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Taxation and transparency

We are committed to meeting all tax compliance obligations, and to providing our stakeholders with information about the taxes we pay and the taxation policies we employ, as such, we have adopted the Board of Taxation's voluntary Tax Transparency Code (TTC).

Our Tax Risk Management Policy sets out clear objectives and accountabilities for managing tax risk. The policy is endorsed by the Board and reviewed every two years.

The key focus of this policy is to:

- ensure all tax obligations are satisfied,
- ensure tax risks are identified, managed and communicated to relevant stakeholders, including AGL's senior management and the Audit and Risk Management Committee,
- maintain a co-operative and transparent relationship with taxing authorities, and
- ensure the management of tax risks is appropriately resourced.

AGL Group Tax manages tax in accordance with the AGL Compliance Management Policy and the AGL Code of Conduct. Material tax risks and compliance issues are reported to the Chief Financial Officer and ultimately to the Audit and Risk Management Committee as part of our governance framework.

We manage our Australian tax obligations in line with the expectations of the Australian Tax Office (ATO). Due to AGL's gross revenue, AGL is defined as a 'key taxpayer' under the ATO's Risk Differentiation Framework. We are therefore subject to increased levels of review by the ATO.

In the interests of transparency, we engage regularly with the ATO in a cooperative manner. This open dialogue includes an annual pre-lodgement compliance review with the ATO.

We do not have any material operations outside Australia[1], and we have no substantial tax obligations in any jurisdictions other than Australia. We have no international related party dealings other than insurance premiums paid to our captive insurance subsidiary in Singapore hence, we have an obligation to lodge a Singapore tax return each year. We do not engage in activities which artificially shift profits to low- or no-tax jurisdictions.

We have a strong history of paying fully franked dividends to our shareholders. The franking credits attached to the dividends paid by listed companies are a direct function of Australian income taxes paid each year. At our FY16 Annual General Meeting, the Dividend Policy was updated to target a higher payout ratio of approximately 75% of Underlying Profit after tax, franked to a minimum of 80%. At the time of our FY20 results, AGL announced that it intends to undertake a Special Dividend Program over FY21 and FY22. Under the Special Dividend Program, AGL anticipates paying special dividends of up to 25 percent of Underlying Profit after tax, thereby augmenting AGL's dividend policy payout ratio of 75 percent to take the effective payout ratio to 100 percent of Underlying Profit after tax over this period. AGL also announced that it expects to reduce franking on dividends to zero in FY21 and FY22 while it utilises historic tax losses (please refer to "Reconciliation of Statutory Profit to taxable income" further below).

Under Australian taxation law, AGL has formed two tax consolidated groups (TCG), whereas for accounting purposes, they are consolidated and reported as one. AGL and its wholly owned subsidiaries form one TCG,

[1] In February 2016 AGL announced that it made an investment (22% ownership) in a US company, Sunverge Energy Inc. AGL also has non-controlling interests in two US funds investing in companies focused on energy impact technologies, a US company developing behind the meter storage orchestration technology, and a Canadian company developing smart home ecosystem products. In 2018, AGL incorporated a Singaporean company to coordinate and manage aspects of its insurance program.

and a non-wholly owned group, AGL Generation Holdco Pty Ltd (AGL Generation) operating the Loy Yang A Power Station and mine form a second TCG. The latter TCG has prior year tax losses.

Reconciliation of Statutory Profit to taxable income

Under the Australian Accounting Standards, income tax expense is calculated on Statutory Profit[2]. There are differences between a company's income tax expense and the actual cash tax paid by the company, primarily because income tax expense includes amounts that were not paid/received during the financial year. These are referred to as deferred tax items.

There are a number of income and deduction items that are recognised at different points in time for accounting and tax purposes. Some examples of these items are: depreciation; capitalised interest expense; accrued expenses and provisions; unrealised gains and losses on derivatives; amortisation of intangibles; impairment of assets; and recoupment of prior year tax losses. Statutory Profit is adjusted for such differences to arrive at taxable income, which is taxed at 30%. The tax liability is then reduced for any tax offsets such as research and development expenditure.

Being in a capital-intensive industry, our taxable income is generally lower than our Statutory Profit since tax depreciation is generally greater than accounting depreciation.

Since the abrupt closure of the Hazelwood power station, the Victorian wholesale electricity price curve (along with the eastern States) was substantially elevated between calendar 2017 and 2019 (the curve, in the years immediately before and after the acquisition of Loy Yang by AGL was substantially lower). As a result, the AGL Generation TCG has started recouping prior year tax losses (incurred before and after acquisition by AGL[3]). With declining wholesale prices and the worsening of economic conditions, Loy Yang will continue to recoup a material level of tax losses resulting in lower tax.

Related Information

- AGL Compliance Management Policy
- AGL Code of Conduct
- AGL Dividend Policy

[2] Statutory Profit is prepared in accordance with the Corporations Act 2001 and the Australian Accounting Standards, which comply with the International Financial Reporting Standards. Underlying Profit is the statutory profit adjusted for significant items (usually associated with the acquisition/disposal of investments, impairment of assets and major restructure costs) and changes in the fair value of financial instruments.

[3] AGL acquired Loy Yang in June 2012. At the time of acquisition, Loy Yang had tax losses of around $2.2 billion which increased post the acquisition and peaked at around $2.9 billion.