

Voluntary Tax Transparency Report 2023

Basis of Preparation

Cuscal Limited (Cuscal) is pleased to present its 2023 Voluntary Tax Transparency Report. The material in this disclosure has been prepared by Cuscal and is general background information about Cuscal's consolidated group activities as at the date of this disclosure. This information is given in summary and rounded form (to the nearest million) and does not purport to be complete. All amounts are presented in Australian Dollars. The concept of materiality, as contained in the draft AASB Appendix to the Tax Transparency Code, has been adopted to appropriately balance the information in this report to understand Cuscal's tax position without providing excessive information that compromises understandability. Information in this disclosure should not be considered as advice or recommendation. All key terms have been defined throughout the report.

Cuscal Limited

Cuscal's primary business is payments. We are Australia's leading independent provider of end-to-end payments solutions. Cuscal is also an Authorised Deposit-taking Institution (ADI) and our extensive capabilities include card and acquiring products, mobile payments, fraud prevention, EFT switching and settlements and we have historically run the rediATM Scheme.

For over 50 years, we have been using our network of relationships to represent the interests of our clients on government and industry boards, committees and associations.

We have longstanding, productive working relationships with the Reserve Bank of Australia (RBA), Australian Prudential Regulation Authority (APRA), the Australian Payments Network Limited (AusPayNet) and the Australian Securities and Investments Commission (ASIC). We also have bilateral agreements with all major Australian banks and close partnerships with Visa International, Mastercard, eftpos and BPAY.

We use our industry expertise, combined with our thorough understanding of our clients' businesses, to create products and services which fulfill the needs of our clients and their customers. In addition, we use our in-house development team to create bespoke solutions and get them to market quickly.

In recent years we have helped our clients capitalise on the digital revolution sweeping through the payments industry. We enabled over 60% of the financial institutions that were live on Day 1 of the New Payments Platform (NPP) and facilitated our clients to be the first Australian financial institutions to offer their customers all three global mobile wallets (Apple Pay, Google PayTM and Samsung Pay). We also offer one of Australia's most advanced white-label mobile banking apps.

Cuscal is now considered to be the largest independent provider of payment solutions in Australia, with the widest range of products and services.

Acquisitions during the year

Acquisition of Braavos Corporation Pty Limited ('Braavos Group')

On 28 March 2023, Cuscal Payments Holdings Limited (a 100% owned subsidiary of Cuscal Limited) acquired 81.56% of the issued shares (77.25% fully diluted) in Braavos Corporation Pty Limited, a company that offers an aggregation platform for acquiring financial data, multi-factor authentication, restricted network access, and real time monitoring services. The acquisition is expected to increase the Group's market share in the digital payments space. Braavos Corporation Pty Limited is the parent entity of both Basiq Pty Limited and Basiq.io D.O.O. Total purchase consideration was \$55.1m and was settled in cash.



For the year ended 30 June 2023, the Braavos Group is consolidated for accounting purposes but not for tax purposes given that the Braavos Group is not fully owned by Cuscal.

Tax Policy, Strategy and Governance Summary

Cuscal is the head entity of the tax consolidated group containing the following 100% owned Australian entities as at 30 June 2023: Cuscal Management Pty Ltd, Integris Securitisation Services Pty Ltd, Votrait No. 1451 Pty Ltd, Strategic Payments Services Pty Ltd (SPS) and Cuscal Payments Holdings Pty Ltd (CPH).

Cuscal is an Australian entity subject to Australian tax laws. Compliance with these requirements is crucial to maintaining a reputation as a trusted partner to our clients.

In managing its tax risk, Cuscal is guided by the ATO's "Tax Risk Management and Governance Review Guide" for large businesses and the "GST Governance, Data Testing and Transaction Testing Guide".

Cuscal's Group Risk Management Framework (RMF) governs the overall risk management for the Group, including tax risk management. The Risk Appetite Statement (RAS) for the Group includes that "Cuscal has no tolerance for acts of intentional non-compliance with obligations including deliberate tax avoidance and no tolerance for deliberate delay of remedial actions".

Cuscal has a Tax Governance Policy (TGP) that articulates the strategies employed by the Group to proactively manage its tax compliance risks and the roles and responsibilities of key personnel in managing tax risk. The TGP is aimed at maintaining an appropriate level of tax risk management in line with Cuscal's overall risk appetite set by the Board. Cuscal reviews its TGP annually and updates it in line with any changes to the ATO's guidelines and Cuscal's business changes. An annual tax governance update is provided to Cuscal's Board Audit Committee which oversees the Group's compliance with the Board approved TGP.

The effectiveness of Cuscal's TGP and its tax controls are periodically tested by its internal audit function.

In setting its tax risk management policies, Cuscal is guided by the following principles:

- ❑ Cuscal will not knowingly participate in the avoidance of tax or facilitate and/or promote the avoidance or evasion of tax by a third party;
- ❑ It is Cuscal's responsibility and duty to pay the appropriate taxes on its business transactions;
- ❑ Non-disclosure to the tax authorities is not an acceptable approach;
- ❑ A "no-risk" strategy in terms of tax risk is not the appropriate decision for the business.

Tax uncertainties may arise in relation to the application of the law or uncertainty over particular facts or uncertainty over the effective operations of systems to calculate the tax results. These uncertainties lead to tax risk. Cuscal's tax risk policy is about understanding where these risks arise and how they are to be mitigated.

The tax function is responsible for providing assurance to the Board that the existing tax risk management framework will allow all significant tax considerations to be assessed as part of every commercial decision relating to each transaction. Regular communication lines are established and reinforced as appropriate between the Board, the CFO and the Board Audit Committee as part of a robust tax risk management framework.

Cuscal has no tolerance for any publicised reputational damage attributable to tax positions taken, or for any breaches of tax legislation/compliance obligations. Cuscal's TGP sets out its tax risk appetite, the controls it has in place for managing tax risk and remedial actions required for any breaches. These cover the areas of Transactional Risk, Operational Risk, Financial Accounting Risk, Management Risk, Compliance Risk and Reputational Risk.

All breaches of tax compliance obligations and any outstanding tax issues are overseen by Cuscal's Enterprise Risk and Compliance Committee and reported to the Board Audit Committee, through the Chief Financial Officer (CFO) in line with Cuscal's RMF.





Engagement with the ATO

Cuscal's TGP provides that the internal tax function can liaise with the ATO on general administrative queries, and that any significant and technical queries raised must be reported to the CFO; who, in turn, reports significant matters to the Board Audit Committee. It states that the internal tax function may seek written advice from the ATO, in the form of private binding ruling on any significant material matters on which the application of the tax law is unclear. The decision of whether or not to seek a private binding ruling rests with the CFO. Any such request for a written view from the ATO may be submitted by Cuscal's internal tax function or through assistance from external tax advisors.

For the year ended 30 June 2023, Cuscal did not have any correspondence with the ATO apart from ordinary day to day matters.

Tax Contribution Summary for the year ended 30 June 2023

For the year ended 30 June 2023, Cuscal tax consolidated group paid the following taxes:

a. Taxes paid by Cuscal tax consolidated group

	30 June 2023 (\$m)	30 June 2022 (\$m)	30 June 2021 (\$m)
Income tax ¹	6.8	45.1	2.2
Employer taxes ²	4.1	3.6	4.0
Unrecoverable GST ³	0.8	0.6	0.3
Total	11.7	49.3	6.5

¹ Income tax instalments paid for 2023 financial year based on the instalment rate advised by the ATO. The final tax paid for the year will be finalised as part of the lodgement of the Group's tax return due for lodgement in January 2024. Balance of tax payment, if required, will be made on 1 December 2023. Note that income tax paid for the 2022 financial year is higher than the 2023 and 2021 financial year due to payment of a one off capital gain on the disposal of Cuscal's interest in the 86 400 Group, as reported in the 2022 Tax Transparency Report.

² Employer taxes comprises Fringe benefits tax instalments and payroll taxes paid for 2023 financial year.

³ GST not recovered represents the GST included in expenditure incurred by Cuscal tax consolidated group which Cuscal tax consolidated group is not entitled to claim back as input tax credits.

b. Taxes paid on behalf of others

	30 June 2023 (\$m)	30 June 2022 (\$m)	30 June 2021 (\$m)
GST ¹	9.9	8.4	11.1
Superannuation contributions ²	7.2	6.2	5.1
Employer PAYG withheld ³	22.3	20.4	17.3
Total	39.4	35.0	33.5

¹ Cuscal tax consolidated group collects and pays GST which is collected on sales to its customers

² Superannuation contributions is not a tax, but has been included here as amounts paid on behalf of employees to satisfy Superannuation Guarantee obligations

³ PAYG withholding taxes paid to the ATO on behalf of its employees in relation to salary and wages





Reconciliation of accounting profit to income tax expense

The Income Tax Expense (ITE) for the Cuscal consolidated Group (Cuscal) for the year ended 30 June 2023 as disclosed below has been calculated in accordance with the relevant Australian Accounting Standards. Cuscal does not have any offshore operations, hence the ITE disclosed below represents all of Cuscal Group's ITE for the year. The prima facie Australian corporate tax rate of 30% as applicable on Cuscal's operating profit or loss is adjusted for "non-temporary" differences as shown below. This reconciliation is disclosed in Note 6 to the audited Financial Statements for Cuscal Limited.

	30 June 2023 (\$m)
Operating profit before income tax expense*	37.4
Prima facie income tax expense at 30%	(11.2)
Increase / (decrease) in income tax expense due to:	
Braavos group losses not recognised - controlling interest	(0.3)
Braavos group losses not recognised - non controlling interest	(0.1)
Non-deductible expenses	(0.1)
Non-taxable income	0.1
Income tax expense	(11.6)
Effective tax rate	31%

* Operating profit before tax includes Braavos Group losses, \$1.1m attributable to controlling interest and \$0.3m to non-controlling interest. The losses in Braavos Group have not been recognised for accounting purposes in the Cuscal Group based on Cuscal's assessment that the probability test under AASB 112 to recognise the DTAs on the losses is not satisfied to a reasonable extent.

AASB 112 provides that "A deferred tax asset shall be recognised for all deductible temporary differences to the extent that it is probable that taxable profit will be available against which the deductible temporary difference can be utilised". Given the Braavos Group history of prior year losses and that the Braavos Group is not consolidated with the Cuscal Group, Cuscal has assessed that it is not probable at this stage that there will be taxable profits available against which the losses can be utilised.

In future reporting periods, Cuscal Group will reassess the unrecognized DTA and seek to recognise that portion of the losses to the extent that it has become probable that future taxable profit will allow the DTA to be recovered.

Reconciliation of income tax expense to income tax (payable)/receivable

The table below reconciles income tax expense to income tax (payable) / receivable. Net temporary differences represent the differences between the time transactions are recognised for accounting purposes and when they are recognised for income tax purposes.

	30 June 2023 (\$m)
--	-------------------------------------





Income tax expense	(11.6)
Net temporary differences	1.3
Adjustments in respect of current tax of previous years	(0.1)
Current income tax charge	(10.4)
R&D offsets estimated ¹	1.3
Tax Instalments paid	9.6
Tax (payable)/receivable as reported in balance sheet	0.5

¹ Effective from FY22, the R&D intensity amount is based on an intensity test whereby an offset of 38.5% applies for intensity up to 2% and 46.5% for greater than 2% intensity. The result of claiming the R&D offsets from FY22 onwards is a net reduction to income tax payable of 8.5% to 16.5% of the eligible R&D expenditure depending on the R&D intensity for the year. For FY23, an offset of \$1.3m is being claimed on the estimated FY23 R&D claim.

Effective Tax Rates (ETR) for Cuscal

The ETR for Cuscal for the last 5 years as disclosed below is calculated as a percentage of the Group's ITE over its "accounting profit or loss" for the year as defined by the Australian Accounting Standards.

	30 June 2023	30 June 2022	30 June 2021 ¹	30 June 2020	30 June 2019
Profit / (loss) before tax (\$m) [A]	37.4	33.0	32.9	3.2	32.2
Income tax (expense) / benefit (\$m) [B]	(11.6)	(9.6)	(9.8)	(2.7)	(10.0)
Effective tax rate (ETR) % [B] / [A]	31%	29%	30%	85%	31%

¹For the year ended 30 June 2021, the disclosures are in respect of continuing operations.

As Cuscal does not have any offshore operations, we have not separately disclosed a global ETR (as the ETR for worldwide operations is the same as the Australian ETR). Note that as a result of the acquisition of the Braavos Group, Cuscal now also has a controlling interest in Basiq.io D.O.O. (incorporated in Serbia). The Serbian entity is not part of the Cuscal tax consolidated group and has not been disclosed for the purposes of this report.

Reconciliation to ATO Corporate Tax Transparency: Report of Entity Tax Information

Total income disclosed in the ATO's "Corporate Tax Transparency: Report of Entity Tax Information" (ATO report) is the gross income for the Cuscal tax consolidated group prior to any deductions, while the taxable income is derived from the operating profit before tax for the year after allowable deductions, adjusted for temporary and non-temporary differences per Australian Accounting Standards. The prima facie tax payable at the corporate tax rate of 30% on taxable income is reduced by available tax offsets thereby reducing Cuscal's tax rate on taxable income to below the corporate tax rate of 30% as shown below.





	30 June 2022 (pending)	30 June 2021 (\$m)	30 June 2020 (\$m)	30 June 2019 (\$m)
Gross income [per ATO report]	247.1	281.3	241.6	271.4
Expenses	(214.1)	(181.4)	(227.6)	(239.2)
Net profit /(loss) before tax	33.0	99.9	14.0	32.2
Adjustments (non-temporary and temporary)	1.6	47.6	(5.7)	(9.8)
Adjustments (R&D expenses added back)	6.9	4.1	2.6	1.9
Taxable income [per ATO report]	41.5	151.6	10.9	24.3
Tax payable at 30%	12.5	45.5	3.3	7.3
R&D incentive offset	(9.6)	(3.5)	(1.8)	(3.6)
Tax payable [per ATO report]	2.9	42.0	1.5	3.7

The variance between tax expense and/or tax payable and 30% of taxable income can be explained as follows:

- Cuscal tax consolidated group's tax payable amount, compared to the legislated 30% of taxable income, differs due to the Research and Development (R&D) offset. Cuscal tax consolidated group is entitled to claim R&D offset amounts. As noted above, Cuscal tax consolidated group is entitled to claim R&D offset of 38.5% for intensity up to 2% and 46.5% for greater than 2% intensity. The result of claiming the R&D offsets from FY22 onwards is a net reduction to income tax payable of 8.5% to 16.5% of the eligible R&D expenditure depending on the R&D intensity for the year.
- The amount of income tax paid varies from the income tax expense used to calculate Cuscal tax consolidated group's ETR in any given period, largely due to the impact of differences between when an amount of revenue or expense is recognised for accounting purposes and when income and deductions are recognised under the tax laws.

Note that the ATO Report for FY22 has not yet been released (and are "pending"). Therefore, the FY22 numbers in the above reconciliation are based on the lodged income tax return for that year and reflect the anticipated ATO disclosures.

International related party dealings

The Cuscal tax consolidated group does not have any material international related party dealings, therefore the international related party disclosure requirements of the Voluntary Tax Transparency Code do not apply.

