk, as set out in the Risk Appetite Statement, which mandates for balanced and considered risk to achieve business objectives.

The Risk Appetite Statement also requires the identification of tax risks, and determination of risk targets and tolerable risk levels. All business decisions, including those relating to tax, are made in accordance with these principles.

Suncorp's Tax Risk Management and Governance Standard was prepared with reference to the ATO's best practice framework. The standard has been endorsed by the Suncorp Board Audit Committee.

The purpose of the Tax Risk Management and Governance Standard is to set out processes, roles, responsibilities and accountabilities to ensure a consistent and compliant approach to all tax matters across Suncorp.

The Suncorp Board is committed to conducting Suncorp's business in accordance with high standards of corporate governance. Responsibility for Suncorp's tax strategy sits with the Board and management. The Board oversees and reviews tax risks, tax compliance and reporting obligations. Management operationalises tax strategy and manages significant tax matters and risks on a day-to-day basis.

Suncorp is committed to ensuring its tax processes, systems, and controls are robust. Suncorp has controls to test the integrity of tax data, a strong focus on technology to support tax compliance, and carries out regular tax due diligence and verification processes.

Formal risk management procedures incorporating tax include the following:

- Enterprise Risk Management Framework
- Risk Appetite Statement
- Corporate Governance Statement
- Tax guidelines relating to taxes, tax concessions and relationships with regulators
- Tax Risk Management and Governance Standard, and
- Significant Transaction Identification and Tax Risk Escalation Guideline.

These formal mechanisms are complemented by informal, day-to-day procedures to manage tax risk. These include management obligations to:

- provide an appropriately resourced Tax Function with experienced professionals who manage tax risks through regular tax reporting
- implement mechanisms to measure significant transactions, materiality and risk
- engage external tax advisors where necessary and adhere to Suncorp's group-wide governance policies, and
- obtain tax rulings from the relevant regulators on complex or uncertain areas of the law.

Relationships with Regulators

Suncorp is committed to having positive and cooperative relationships with all revenue authorities, including the Australian Tax Office (ATO) and New Zealand Inland Revenue (IR).

Suncorp has been at the forefront of tax transparency with the ATO, as one of the first adopters of an Annual Compliance Arrangement (ACA) in 2011. Suncorp's ACA is a transparent and co-operative tax arrangement with the ATO, where material tax risks are disclosed to the ATO in real time and Suncorp collaborates with the ATO to manage these risks in an effective and timely manner.

Suncorp has been actively engaged with the ATO under the Top 100 Justified Trust review program. Justified Trust was implemented by the ATO in 2017 as a recommendation of the Organisation for Economic Co-operation and Development (OECD). The justified trust initiative involves a comprehensive review of a taxpayer by the ATO with objective evidence that would lead a reasonable person to conclude that the taxpayer paid the right amount of tax. The review is part of the ATO yearly ACA process and focuses on the following four key areas:

- understanding Suncorp's tax governance framework
- identifying tax risks flagged to the market
- understanding significant and new transactions, and
- understanding why tax and accounting results vary.

The ATO has concluded that their overall level of assurance for Suncorp Group Limited was high in respect of the 2018 financial year. This confirms that Suncorp has demonstrated the existence of an effectively designed tax control framework.

Suncorp is committed to applying tax legislation within the spirit and policy intent of the law and regulations.

For further information on justified trust, please refer to the ATO's website, www.ato.gov.au/business/largebusiness/justifiedtrust/

In New Zealand, the IR fully supports the Guidance on tax control frameworks released by the OECD's Forum on Tax Administration. Suncorp is committed to ensuring tax processes, systems and controls are effective, ensuring the right amount of tax is paid in each jurisdiction in which Suncorp operates. This is consistent with the ATO's Justified Trust concepts and the OECD recommendations for responsible business conduct.

"Suncorp is a key taxpayer in the Risk Differentiation Framework and whom the ATO considers is cooperative and willing to engage"

Australian Taxation Office – December 2019

Taxes borne and collected

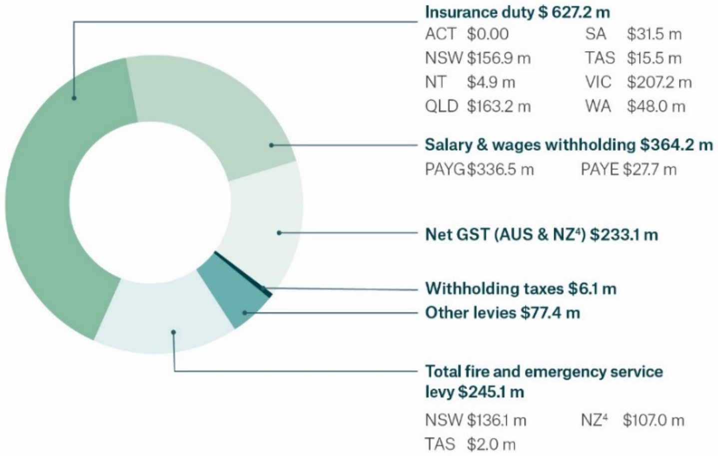
Suncorp paid an effective corporate income tax rate which aligns closely with the statutory corporate tax rate in both the Australian and New Zealand jurisdictions in which the Group operates in respect of continuing operations.

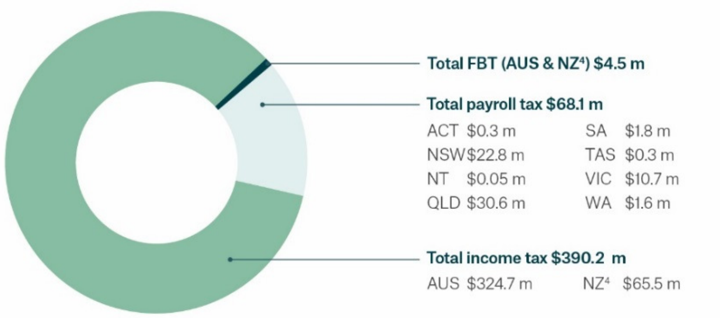
Suncorp recognises that appropriate management of effective tax rates is essential to ensure customer pricing is not adversely impacted. Suncorp collects and pays other taxes in addition to corporate income tax, such as goods and services tax (GST) and fringe benefits tax (FBT). Refer to page 11 for definitions of these taxes. Suncorp also collects and pays other Australian State/Territory duties and levies such as fire service levy, insurance duty, payroll tax and levies in NZ such as the Earthquake Commission levy and fire service levy.

In addition to taxes borne by Suncorp, Suncorp customers and Suncorp employees pay taxes which apply to Suncorp's business activities. For example, Suncorp's products are subject to a range of indirect taxes which are borne by customers. Suncorp is responsible for the collection and remittance of these taxes to the relevant revenue authorities. Taxes borne and collected by Suncorp for the financial year ended 30 June 2019 are summarised on the right.

Corporate Tax	2018-19	2017-18
Suncorp's total corporate income tax contribution ($m - AUD)	390	392
Suncorp's effective tax rate from continuing operations (%)[1]	29.4	31.2
Suncorp's global effective tax rate (%)[1]	61.2	32.0
Suncorp's Australian effective tax rate (%)[1]	126.8	32.0
Suncorp's New Zealand effective tax rate (%)[2]	26.6	32.1

Taxes borne and collected by Suncorp[3]	2018-19 ($m - AUD)	2017-18 ($m - AUD)
Taxes borne by Suncorp[5]	463	467
Taxes collected from customers and employees and remitted by Suncorp	1,533	1,446





1.The effective tax rate is significantly impacted by the sale of Suncorp Life & Superannuation Limited.

The increased effective tax rate was primarily driven by the accounting loss on sale of Suncorp Life & Superannuation Limited. The accounting loss on sale is not deductible for tax purposes.

There were also other adjustments required to comply with legislation that applies to Life insurance companies

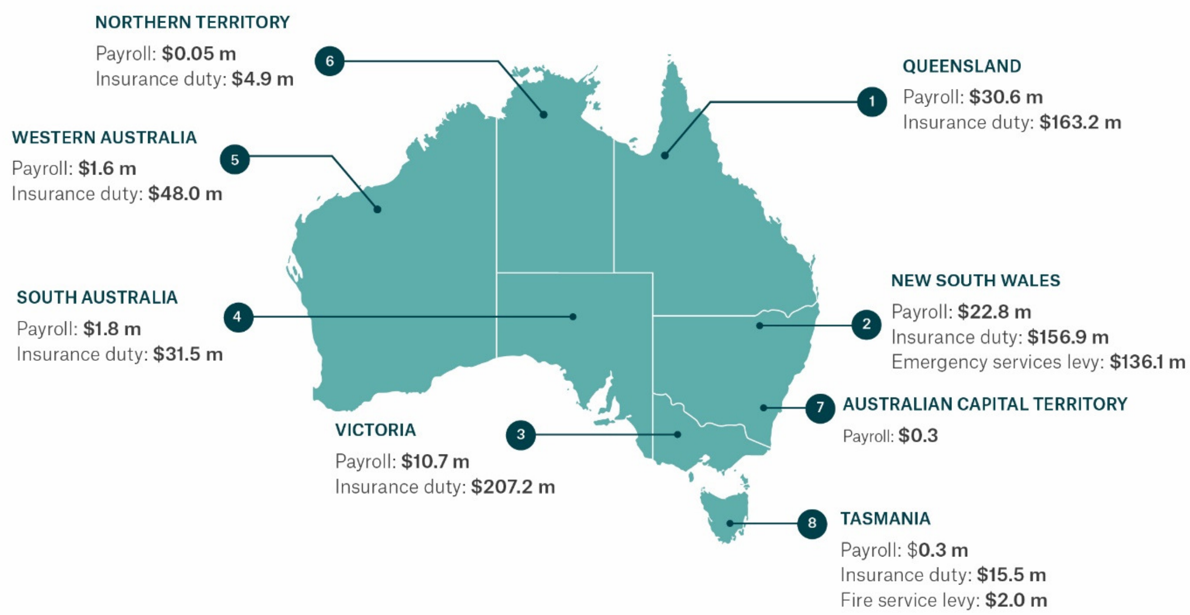
2. The main drivers for the decrease in effective tax rate are prior period provision release and adjustments arising under the life insurance tax regime.

3.Includes Suncorp Group Limited and its 100 per cent-owned subsidiaries. Excludes taxes borne and collected by other companies, does not include all levies and withholdings, but seeks to provide an illustration of primary taxes and levies.

4. NZ taxes collected and paid are represented in AUD

5. Taxes payable/incurred for the relevant period.

STATE AND TERRITORY TAXES PAID



Company tax position

Across Australia and New Zealand, Suncorp operates as three core businesses; Insurance, Banking & Wealth and Suncorp New Zealand. These businesses are subject to a range of tax regimes and statutory tax rates.

In Australia, Suncorp Group Limited and its wholly owned Australian subsidiaries have elected to be taxed as a tax consolidated group. All members of the group are taxed as one single entity, at the 30 per cent corporate tax rate, except for the Life insurance business which was at the following rates:

Applicable rate for classes of life insurance business	2018-19 %
Annuity and pension business (Segregated Exempt Assets)	Exempt
Complying superannuation business	15
Ordinary class of business	30
Shareholders' funds	30

In February 2019, Suncorp completed the sale of the Australian Life Business, Suncorp Life & Superannuation Limited which left the consolidated tax group effective 28 February 2019.

In New Zealand, there is a tax consolidated group and standalone company taxpayers, all taxed at the corporate tax rate of 28 per cent.

In both the Australian and New Zealand insurance businesses, Suncorp paid tax on participating policyholders' investment income, generated from the investment of their policy premiums. The tax paid by Suncorp in respect of these participating interests has been included in the corporate tax paid, in accordance with the treatment under tax legislation.

"We have a high level of assurance overall that your organisation paid the right amount of Australian income tax for the 2018 income year"

Australian Taxation Office – December 2019

Offshore related party dealings

Suncorp's businesses in Australia and New Zealand routinely deal with each other when it is in the best interests of Suncorp to do so.

Suncorp undertakes a comprehensive analysis of each related party transaction to ensure they are conducted on terms, including pricing, that are consistent with established arm's length principles.

By pricing in accordance with arm's length principles and methodologies as prescribed by the Australian transfer pricing laws and the OECD guidelines, this allows Suncorp to mitigate the possibility of tax being paid in one country at the expense of another.

In 2019, Suncorp lodged its second Country-by-Country (CbC) report for the year ended 30 June 2018. CbC reporting is part of a wide range of international measures that seek to promote more comprehensive exchanges of information between countries.

Related party transactions are outlined below.

Related Party Transaction	Why it is in the Best Interests of Suncorp
Provision of management and administration services	A number of management and administration functions are performed centrally by Suncorp's Australian business, for the benefit of both Australia and New Zealand. This is more efficient than if Suncorp New Zealand were to also perform these same functions.
Reinsurance	AAI Limited provides reinsurance to the New Zealand insurance businesses. In addition, Suncorp's Australian and New Zealand insurance businesses obtain reinsurance from third parties on a collective basis, to maximise cost efficiencies.
Allocation of direct employee costs, software development and investment management charges	A number of shared service functions are performed centrally by Suncorp's Australian business, for the benefit of both Australia and New Zealand. This is more efficient than if Suncorp New Zealand were to also perform these same functions.
Loans	Suncorp Australia business has financing related activities, including amounts loaned to New Zealand subsidiaries. Suncorp receives interest income on the amounts loaned in accordance with arm's length principals.

Accounting profit to income taxes payable reconciliation

The table below outlines key differences between income tax expense and income tax payable for the 2018 and 2019 financial years.

Importantly, income tax expense is not the same as income tax paid or payable. The expense is required to be adjusted for what are known as 'temporary differences' and 'non temporary differences' to determine the income tax payable for the Group. Temporary differences occur because particular business transactions are recognised at different points in time under accounting and tax rules.

A non temporary difference is an adjustment where the business transaction is reported differently for financial and tax purposes, and for which the difference will never be eliminated.

		Suncorp Group
	2018-19 **($m - AUD)**	**2017-18** **($m - AUD)**
Profit before tax	**502**	**1,577**
Income tax using the domestic corporation tax rate of 30%	151	473
Effect of tax rates in foreign jurisdictions	(7)	(4)
Effect of income taxed at non-corporate tax rate - Life	1	2
Tax effect of amounts not deductible/(assessable) in calculating taxable income:		
Non temporary differences[6]	230	38
Temporary differences charged to income	11	(32)
Other adjustments	5	(15)
Income tax paid/payable – current year profit	**391**	**469**
Adjustments for prior financial years	(60)	6
Income tax paid/payable – current year and prior year adjustments	**331**	**468**
Deferred tax expense – temporary differences	(2)	49
Deferred tax expense – non-temporary differences	(7)	0
Deferred tax expense – adjustments for prior financial years	(15)	(12)
Total income tax expense	**307**	**505**

A detailed reconciliation of the Group's accounting profit to income tax expense is provided in the tax note in Suncorp's 2019 Annual Report.

6. The increase in non temporary differences primarily driven by the accounting loss on sale of Suncorp Life & Superannuation Limited. The accounting loss on sale is not deductible for tax purposes.

Definitions

GST (GOODS AND SERVICES TAX)

Suncorp remits GST to the Government in respect of certain taxable products and services provided by Suncorp, and is entitled to claim input tax credits to recover GST included in costs associated with providing these taxable products and services.

Suncorp also provides certain products and services that are classified as 'GST-free' and 'input taxed.' For these products and services, GST is not charged by Suncorp. Suncorp is entitled to claim input tax credits to recover the GST included in costs relating to 'GST-free' products and services, but is not entitled to claim input tax credits in respect of costs associated with providing 'input taxed' products and services, except where entitlement exists under the GST regulations.

PAYROLL TAX

Payroll tax is a tax imposed on an employer. Specifically, it is a state and territory tax assessed on taxable wages paid or payable by an employer to an employee, when the total taxable wage bill of an employer (or group of employers) exceeds a threshold amount. Suncorp employs approximately 13,000 people across Australia and is liable for payroll tax in all states and territories. Payroll tax returns were lodged for the period 1 July 2018 to 30 June 2019.

FBT (FRINGE BENEFITS TAX)

A fringe benefit is a benefit that an employee (or an employee's associate) receives because of their employment. Fringe Benefit Tax (FBT) is a tax payable by employers on fringe benefits provided to employees (or employees' associates) in respect of their employment.

FBT is separate to income tax and is calculated on the grossed-up taxable value of the fringe benefit provided during the FBT year (1 April to 31 March). Australian FBT returns were lodged for the period 1 April 2018 to 31 March 2019.

In New Zealand, FBT returns are submitted quarterly with the March quarter being the final FBT return.

PAYG (PAY AS YOU GO)/PAYE (PAY AS YOU EARN) WITHHOLDING TAX

In 2018-19, Suncorp withheld and remitted taxes to the relevant authorities from salary and wages payments on behalf of employees, both in Australia (PAYG) and New Zealand (PAYE).

In 2018-19, Suncorp withheld and remitted taxes to the ATO from interest and royalties paid to non-residents in Australia.

ETR (EFFECTIVE TAX RATE)

This is the rate recognised in the financial statements and is calculated as income tax expense divided by the profit before income tax.

EARTHQUAKE COMMISSION LEVY

The Earthquake Commission (EQC) is a New Zealand Crown entity funded by levies applied to certain insurance premiums. EQC provides natural disaster insurance for residential property, administers the New Zealand Natural Disaster Fund and funds research and education on natural disasters. New Zealand insurance companies collect EQC levies from customers as part of the cost of insurance.

INSURANCE DUTY

Insurance duty is a duty imposed by state and territory governments for certain insurance policies. The types of insurance policies that are subject to duty vary between the states and territories. The rate of duty varies according to the type of insurance and value of the transaction involved and may not be charged on all transactions in every jurisdiction.

FIRE AND EMERGENCY SERVICES LEVY

The Fire and Emergency services levy is the expense levied on premiums for insurance policies with a fire risk component, which is recoverable from insurance companies by the applicable State Government in Australia or in the case of New Zealand, by Fire and Emergency New Zealand. Fire service levies were established to cover corresponding fire brigade charges.

suncorpgroup.com.au
@SuncorpGroup

REGISTERED OFFICE

Suncorp Group Limited
Level 28, 266 George Street
Brisbane, Australia 4000
+61 7 3135 2901

SHAREHOLDER ENQUIRIES

suncorp@linkmarketservices.com.au
1300 882 012 (inside Australia)
+61 2 8767 1219 (outside Australia)

SUNCORP