

# HSBC Australia Tax Transparency Report

**For the Year Ended 31 December 2018**

# INTRODUCTION

The HSBC Australia Holdings Pty Limited Tax Consolidated Group (of which HSBC Bank Australia Limited is the principal operating entity) and The Hongkong and Shanghai Banking Corporation Limited, Sydney Branch (collectively referred to as “HSBC Australia”) are pleased to present this report which is prepared in accordance with the Voluntary Tax Transparency Code released by the Board of Taxation.

HSBC Australia aims to be where the growth is, enabling business to thrive and economies to prosper, ultimately helping people to fulfil their hopes and realise their ambitions.

We continue to be proud of the contribution we make to the public finances of the countries in which we operate, including in Australia. We take our tax obligations seriously and our approach to paying tax is built on integrity and transparency. This report details the taxes HSBC Australia paid in 2018 and its effective tax rate.

We also share our approach to tax - a strategy that seeks to ensure we contribute appropriately to the economies in which we operate.

This report covers the year ended 31 December 2018 and sets out:

1. HSBC Australia’s Tax Policy, Strategy and Governance
2. Total Tax Contribution in Australia
3. Reconciliation of Accounting Profit to Income Tax Expense and to Income Tax Paid
4. Effective Tax Rates
5. International Related Party Dealings

# 1. HSBC's Tax Policy, Tax Risk Management and Governance

HSBC Australia's Tax Policy and approach to Tax Risk Management aligns to that of the HSBC Group ("HSBC"). It is endorsed by the Audit Committee of the Board of Directors of HSBC Bank Australia Limited.

## GOVERNANCE

The Audit Committee of the Board of Directors of HSBC Bank Australia Limited has responsibility and oversight for the HSBC Australia tax risks and issues. Quarterly Tax Reports are presented by the HSBC Australia Head of Tax to the Audit Committee. Monthly Tax Reports are also submitted to the HSBC Australia Executive Committee as part of the Chief Financial Officer's Report. Additionally, any tax risks or issues arising are raised with the appropriate Risk Committees.

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## APPROACH TO TAX RISK MANAGEMENT

HSBC seeks to apply the spirit and the letter of the law in all territories where we operate. HSBC does not have any appetite for breaching tax laws or allowing customers to use its services to evade tax.

Tax risk is managed in accordance with HSBC's Operational Risk Management Framework ("ORMF"). The ORMF defines minimum standards and processes, and the governance structure for the management of operational risk and internal control. The ORMF has been codified in a high-level standards manual, supplemented with detailed policies, which describes our approach to identifying, assessing, monitoring and controlling operational risk and gives guidance on mitigating action to be taken when weaknesses are identified.

Responsibility for minimising operational risk lies with all HSBC employees. Specifically, all staff are required to manage operational risks, including tax risks of the business and operational activities for which they are responsible.

Within the ORMF five key risks are considered:

- Tax reporting – misstatement of tax assets, liabilities and disclosures in the financial statements, regulatory returns and other external reports e.g. Country by Country Report.
- Tax payments – failure to withhold, charge or pay taxes.
- Tax compliance – failure to report and file accurate tax returns including customer information.
- Tax avoidance – HSBC enters into transactions on its own account or promotes products and services to customers that are not consistent with the spirit of the law.
- Tax evasion – HSBC allows customers to use its services to evade tax.

HSBC manages the five key tax risks by:

- identifying the risks;
  - ensuring that the right controls are in place to prevent, manage and reduce risk;
  - setting policy and guidelines for managing tax risks;
  - providing support and guidance to staff to support the above policies; and
  - employing an experienced, professionally qualified in-house tax team. Our in-house team is supported by advice from external advisers whenever in-house expertise is not available.
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### TAX PLANNING

HSBC will use tax incentives or opportunities for obtaining tax efficiencies where these:

- are aligned with the intended policy objectives of the relevant government; and
- are aligned with business or operational objectives.

HSBC does not undertake transactions whose sole purpose is to abuse the tax system or otherwise employ tax avoidance strategies, for example by artificially diverting profits to low tax jurisdictions.

### APPROACH TO DEALINGS WITH TAX AUTHORITIES

HSBC seeks to maintain an open and transparent relationship with all revenue authorities. In relation to the ATO this is achieved by:

- keeping the ATO informed of business activities and key developments as they arise and proactively disclosing issues;
- responding to the ATO's questions and enquiries in a timely manner;
- engaging in consultations relating to emerging legislation either directly or via industry bodies; and
- meeting with the ATO regularly to ensure that an open and transparent relationship is maintained.

## 2. Total Tax Contribution in Australia

Taxes paid in Australia the year ended 31 December 2018 consisted of:

Taxes paid/borne by HSBC	HSBC Australia Holdings Pty Limited Tax Consolidated Group AUD \$m	The Hongkong and Shanghai Banking Corporation Limited, Sydney Branch AUD \$m	Total taxes paid in Australia AUD \$m
Income tax	130.0	20.1	150.1
Payroll tax	14.8	(Note )	14.8
Fringe benefits tax	4.0	(Note )	4.0
Unrecoverable Goods and Services Tax (GST)	17.9	(Note )	17.9
<b>Total</b>	<b>166.7</b>	<b>20.1</b>	<b>186.8</b>

Taxes collected by HSBC on behalf of Government	HSBC Australia Holdings Pty Limited Tax Consolidated Group AUD \$m	The Hongkong and Shanghai Banking Corporation Limited, Sydney Branch AUD \$m	Total taxes paid in Australia AUD \$m
Withholding taxes	305.2	11.8	317.0
Employee related taxes (PAYG)	82.9	-	82.9
GST Collected	-	-	-
<b>Total</b>	<b>388.1</b>	<b>11.8</b>	<b>399.9</b>

Note 1 –

Note 2 – The Hongkong and Shanghai Banking Corporation Limited, Sydney Branch does not directly employ any Australian staff and is not an employer entity. HSBC Bank Australia Limited is the employer entity and recharges a portion of staff costs including payroll tax and fringe benefits tax to the Branch.

Note – The HSBC Australia Holdings Pty Limited Tax Consolidated Group and The Hongkong and Shanghai Banking Corporation Limited, Sydney Branch are grouped for GST purposes and therefore lodge one consolidated GST Return with the ATO.

### 3. Reconciliation of Accounting Profit to Income Tax Expense and to Income Tax Paid

#### HSBC AUSTRALIA HOLDINGS PTY LIMITED TAX CONSOLIDATED GROUP

HSBC Australia Holdings Pty Limited ("HAHL") files one consolidated Income Tax Return as Head Entity of a tax consolidated group, aggregating results of HAHL and its Australian subsidiaries:

- HSBC Australia Holdings Pty Limited (Head Entity)
- HSBC Bank Australia Limited
- HSBC Custody Nominees Australia Limited
- Lion Series 2009-1 Trust
- ACN 087 652 113 Pty Limited (Deregistered on 21 February 2019)

HSBC Australia Holdings Pty Limited Tax Consolidated Group		
Reconciliation of operating profit to income tax expense	31/12/2018 AUD \$m	31/12/2017 AUD \$m
<b>Accounting profit before tax expense</b>	434.9	409.9
Corporate income tax rate	30%	30%
Prima facie income tax at corporate income tax rate	(130.5)	(122.9)
<i>(Increased)/decreased by permanent differences</i>		
Non-deductible expenses	(1.1)	(0.9)
Other	-	1.2
Prior year (under)/over provision	(1.6)	1.0
<b>Income tax expense per annual financial statements</b>	(133.2)	(121.6)
Effective tax rate calculated as current and deferred income tax expense on current year accounting profit	30.6%	29.7%

HSBC Australia Holdings Pty Limited Tax Consolidated Group		
Reconciliation of income tax expense to income tax paid	31/12/2018 AUD \$m	31/12/2017 AUD \$m
Income tax expense	133.2	121.6
<i>Temporary differences</i>		
Provisions	0.7	(5.0)
Prepayments and accrued income	-	(0. )
Other liabilities	0.	(. )
Accrued expense and deferred income		.8
Fixed assets	0.6	(0. )
<b>Income tax paid</b>	<b>121.6</b>	<b>121.6</b>

Income Tax Expense is an accounting concept that represents the amount of tax which will be paid in relation to the accounting profit for the period.

Income Tax Paid represent actual net cash paid to the ATO during the year in relation to corporate income tax. This may be more or less than income tax expense because of cash tax payments to the ATO that span different accounting years. For example, the final tax instalment for the preceding year will be included in the current year's Corporate Income Tax Paid amount.

### THE HONGKONG AND SHANGHAI BANKING CORPORATION LIMITED, SYDNEY BRANCH

HSBC also carries on business in Australia through a Sydney branch of The Hongkong and Shanghai Banking Corporation Limited ("the Branch"), which is a Bank incorporated in Hong Kong.

Australian tax law does not allow the Branch to be included within the HSBC Holdings Australia Tax Consolidated accordingly a separate tax return is filed for the Branch.

The Hongkong and Shanghai Banking Corporation Limited, Sydney Branch		
Reconciliation of operating profit to income tax expense	31/12/2018 AUD \$m	31/12/2017 AUD \$m
<b>Accounting profit before tax expense</b>	186.2	66.5
Corporate income tax rate	30%	30%
Prima facie income tax at corporate tax rate	(55.9)	(20.0)
<i>(Increased)/decreased by permanent differences</i>		
Non-deductible expenses	(6.4)	(2.8)
Other	(0.5)	0.8
Prior year (under)/over provision	(1.0)	0.1
<b>Income tax expense</b>	(63.8)	(21.9)
Effective tax rate calculated as current and deferred income tax expense on current year accounting profit	34.3%	33.0%

The Hongkong and Shanghai Banking Corporation Ltd, Sydney Branch		
Reconciliation of income tax expense to income tax paid	31/12/2018 AUD \$m	31/12/2017 AUD \$m
Income tax expense	63.8	21.9
<i>Temporary differences</i>		
Provisions	0.5	-
Prepayments and accrued income	-	-
Other liabilities	-	-
Accrued expense and deferred income	(0.2)	-
Intangibles	2.3	3.5
	( )	
<b>Income tax paid</b>		2

## 4. Effective Tax Rate

Effective Tax Rate ("ETR")	31/12/2018	31/12/2017
HSBC Australia Holdings Pty Limited Tax Consolidated Group	30.6%	29.7%
The Hongkong and Shanghai Banking Corporation Limited, Sydney Branch	34.3%	33.0%

**Note 1 –**

The ETR 2018 is slightly higher than the corporate tax rate expenses and the true-up of prior year income tax expenses.

## 5. International Related Party Dealings

HSBC is one of the world's largest banking and financial services organisations. We serve around 39 million customers through our four Global Businesses: Retail Banking and Wealth Management, Commercial Banking, Global Banking and Markets, and Global Private Banking. Our network covers 66 countries and territories in Europe, Asia, the Middle East and North Africa, North America and Latin America. We aim to be where the growth is, connecting customers to opportunities, enabling businesses to thrive and economies to prosper, and, ultimately, helping people to fulfil their hopes and realise their ambitions.

The Australian operations are part of a truly global business. This inherently involves substantial related party dealings. Consistent with our Tax Policies, all related party transactions are conducted on an arm's length basis. Our most significant related parties are summarised below:

Key International Related Party Dealing	Description	Significant Jurisdictions
Head office management and administration services	As a global group, there are a number of management and administration functions performed centrally by HSBC's head office in the UK (HSBC Holdings plc) and the Asia Pacific regional head office (The Hongkong and Shanghai Banking Corporation Limited) for all sites. Business processing and support services are provided by a number of HSBC service companies across the world. HSBC Australia is charged for such services and functions.	United Kingdom, Hong Kong
Derivatives	HSBC Australia's business undertakes derivative sale arrangements (including swaps, options and FX trades) with various international related parties within HSBC. This enables HSBC Australia to be competitive and participate in global markets located in major trading hubs outside Australia.	United Kingdom, Hong Kong
Funding	The Australian business has loans to/from related parties within HSBC. As a financial institution, HSBC Australia raises funds to facilitate lending to customers and to meet regulatory capital requirements. HSBC Australia obtains funding from international related parties within HSBC to satisfy long and short term funding requirements in line with business needs.	Hong Kong