

# TAX TRANSPARENCY REPORT 2019 - 2020

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# 1. INTRODUCTION

We are pleased to present our Tax Transparency Report (Report) for the income year ended 30 June 2020.

In our establishing legislation, the *Air Services Act 1995*, we are subject to all Commonwealth taxes, but are exempt from all State and Territory Taxes other than Payroll Tax. We must also comply with withholding tax obligations and any applicable taxes in foreign jurisdictions.

Our purpose is to provide safe, secure, efficient and environmentally responsible air navigation and aviation rescue firefighting services that are valued by the aviation industry and community on behalf of our owner, the Australian Government. We are proud of the contribution we make to the Australian community through the fulfilment of this obligation and through the payment of dividends and taxes.

The income year ended 30 June 2020 saw significant events with the devastating bushfire season in Australia and the COVID-19 pandemic. The subsequent disruption to air travel, both domestically and globally, resulted in a sharp drop in revenue during the last quarter. The Australian Government provided financial assistance as part of its aviation relief package, of which we received \$250 million. This enabled us to provide domestic flight waivers of \$92.5 million to our customers, and ensured we could continue to provide critical air navigation and aviation rescue and fire fighting services. In addition, we moved to quickly reduce our operating costs while at the same time continuing preparations for the future by continuing work on the delivery of OneSky, Australia's harmonised civil and military air traffic management system in partnership with Defence.

Our financial results reflected the impact of the COVID-19 pandemic with a net loss after tax of \$25 million. Due to timing differences between accounting profit and taxable income, we remained in a tax payable position for the income year ended 30 June 2020. We had a total tax liability of \$39 million in Federal, State and Territory taxes for the income year ended 30 June 2020.

# 2. BASIS OF PREPARATION

This Report has been prepared in accordance with the requirements set out in the Australian Board of Taxation's Voluntary Tax Transparency Code issued in May 2016, it also considers the Post Implementation Review of the Tax Transparency Code Consultation Paper issued in February 2019 and the Draft Appendix to the Code issued by the Australian Accounting Standards Board. This Report should be read in conjunction with the [Airservices Annual Report 2019-20](#).

The Report is for the income year ended 30 June 2020 and the comparative period 30 June 2019. All figures are presented in Australian dollars.

The Report is prepared internally within our Finance function. The information in the Report is sourced from our audited financial statements and the information lodged with the relevant revenue authority. Our audited financial statements are subject to materiality in accordance with the relevant Auditing Standards. From a tax perspective, the concept of materiality is not applied to our lodgement obligations with revenue authorities.

The Report is reviewed by our external tax advisor and undergoes an internal review process through the Chief Financial Officer before it is tabled to the Board Audit and Risk Committee prior to publication.

Additional information on specific figures in the Report can be found in the footnotes. The terms used have been defined throughout the Report, where applicable.

### 3. OVERVIEW OF AIRSERVICES

We were established by the *Air Services Act 1995 (Cth)*, and are an Australian government-owned organisation. We are designated as a corporate Commonwealth entity under the *Public Governance, Performance and Accountability Act 2013 (Cth)*.

Our functions under the *Air Services Act 1995* include:

- providing facilities for the safe navigation of aircraft within Australian-administered airspace;
- promoting and fostering civil aviation in Australia and overseas; and
- providing air traffic services, aviation rescue firefighting services, aeronautical information, radio navigation and telecommunication services.

Safety is our number one priority. Our zero significant attributable safety occurrences show that we consistently set the global benchmark for aviation safety standards.

We are governed by a Board whose members are appointed by the Minister for Infrastructure, Transport and Regional Development. The Board is committed to best practice in corporate governance.

The Board decides the objectives, strategies and policies and ensures that we fulfil our statutory functions in a proper, efficient and effective manner.

We are funded through levies on our customers and capital raised from debt markets. Our prices are set by the Board after extensive consultation with industry and are subject to oversight by the Australian Competition and Consumer Commission (ACCC). Under normal circumstances, we don't receive any government funding, although we did receive financial support during the income year ended 30 June 2020 due to the unprecedented disruption caused by the COVID-19 pandemic.

For further information about us and our plans for Australia's aviation future you can read [Airservices 2020-21 Corporate Plan](#) and [Airservices Annual Report 2019-20](#).

## 4. TAX GOVERNANCE AND STRATEGY

Our tax governance and strategy is aligned to our wider corporate safety culture. Consistent with the *Commonwealth Government Business Enterprises - Governance and Oversight* guidelines issued by the Department of Finance, we engage in normal tax planning activities that are within the intent and spirit of the law. We do not engage in aggressive tax planning strategies and we proactively manage our tax obligations to ensure that we pay the correct amount of tax.

We connect key functions across the organisation to deliver cost efficient best practice tax management. This supports our capacity to make sound financial and commercial decisions and to develop and enhance processes and procedures to ensure compliance with policy and internal controls. To facilitate this, we maintain a robust tax governance framework built on our tax governance principles. We periodically review our tax governance framework to ensure it continues to reflect the expectations of the Australian Taxation Office (ATO) and broader community's attitudes to tax management.

The core elements of our tax governance principles include:

Tax governance principle	Description
Responsible and accountable managerial oversight	The responsibilities and accountabilities for tax administration and decision-making are in place and are clearly defined and understood.
Risk management and decision making	Strong controls and clearly articulated processes are in place to support tax compliance and to identify, assess and mitigate tax risk. The Board, Chief Executive Officer, Chief Financial Officer and other key internal and external stakeholders have assurance that our tax is being managed in accordance with our tax policies.
Integrity in systems and reporting	The financial records, including tax reporting, reflect a true and fair view of our business.
Tax compliance	We are fully compliant with all statutory tax obligations including paying the correct amount of tax and meeting our reporting and payment obligations.
Professional and collaborative relationships	A professional and collaborative relationship is maintained with the ATO, State and Territory Revenue Authorities and other stakeholders to enable an efficient and collaborative hearing of tax issues as well as maintaining transparency through open and honest dialogue.
Ethical behaviour	All decision-making as it relates to tax is done in an ethical and responsible manner and in line with the organisation's wider corporate values and frameworks.

## 5. TAX CONTRIBUTION

The tables below disclose our total tax contributions, including Australian corporate income tax, other taxes and impost paid and taxes collected and paid by us to the ATO on behalf of others.

**Table 1: Taxes paid by Airservices to the ATO and State and Territory Revenue Authorities on its own behalf**

Tax Obligation	2020			2019		
	Federal (\$'000)	State or Territory (\$'000)	Total (\$'000)	Federal (\$'000)	State or Territory (\$'000)	Total (\$'000)
Corporate Income Tax <sup>1</sup>	\$5,584	-	\$5,584	\$40,602	-	\$40,602
Fringe Benefits Tax <sup>2</sup>	\$3,383	-	\$3,383	\$3,623	-	\$3,623
Payroll Tax <sup>3</sup>	-	\$29,927	\$29,927	-	\$30,391	\$30,391
<b>Total Taxes Borne by Airservices</b>	<b>\$8,967</b>	<b>\$29,927</b>	<b>\$38,894</b>	<b>\$44,225</b>	<b>\$30,391</b>	<b>\$74,616</b>

**Table 2: Taxes collected and paid by Airservices to the ATO on behalf of employees and other entities**

Tax Obligation	2020 (\$'000)	2019 (\$'000)
Goods and Services Tax <sup>4</sup>	\$33,432	\$84,723
Fuel tax credits <sup>5</sup>	(\$33)	(\$32)
PAYG Withholding from payments to employees	\$163,633	\$159,397
Foreign Resident Withholding	\$20	\$15
<b>Total Other Taxes Remitted / Credited</b>	<b>\$197,052</b>	<b>\$244,103</b>

We do not have a taxable presence in any jurisdictions outside of Australia and did not pay any foreign taxes in the income years ended 30 June 2020 or 30 June 2019.

<sup>1</sup> The figures for both the income year ended 30 June 2020 and 30 June 2019 is the amount of tax paid for the relevant income year in accordance with the income tax return lodged with the ATO.

<sup>2</sup> For the Fringe Benefits Tax year ended 31 March 2019 and 31 March 2020.

<sup>3</sup> Due to the impact of COVID-19 some States and Territories allowed entities to defer the payment of payroll tax to a later date or reduce their payroll tax liability where certain eligibility criteria was met. We met the relevant eligibility criteria in certain States and Territories. The figure for the income year ended 30 June 2020 is our total payroll tax liability for the period, including payments that have been deferred and will be paid at a later date.

<sup>4</sup> This is the net of GST paid to us by our customers, GST paid by us to our suppliers and GST deferred on imported goods.

<sup>5</sup> Fuel tax credits provide businesses with a credit for the fuel tax (excise or customs duty) that's included in the price of fuel used in heavy vehicles travelling on public roads.

## 6. TAX RECONCILIATIONS

Differences between our accounting profit/(loss) and taxable income are due to both temporary and non-temporary differences. Non-temporary (or permanent) differences arise where amounts recognised as income or expenses under the Australian Accounting Standards and Interpretations issued by the Australian Accounting Standards Board do not give rise to equivalent taxable or deductible amounts under the Australian tax law (or vice versa). These include the following:

Non-Temporary difference	Description
Non-deductible legal costs / Other non-deductible expenditure	This relates to expenditure which is specifically denied tax deductibility under the tax law.
Non-refundable carry forward tax offsets	This represents the concessions available to us from our research and development (R&D) activities. We are committed to using cutting edge technology where safety is paramount.

Temporary or timing differences arise where amounts are recognised as income or expenses under the accounting standards in a different period to which they are taxable or deductible under the tax law. These include:

Temporary difference	Description
Depreciation	The calculation of depreciation under the tax law may differ to that calculated under the relevant accounting standards.
Employee benefits / Provisions / Accruals	These adjustments represent income and expenses that have been recognised for accounting purposes, for which there is no corresponding income tax recognition in the current year. This is either because the income has not yet been derived, or because the expenses have not yet been incurred for tax purposes.

**Table 3: Reconciliation of Airservices accounting profit/(loss) to income tax expense and income tax payable and income tax paid**

	2020 (\$'000)	2019 (\$'000)
<b>Profit/(loss) from continuing operations before income tax expense</b>	<b>(\$36,500)</b>	<b>\$87,821</b>
Prima facie income tax expense at 30%	(\$10,949)	\$26,346
Non-deductible legal costs	\$2	\$25
Prior year over provision of tax (deferred tax expense) <sup>6</sup>	(\$1,512)	\$877
Prior year over provision of tax (current tax expense) <sup>7</sup>	\$851	(\$85)
Other non-deductible / (assessable) expenditure	\$77	(\$1,749)
<b>Income tax expense (current income tax and deferred income tax)</b>	<b>(\$11,531)</b>	<b>\$25,414</b>
Depreciation	\$4,770	\$9,202
Allowance for impairments	-	(\$341)
Provision for doubtful debts	\$6,005	-
Employee benefits	\$2,228	\$5,755
Provision for revenue to be returned to customers	\$4	\$31
Provision for legal costs	(\$161)	\$294
Other provisions	\$3,928	\$1,485
Accruals	\$108	(\$1,297)
Adjustment for prior year over provision of tax (deferred tax expense)	\$1,512	(\$877)
<b>Current income tax expense</b>	<b>\$6,863</b>	<b>\$39,666</b>
Prior year over provision of tax (current tax expense)	(\$851)	\$85
Pay-As-You-Go Instalments <sup>8</sup>	(\$5,196)	-
<b>Income tax payable in respect of the current income year per audited financial statements</b>	<b>\$816</b>	<b>\$39,751</b>
Current year over provision of tax (current tax expense)	(\$430)	\$851
Pay-As-You-Go Instalments	\$5,196	-
Other adjustments	\$2	-
<b>Income tax paid</b>	<b>\$5,584</b>	<b>\$40,602</b>

Additional information in relation to our tax position, including our deferred tax liability can be found in the [Airservices Annual Report 2019-20](#).

<sup>6</sup> This adjustment relates to the difference between the deferred income tax expense calculated for the financial statements and the deferred tax expense calculated during the preparation of the income tax return.

<sup>7</sup> This adjustment relates to differences between the current income tax expense recorded in prior years, against the tax actually paid in respect of those years.

<sup>8</sup> This includes all Pay-As-You-Go Instalments (PAYGI) made in relation to the income year ended 30 June 2020 except for the June 2020 PAYGI payment which was not calculated and made until July 2020.



## 6.1. Tax Losses

We utilised \$0.1 million in carry forward capital losses in 30 June 2020. We continue to carry forward capital losses of \$4.9 million that are available indefinitely for offset against future capital gains.

## 7. EFFECTIVE TAX RATE

The effective tax rate (ETR) is calculated as income tax expense divided by accounting profit. As we do not have overseas operations the Australian effective income tax rate and the worldwide effective income tax rate are the same.

Table 4: Effective Tax Rate

	2020 (\$'000)	2019 (\$'000)
Profit/(loss) from continuing operations before income tax expense	(\$36,500)	\$87,821
Income tax expense/(benefit)	(\$11,531)	\$25,414
<b>Effective income tax rate<sup>9</sup></b>	<b>31.59%</b>	<b>28.94%</b>

## 8. INTERNATIONAL RELATED PARTY DEALINGS

We did not have any international related party dealings during the income years ended 30 June 2020 or 30 June 2019.

## 9. TAX RISKS AND AT RISK POSITIONS

We have not identified any material tax risks or at risk tax positions for the income years ended 30 June 2020 or 30 June 2019.

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<sup>9</sup> The effective tax rate is based on our 2019-20 financial statements.

## 10. ATO PUBLIC DATA DISCLOSURES

The ATO is required to produce an annual report of information about certain corporate tax entities. This is known as the “Report of Entity Tax Information.” As part of this report the ATO publishes the Total income, Taxable income and Tax payable for relevant entities. The information reported by the ATO is taken from the income tax return lodged for the relevant period. A reconciliation between the information released by the ATO and the figures included within this Report can be found below.

**Table 5: Reconciliation to ATO public data disclosures**

	2020 (\$'000)	2019 (\$'000)
<b>Total income<sup>10</sup></b>	<b>\$1,021,530</b>	<b>\$1,127,494</b>
Total expenses	(\$1,058,030)	(\$1,039,673)
Profit/(loss) before income tax	(\$36,500)	\$87,821
Add/(less) permanent non-taxable differences (gross)	\$263	(\$5,746)
Add temporary tax timing differences (gross)	\$56,284	\$50,427
Current year over provision of tax (current tax expense) (gross) <sup>11</sup>	\$7,599	\$12,059
Utilisation of carried forward tax losses (gross)	-	-
<b>Taxable income</b>	<b>\$27,646</b>	<b>\$144,561</b>
Gross tax payable at 30%	\$8,294	\$43,368
Non-refundable carry forward tax offsets	(\$2,710)	(\$2,766)
<b>Income tax paid</b>	<b>\$5,584</b>	<b>\$40,602</b>

At the time of publishing the Report, the ATO had not yet released the 2019-20 Report of Entity Tax Information. The above table has been prepared on what we anticipate the ATO should disclose in its 2019-20 Report of Entity Tax Information.

<sup>10</sup> The total income figure in the ATO's Report of Entity Tax Information is sourced from our income tax return for the relevant period. The total income figure in our income tax return is prepared in accordance with the ATO's instructions and may differ from the total income figure disclosed in our financial statements for the same financial period.

<sup>11</sup> This figure does not include the Non-refundable carry forward tax offset.