

GWA Group Limited ('GWA')

Tax Transparency Report

For the year ended 30 June 2022

GWA's purpose is to make everyday water experiences extraordinary – today, and for tomorrow. GWA's strategy is to be the trusted and integrated solutions partner in the delivery of sustainable water solutions for bathrooms, kitchens and laundries. GWA is a member of the ASX 300 index of listed Australian companies, and the owner, designer, and distributor of an extensive range of state of the art product solutions and market leading brands including Caroma, Methven, Dorf and Clark.



METHVEN

CLARK

dorf

1 Introduction

GWA is committed to financial and regulatory compliance and transparency. GWA follows the recommendations outlined in the Board of Tax's Tax Transparency Code.

2 Tax strategy and governance

GWA's corporate governance framework, of which taxation is an important element, is critical in maintaining high standards of corporate responsibility and fostering a culture that values ethical behaviour, integrity and respect. These principles are reflected in GWA's Corporate Governance Statement¹ and guide GWA's approach to its tax compliance, reporting and payment obligations.

GWA's Board Tax Corporate Governance Policy requires GWA to pursue a tax strategy that is transparent and sustainable in the long term. In conducting its activities, GWA:

- ▶ Does not shift and/or accumulate profits in low or zero-tax jurisdictions;
- ▶ Does not use the secrecy rules of jurisdictions to hide assets or income;
- ▶ Pays tax where the underlying economic activity occurs; and
- ▶ Manages tax affairs in a pro-active manner to maximise shareholder value, while operating in accordance with the law.

3 Approach to engagement with the ATO

GWA, together with its Australian subsidiaries has formed a tax consolidated group for Australian tax purposes with GWA Group Limited as the head company of the Australian tax consolidated group.

GWA's approach to engagement with the Australian Taxation Authority ('ATO') is to be compliant with tax legislation, and maintain open and honest dialogue to ensure efficient and collaborative hearing of tax matters.

In FY21 the ATO performed a Combined Assurance Review of GWA as part of their Top 1,000 Tax Assurance Program, covering the 30 June 2017, 2018 and 2019 tax periods. During this process GWA demonstrated it has an effective tax control framework. Further, no adjustments to tax payable were required for the tax periods reviewed. This was a consistent outcome to the ATO's FY18 Streamlined Assurance Review of GWA

¹ <http://www.gwagroup.com.au/corporate-governance>

as part of their Top 1,000 Tax Performance Program, which covered the 30 June 2014, 2015 and 2016 tax periods.

In FY21 GWA engaged an independent specialist to conduct a governance review of its Australian GST and income tax environment who found key controls were effective.

4 Tax contribution summary

In FY22, over 95% of GWA's corporate income tax was paid in Australia, consistent with more than 95% of GWA's profit before tax being recognised in Australia.

The below table summarises Federal and State taxes GWA has paid pertaining to the year ended 30 June 2022 in Australia.

	30 June 2022	30 June 2021
	\$'000	\$'000
Corporate income tax	15,115	15,948
Net GST	25,901	25,225
Payroll taxes (including FBT)	2,834	2,621
Total GWA	43,850	43,793
Employee pay as you go ('PAYG') ²	14,259	12,726
Grand Total	58,109	56,520

5 Income tax expense and payable

The income tax expense ('ITE') disclosed in GWA's annual reports³ is calculated based on International Financial Reporting Standards ('IFRS'). In any one year there may be a difference between the ITE calculated to the total cash taxes paid to a relevant taxation authority during that same year. This is attributed to:

- ▶ The timing of corporate tax instalment payments made to the relevant tax authorities; and
- ▶ Timing differences between IFRS and tax legislation regarding when a transaction is assessable or deductible.

GWA's Effective Tax Rate ('ETR') is calculated as ITE divided by accounting profit before income tax. For the year ended 30 June 2022, GWA's consolidated ETR was 32.9% (30 June 2021: 31.2%). The ETR deviates from the Australian corporate tax rate of 30% due to:

- ▶ Transactions with a permanent accounting tax difference i.e. when there is a difference in treatment between IFRS and tax legislation of the assessability and deductibility of transactions. In FY22 this included non-deductible costs on the closure of the Asian sales operation;
- ▶ Differences in tax rates for overseas operations compared to the Australian corporate tax rate (e.g. New Zealand's corporate tax rate was 28%, 19% in the UK, and 25% in China); and
- ▶ The additional tax benefit arising from Research and Development ('R&D') expenditure under the ATO's 'Research and Development Tax Incentive' scheme to encourage R&D activity in Australia⁴.

² PAYG is withheld and paid to tax authorities on behalf of GWA's employees.

³ <http://www.gwagroup.com.au/investor-relations/annual-reports/>

⁴ R&D tax offsets are calculated by adding back to taxable income 100% of the eligible expenditure incurred on R&D as non-deductible, and taking a 38.5% tax offset (calculated as 38.5% of the eligible expenditure) against tax payable.

5.1 Reconciliation of accounting profit to income tax expense

30 June 2022	Consolidated worldwide group \$'000	Australian tax consolidated group \$'000
Net profit before tax	52,439	54,090
Tax expense using the Australian corporate tax rate of 30%	15,732	16,227
Non-deductible expenses	103	81
Effect of tax rate in foreign jurisdictions	64	-
Non-deductible integration costs	1,075	407
Rebateable research and development	(180)	(180)
Other items	497	(75)
	17,291	16,460
Adjustments for prior years	(31)	(14)
Income tax expense ('ITE')⁵	17,260	16,446
Effective tax rate ('ETR')	32.9%	30.4%

30 June 2021	Consolidated worldwide group \$'000	Australian tax consolidated group \$'000
Net profit before tax	50,933	50,683
Tax expense using the Australian corporate tax rate of 30%	15,280	15,205
Non-deductible expenses	75	42
Effect of tax rate in foreign jurisdictions	(180)	-
Non-deductible transaction & integration costs on the acquisition of Methven Limited	595	25
Rebateable research and development	(165)	(165)
Other items	244	186
	15,849	15,293
Adjustments for prior years	29	55
Income tax expense ('ITE')	15,878	15,348
Effective tax rate ('ETR')	31.2%	30.3%

5.2 Reconciliation of income tax expense to cash tax paid

Consolidated worldwide group	30 June 2022 \$'000	30 June 2021 \$'000
Income tax expense ('ITE')	17,260	15,878
Timing differences	(1,564)	347
Current year tax instalments payable next year	(1,615)	(3,859)
Prior year tax instalments paid/(received) this year	3,852	(930)
Income tax paid per cash flow statement	17,933	11,436

The above timing differences largely related to the increase in accounting provisions and other balances which are not yet deductible for tax purposes. Refer to Note 9 of GWA's 2022 Annual Report.

⁵ Refer to Note 4 of the 2022 Annual Report.

6 International related party dealings

GWA's operations overseas are conducted through a combination of subsidiary legal entities and independent third parties, all of whom are subject to local tax regimes. These subsidiary legal entities and their foreign jurisdictions for the year ended 30 June 2022 are disclosed in Note 23 of GWA's 2022 Annual Report.

GWA's Australian tax consolidated group for the year ended 30 June 2022 had the following international related party dealings with these subsidiary operations overseas:

- ▶ Sale and purchase of stock to and from subsidiaries in New Zealand and the United Kingdom;
- ▶ Royalty, management and procurement services charged to and from overseas subsidiaries; and
- ▶ Provision of loans to overseas subsidiaries.

All of GWA's international related party dealings reflect arm's length terms (i.e. as though the companies are independent of each other) in accordance with Australia's transfer pricing requirements and OECD⁶ guidelines.

7 ATO tax transparency disclosures

The ATO publishes discrete taxation information of large Australian taxpayers⁷ which includes GWA. Information published about GWA is sourced from GWA's Australian tax consolidated group income tax return.

The following information pertaining to GWA's Australian tax consolidated group for the year ended 30 June 2022 is yet to be published by the ATO:

	30 June 2022	30 June 2021
	\$	\$
Total income	343,414,432	321,762,727
Taxable income	53,451,292	56,929,266
Tax payable	15,114,905	15,948,238

A description of the terms in the table above and their application to GWA are:

- ▶ Total income pertains to income (e.g. sales, interest) derived during the period, prior to deduction of expenses which include rebates GWA provides to customers⁸. Tax is not calculated on total income;
- ▶ Taxable income is calculated based on total income less expenses incurred, adjusted for tax timing differences and tax permanent differences as described in Section 5 of this report; and
- ▶ Tax payable is then calculated at the corporate income tax rate (30%) of taxable income, reduced by available tax offsets including rebateable R&D as described in Section 5 of this report.

The tax payable in the above table has been settled with the ATO.

⁶ Organisation for Economic Co-operation and Development.

⁷ Large Australian taxpayers are those with total income greater than \$100m for Australian public corporations and foreign-owned corporations, or greater than \$200m for Australian-owned resident private companies.

⁸ For IFRS purposes, the cost of rebates to customers is recognised within income.