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Audit Report – Woolworths Limited

Client Name	Client ID	ABN/ACN
Woolworths Limited	[REDACTED]	88 000 014 675

NCI Postal Address:	PO Box 8000, Baulkham Hills 2153
Date Investigation Letter Sent:	2 September 2015
Audit Conducted At:	1 Woolworths Way Bella Vista NSW 2153
Date of Planning meeting:	21 August 2015
Date of Field Audit:	16 February 2016
Person(s) Interviewed & Position:	[REDACTED] (Taxation Manager), [REDACTED] (National Payroll Office) via conference call from Brisbane- in the initial meeting. Field audit meeting- [REDACTED]
Contact Details:	[REDACTED]
Auditor(s):	Arelte Kharoufeh

REGISTRATION DETAILS

Client Name	ASIC Registration Start Date	Payroll Tax Liability Start Date
Woolworths Limited	September 1924	August 1990

REASON FOR INVESTIGATION

Project: Large

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Woolworths Limited and its associated entities are one of the largest employers in Australia and it pays in excess of \$20 million in payroll tax annually. This investigation will highlight key quantitative and qualitative risk factors which will result in a more accurate risk profiling of Woolworths Limited and its associated entities. This risk profile will dictate future audits for each member.

BACKGROUND INFORMATION

Nature of Business

Woolworths' core business is that of a grocery supermarket chain, expanding nationally. Overall, its business can be broken down into 4 segments; Food, Liquor and Petrol retail, General merchandising (like Big W), Hotels (Australian Leisure & Hospitality Group) and Home Improvement business (Masters and Home Timber & Hardware).

perform a very high level review of their payroll generated out of SAP. We would also allow the client some time to review their processes, matrix and payroll before undertaking a more detailed review of the returned taxable wages for payroll tax purposes. We advised that another detailed review will be undertaken by the OSR in approximately 12-18 months- time from the cessation of this investigation.

AUDIT METHODOLOGY & RECORDS EXAMINED

Methodology

Woolworths Group is one of the largest employers in NSW. There were a number of planning steps that were undertaken during the planning stage of the investigation. This included the following:

1. Review of Woolworth's group structure via GEMS/ASIC data (Global X).
2. Review of Woolworths' group via the publically available information in the Annual Reports (2012 to 2015) as well as data available via internet searches. (the company's official website: <https://www.woolworths.com.au/>)
3. Review of the Woolworth's group via a listing from the Operations- Analytics & Intelligence division (OPS A&I).
4. Comparison of the above mentioned resources was undertaken to compile the group structure. A summary of the above is contained in a file named Working file.xlsx (K:\OPS\PRTLarge\2016\OCWWoolworths)
5. Pentaho /ATO searches were performed for all the entities identified in the group to confirm the wage payers in the group.
6. A Preliminary Audit Risk Assessment of the group members identified in the above mentioned file was undertaken and a report was generated per document Preliminary Audit -refer to folio 19 (folder 1).
7. Based on this risk assessment, some of the group members were identified to have low risk and as result (and in consultation with the Compliance Manager) have been set for a desk audit. In respect of Woolworths, there were a few areas identified to be of higher risk and will be the focus of the audit, including contractors, shares & options and superannuation top-up payments under their defined benefit plan.
8. The following searches were performed:
 - a. ASIC search- folio 1 (folder 1);
 - b. ABN & Pentaho data/External data search (ATO BAS, Income tax data, Workcover & DET) -folio 13 (folder 1)
 - c. Internet searches about the business operation (refer to folder 8);
 - d. MARS notes and TRIM search (for prior year audits/submissions) and
 - e. Annual Reports (copies at K:\OPS\PRTLarge\2016\OCWWoolworths\Annual Reports 2011-2015).
9. A list of the following documents were obtained from the National Payroll Office:

TOP 20 LARGEST SHAREHOLDERS

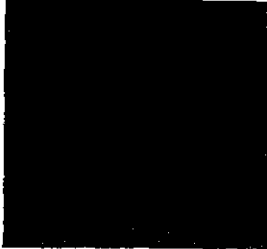
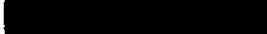
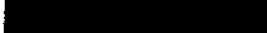
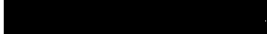
	Name	Number of FPO shares	Percentage of Issued Capital (%)
1	HSBC Custody Nominees (Australia) Limited	207,407,841	16.37
2	JP Morgan Nominees Australia Limited	138,973,967	10.18
3	National Nominees Limited	123,972,450	9.79

Woolworths Limited has a controlling interest in a number of entities registered in Australia and globally.

Entities grouped with Woolworths Limited for Payroll Tax purposes are related body corporates within the meaning of the Corporations Act 2001 and are therefore grouped under s.70(1) Payroll Tax Act 2007.

The client has provided a group chart for the Woolworths Group as at 30 June 2014 and is at folio 25 (folder 1).

The company directors as per ASIC records as at 24/7/2015 are:

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Refer to Annexure A for brief commentary and a listing of entities not investigated but form part of the Woolworths group. Some of these entities are employing solely interstate.

SUMMARY OF FINDINGS

Items:	Found to be correct (Y/N)	Comment
Wage Reconciliation	N	Large clerical error in spreadsheet (\$15M)
Fringe Benefits	Y	
Superannuation & Salary Sacrificing	N	Some over declaration
Termination Payments	N	Minor under declaration
Contractors/consultants	N	Minor under declaration
Allowances	Y	
Bonuses/commissions	Y	
Directors Fees	Y	
Shares & Options	N	Under and over declaration
Apprentices/trainees	N	
Agency Staff/Labour Hire	N/A	
Other (Specify)	N/A	

In the same letter, the client has advised that none of its payroll process is outsourced; however, some entities in the Woolworths group process their payroll separately and complete their own payroll tax returns. These entities are listed below as well as their respective payroll system used:

- Australian Leisure and Hospitality Group Pty Ltd - CHRIS 21
- Cellar Force Pty Ltd - Micropay Meridian
- Cellarmaster Wines Pty Ltd - Micropay Meridian
- Langton's Brokerage Pty Ltd - Micropay Meridian
- Retail FM Pty Ltd - ADP Payroll system since 1 July 2015. Prior to 1 July 2015, using Pronto.
- Southtrade International Pty Ltd - MYOB Account Right Premier V19

Note Re: Dick Smith Electronics Pty Ltd- this entity was controlled by Woolworths up to the time of its sale in November 2012. Part of the transitional services agreement was for Woolworths to continue to manage the payroll for 12 months. The NPO were not responsible for the preparation or lodgement of the Payroll Tax Returns. On 4 January 2016, Dick Smith announced that it was going into voluntary administration. In consultation with the Compliance Manager and considering the company status, it was decided that this case be terminated as the focus of the investigation is for the 2014 and 2015 financial years.

The Payroll Matrix supporting the inclusion/exclusion and wage category was provided by the client in support of the Preceda Reports. A Payroll matrix was provided for the wage items included in SAP; however, this was not reviewed in detail as the SAP reports provided by the client in support of taxable wages were at a very high level. As a result and as mentioned in the scope, future investigations will be undertaken to verify the SAP wages reports as well as the correctness of the payroll matrix.

Refer to Annexure B of this report for further details around the timing of receipt of information for this audit.

Details of Wage Findings

The following section outlines the wage findings for the period under review.

1. The main issue identified is the significant over declaration in gross wages as a result of a human clerical error. The client has (as a result of copy/paste error in Excel) duplicated the gross wages paid to Executives in August 2014. The over declared amount was \$15,416,877 resulting in a payroll tax **refund of \$840,220**. This matter was confirmed by KPMG in their review of wages for the purpose of this investigation and disclosed to us in a letter dated 15 February 2016 (folio 215, folder 7). Similarly, superannuation was over declared by \$100,553 for the same reason being clerical error of copying and pasting in Excel.
2. The client has incorrectly included in taxable wages the salary sacrificed amounts that are considered to be fringe benefits and are therefore assessed under the Fringe Benefits Tax Assessment Act 1986. An example of these items include:
 - a. Devices (Payroll code: BS)
 - b. Child Care Salary Sacrifice (Payroll code: CZ) - Woolworth leases a childcare facility close to its head-office (Headstart Childcare Meridian Place) for the benefit of its employees.

4. **Workers Compensation Payments-** The client advised during the investigation that Woolworths Limited self-insures in respect of Workers Compensation. In accordance with Revenue Ruling PTA 015- Workers Compensation Payments, the client who is the insurer, excluded from taxable wages the amounts paid to their employees as a workers compensation payment.

Preceda Payroll reports separate the "make-up" amounts under a different payroll code, being EM – WC MPAY and in SAP it is code 4344.

Review of the Preceda reports have identified that in the 2014 and 2015 financial year, the client has over declared the workers compensation exempt amount by including the make-up pay. A summary of the impact on taxable wages is as follows:

Over claim of exempt Workers compensation payments 2014	\$ 146,691
Over claim of exempt Workers compensation payments 2015	\$ 255,164
Total	\$ 401,855

5. As mentioned earlier, the investigation was limited to the 2014 and 2015 financial year. However, an overview of the Payroll Summary Report in Excel has identified an error in the calculation of the apprentices & trainees in the 2012 financial year. The client has reduced the total taxable wages by the amount of apprentices and trainees' wages and in addition has claimed the apprentice & trainee rebate. This has resulted in an underpayment of payroll tax of \$403,366 in FY12.
6. Adjustments have been made to both NSW and Interstate wages paid by "other group members" to reflect the findings of the investigation in the 2014 and 2015 financial years. In the 2013 financial year, the client has incorrectly included in other group member NSW wages the value of Woolworths Interstate wages, causing inflation in the NSW overall wages and as result over claim of the payroll tax threshold. Adjustment to this value to reflect the audit findings has increased the payroll tax liability by \$7,154 in the 2013 financial year.

In FY14, Woolworths Annual Reconciliation did not include the NSW wages paid by HP Distribution Pty Ltd as well as Southtrade International Pty Ltd in both its "Other Group member NSW and Interstate wages" component. This adjustment had a very minor impact on the threshold allocation and the overall findings of the investigation.

In respect of FY15, the client has incorrectly included in Interstate wages of Woolworths Limited the amount of "Interstate wages paid by other members". The outcome of this is an under claim of the threshold in NSW.

Further, "Interstate wages paid by other group members" was overstated as the client included its NSW wages in this total. The outcome of this is also an under claim of the threshold in NSW. The total impact to payroll tax in NSW in FY15 as a result of these errors is a refund to the value of \$5,419.

Refer to Appendix 2 for a summary of the wage reconciliation for FY12 to FY15.

Refer to Appendix 3 for a summary of the group overall findings.

Executives Remuneration

Payments to executives were reviewed to ensure that they were correctly included for payroll tax purposes. To verify this, a number of documents were examined, including Employment

- In the 2015 financial year, there was also an under claim of paternity leave as a result the client has not fully taken up the exemption allowed under Part 4, Division 4 Payroll Tax Act 2007.

A summary of the findings is as follows:

<u>Maternity Leave and Gov. PPL</u>	<u>Amount</u>	<u>Comment</u>
2014 Financial year		
Under claim of Government (Paid Parental leave) PPL (code G4)	\$ 72,633	Primarily Executive payments
Under claim of Paid Maternity Leave (code I2)	\$ 239,530	Primarily Executive payments
2015 Financial year		
Over claim of Government (Paid Parental leave) PPL (code G4)	\$ 3,741	Over claim of exemption-minor
Under claim of Paid Maternity Leave (code I2)	\$ 47,376	

Director Fees

Non-Executive Directors' fees are determined by the Board within the aggregate amount approved by shareholders. No Directors' fees are paid to Executive Directors.

Non- Executive Director fees are included in the Taxable Addition section of the Preceda reports and are therefore included in wages for payroll tax purposes. Director fees are recorded in the Corporate arm of the business and in the Trial balance of Woolworths Limited and have been correctly included.

Woolworths Limited paid \$2,740,581 (NSW being \$1,987,906) in director fees in the 2014 financial year.

Superannuation

The client provided a listing of the names of 453 Accumulated Benefits Superannuation fund as well as the Woolworths Group Superannuation Scheme which is the sole Defined Benefit Scheme for the company.

As advised during the audit, Woolworths had included salary sacrifice to superannuation in wages and not in the superannuation wage category. I have accepted this disclosure and no adjustments will be made in the Annual Reconciliation.

Woolworths Limited sponsors a defined benefit plan, the Woolworths Group Superannuation Plan (WGSP) and the plan's assets are held in a sub-plan within AMP Signature Super.

The client provided copies of Actuarial Letters from Towers Watson (Actuary) with calculations in respect of the defined benefit superannuation top-up amounts relating to both pre and post July 1996. Woolworths have included the superannuation top up amounts pertaining to NSW employees providing services post July 1996 in taxable wages. Top up payments are in addition to the superannuation monthly contributions made by the employees into the defined benefit superannuation plan (refer to email at folio 68 folder 3).

apprentices/ trainees. The payroll team then run a report to extract the payroll data for the employees identified and report it on a monthly basis.

The client provided a listing of apprentices & trainees employed during the 2014 and 2015 financial year. The data contained information about the employee base wage and allowances but did not include superannuation payments. The client confirmed in an email dated 15/7/2016 that the apprentices & trainees wages declared for the rebate purposes did not include superannuation. It was agreed with the client that blanket 9.25% (2014) and 9.5% (2015) superannuation would be applied to the wages and that these amounts would be included as apprentices & trainee wages.

A CAV analysis was undertaken for the apprentices & trainees data provided by the client in comparison to data provided by the Department of Education & Training (DET). A number of differences were identified between the client records and the DET data. These discrepancies were presented to the client and they have agreed with the findings as per the email dated 15/7/2016.

Overall, there was an under claim of the rebate pertaining to apprentices and trainees of \$223,067 and \$428,473 in FY14 and FY15 respectively. Refer to folio 242-245 (folder 7) for a detailed listing of the differences identified by CAV. This data is also at location: K:\OPS\PRTLarge\2016\OCW\Woolworths\DET Data and file name: Summary Analysis_A&T_2014 & 2015.xlsx.

A summary of the findings is as follows:

Actual Rebate allowed for 2014 is determined as follows:

Apprentices & Trainees wages- CAV analysed	9,807,235	
Less: A/T wages not applicable for the rebate	(147,107)	
Less: A/T wages- non NSW employees	(66,538)	
Less: A/T wages -over claimed rebate	<u>(80,322)</u>	
Total A/T wages eligible for rebate	9,513,268	
Superannuation (Blanket 9.25%)	879,977	
Total A/T wages eligible for rebate	<u>10,393,245</u>	
Rebate Claim applicable	566,432	
Rebate Originally claimed	343,364	
Difference	223,067	Under claimed

Actual Rebate allowed for 2015 is determined as follows:

Apprentices & Trainees wages- CAV analysed	7,485,480	
Less: A/T wages -over claimed rebate	<u>(305,673)</u>	
Total A/T wages eligible for rebate	7,179,807	
Superannuation (Blanket 9.25%)	682,082	
Total A/T wages eligible for rebate	<u>7,861,889</u>	
Claim applicable	428,473	
Originally claimed	0	
Difference	428,473	Under claimed

The analysis is located at *K:\OPS\PRTL\Large\2016\OCW\Woolworths\CAV Workings*. The file name is: *Copy of Woolworths Contractor with Last Audit Date_from CAV 13-12-2016.xlsx*.

The outcome of the CAV analysis is as follows:

- a. There were contractors that were large businesses and were registered for payroll tax in NSW and therefore no further analysis was undertaken for these.
- b. Some contractors were identified as employment agencies, in which case the employment agent would be responsible for the payroll tax and the contractor provisions would not apply.
- c. For contractor payments that were for \$20,000 or less, a risk management approach was taken and these were exempt under s.32 (2) (b) (iii) PTA 2007, as contractors providing services for 90 days or less in FY14.
- d. For contractors with payments greater than \$20,000 that represented 80% or less of their BAS Sales or ITX Income, these have been accepted as contractors providing services to the public at large and I have applied the exemption under s.32(2)(b)(iv) PTA 2007. In making this decision, I have also taken into consideration the number of employees via the ATO data and if the entity is registered for payroll tax in NSW.
- e. A number of contractors were identified for further analysis with the outcome reported at location: *K:\OPS\PRTL\Large\2016\OCW\Woolworths\9 Contractors\Email 10-9-2016*. File Name: *Copy of Consultants Info Requested By NSW OSR With Woolworths Comme- email10-9-2016 .xlsx*. For these contracts, I have requested either copies of contracts or invoices in support of the exemption that was sought by the client. The result of this analysis, identified 2 relevant contracts as follows:

ABN	Entity Name	Company Code	Amount Paid
37327015394	RC & SM NEWTON CLEAN SERV	Supermarket -1000	\$115,458.44
12084393304	PNN INVESTMENTS PTY LTD	Supermarket -1000	\$110,117.50
		Total liable	\$225,575.94

Construction Costs

A separate review was conducted for general ledger accounts beginning with the number "88". [REDACTED] has identified these accounts as relating to the construction side of the business and therefore contains contractor costs. Construction related costs are captured under 3 companies within the group and each is discussed briefly below.

1. **Fabcot Pty Ltd** is Woolworth's own in-house Corporate Property division. This company is responsible for the construction, development and management of the retail centres around Australia. As with most of Woolworth's business, the costs are captured under the main supermarket entity and at year end, the costs pertaining to Fabcot would be allocated via journal entry.
2. **Hydrox Pty Ltd** is the parent entity of **Masters Home Improvement Australia Pty Ltd**. The building and construction costs of new Masters stores are captured under this entity and are transferred to Masters as part of the year end closing process. The costs referred to below are under the Hydrox Pty Ltd company, however, it relates to the construction costs of new Masters stores.

Improvement as Hydrox Property Trust is not registered for payroll tax in NSW. Refer to Masters Home Improvement (client ID 116589880) for details of the findings. The analysis did not reveal any relevant contracts under Woolworths Properties Pty Ltd or Fabcot Pty Ltd (both wholly owned subsidiaries of Woolworths but do not pay wages as wages are paid via Woolworths Limited).

Abattoir Companies

A separate review was undertaken for entities providing abattoir services to Woolworths. A list of companies engaged to provide this service was obtained from the client and a Pentaho/ATO search was undertaken for each. The outcome of this review did not reveal any relevant contracts as these businesses were large entities providing services to the public at large and therefore exemption under s.32(2)(b)(iv) PTA 2007 has been applied. Where applicable the Payroll Tax client ID was identified for each business employing in NSW.

A list of the abattoir businesses, payroll tax client ID and comments are as per folio 195 (folder 6) and location: K:\OPS\PR\Large\2016\OCW\Woolworths\9 Contractors\Supermarkets\Abattoir Analysis incl- ATO searches.

Home Delivery and Online Delivery Services

Consideration and review of the home delivery contractor services as well as the online delivery services provided by contractors was undertaken for the 2014 financial year.

██████████ in an email dated 13/5/2016 commented on the nature of the two different types of delivery services; home delivery and online delivery services. Home delivery services are delivery from individual stores to customer homes. Online delivery is initiated via online shopping and not in-store.

Extract of the email is as per below:

(a) Online delivery drivers.

The Woolworths logistics team advised that the online delivery drivers are all contractors except in Tasmania where the drivers are provided through store labour.

Due to the significant growth in this area of the business (i.e. online shopping), implementation to the business model has been done to ensure that the deliveries can occur efficiently and as a result, there has been an outsource of online delivery services to the larger logistics businesses in Australia. Linfox is used in most of the States/Territories in Australia along with Toll Holdings (in Western Australia) and Kings (in Victoria). Woolworths has agreed hourly rates with these logistics companies but all other aspects of the engagement (e.g. identify of driver, vehicle used, etc.) is a responsibility of the logistics companies.

The amounts paid to the companies providing the online delivery services are coded to the account called Online Del Chrg Cost (account number 481025) in the profit & loss account, while the amounts recovered from our customers for the online delivery services are coded to the account called Online Del Chrg Recovered (account number 481020) in the profit & loss account.

To gain comfort over the transactions coded to the Online Delivery Charge Cost account 481025, a sample month (June 2015) was chosen for review. The findings were consistent

Contractors\VIA CD, file named: *Copy of Listing Of P&L accounts received on 190216 that NSW OSR req_received 15-3-2016.xlsx*

3. The level of detail and volume of accounts and transactions that were provided by the client would be a challenge to review and it was expected that it would take several weeks to analyse each of the general ledger accounts to a vendor level.

In consideration of the limited resources, the time it would take to undertake this review as well as it would be uneconomically for both the client and for OSR to pursue, a different approach was taken. As agreed with the Compliance Manager (Janette), the following was undertaken.

4. A listing of all vendors engaged by Woolworths (as managed by the Transaction Processing Centre in Tasmania (TPC)) was sourced from the client. TPC is responsible for the large volume of vendor processing and payments. As advised, this is Woolworths listing of their master vendor data in SAP. The listing included information such as the business name and ABN (where available). The data did not contain payments to each supplier; however, it was a comprehensive list of all their vendors of approximately 72,000. It is important to note that being a Master data listing, it would be expected that some vendors may not be active or in use by Woolworths Limited. In some situations, there may have been some one-off payment vendors.
5. The factors considered and process of elimination and analysis performed are documented in Annexure C to this report.
6. The work performed in Annexure C isolated 1,598 vendors that had to be considered for further analysis. This list was provided to the client and it was requested that they provide us with the payments made to each in the 2014 financial year.

The client returned this information on 9-9-2016. The BAS Sales for each of the vendors were extracted and compared against the client payment amount.

The overall result was that there were no liable contractors identified. In all instances, Woolworths payment to the supplier accounted for 50% or less of the vendor/contractor BAS sales in 2014 and as a result, it is expected that the vendor/contractor was providing service or supplying goods to the public at large and such, s32(2)(b)(iv) PTA 2007 would apply.

Refer to file name: *Copy of Details Of Amounts Paid To Vendors During FY14 By Woolworth_9-9-2016.xlsx*. File location: *K:\OPS\PRTLarge\2016\OCW\Woolworths\9 Contractors\Email 10-9-2016*

In summary,

- a. There were a number of vendors that were identified as suppliers of products/goods and not services and these were eliminated with no further analysis;
- b. Businesses that were registered for payroll tax in NSW were eliminated from further analysis;
- c. CAV analysis was undertaken for a sample of contractors identified as likely to be liable and the outcome didn't reveal any relevant contracts.

share scheme options and rights did not vest, the company has decided that from 1 July 2011 that it would pay payroll tax on vesting date.

As a result, the first round of vested employee share rights gave rise to a payroll tax liability was in the FY15. In FY12, FY13 all vested shares/options had payroll tax previously paid in earlier years and therefore no taxable value was included in those years.

A number of steps were taken to verify the value of shares and options were correctly included for payroll tax purposes:

1. A copy of the share and option plans were obtained from the client and were reviewed (folio 79-81, folder 4).
2. Reports containing the names of employees and shares granted as well as the valuation of the shares were obtained for the 2014 and 2015 financial year.
3. Detailed review of the 2012 to 2015 Annual Report and relevant notes relating to Executive and Key Management Personnel Remuneration was reviewed to ensure the total number of vested shares and options outlined in these notes reconciled back to the reports provided by the client.
4. The valuation of the Retention and Performance Rights were re-calculated to ensure the correct value under the Payroll Tax Act 2007.
5. A sample of Executive Remuneration Contracts was reviewed to ensure that there were no other plans or arrangements in place.

The outcome of the above review identified the following:

- Under declaration in the value of retention and performance rights declared in the 2013 financial year (verified by ██████████ –Head of Tax on 14/4/2016). There were 14,193 share rights relating to employees who left the Woolworths group in November 2012 as part of the sale of the Dick Smith Electronics business that were not included. ██████████ advised that ordinarily these rights, which would not vest until the 2014 year, would have been forfeited when the employees left the Woolworths group, however given the circumstances of their departure via the sale of the Dick Smith business these employees were able to retain the rights which vested upon their departure, being in Nov. 2012. The taxable value determined for these share rights totalled \$1,358,200.37.
- A small amount of retention rights granted in FY12 vested and the taxable value of these, being \$4,982,815, was included for payroll tax purposes, however, the value of the shares were slightly under declared by \$11,238 as a result of differences in the WASP calculated by the client versus the OSR. ██████████ has indicated that he is satisfied with OSR's calculation of the WASP as per email dated 14/4/2016.
- There was an overall under declaration in the value of share in the 2015 financial year and this is broken down as follows:
\$3,706,147- undeclared value of shares. This amount was omitted from taxable wages and was voluntarily disclosed during the investigation. Contributing factor to the under declaration is the value of the WASP on 1/7/2014. The WASP applied was \$34.47 and OSR calculated value was \$35.55. There were 400,200 shares that had vested on 1 July 2014 and hence the \$431K under declaration. Some of this under declaration has been offset by minor over declarations in the value of the other performance and retention rights.
The above under-declaration was reduced by \$134,731 pertaining to the value of 7,463 shares belonging to non- NSW employees.

investigation was assigned to a different role within OSR and hence a new CAV officer was assigned to this investigation.

- Woolworths Limited and its associated entities (wage payers) were audited and there were 16 in total. For majority of the investigation, there was a single contact, [REDACTED] (Tax Manager) and as a result it would naturally take longer for a single person to provide information that it would had it been a number of contacts. Further, in the early stage of the audit, KPMG was assigned to assist the NPO (QLD) in the response to the audit queries/requests. Again, this middle person would naturally slow down the response rate. KPMG was appointed to assist the NPO team as they were still involved in the SAP roll out and preparation for further roll outs that were complete at the end of the 2016 financial year. Woolworths ceased KPMG services in approximately May 2016.
- During the investigation, [REDACTED] and the tax team was heavily involved in the closure of Masters Home Improvement and the NPO team roll-out of SAP to the end of the 2016 financial year which has impacted the response time.

INTEREST & PENALTIES

For the FY12 and FY13, Woolworths has been charged with the market rate of interest to 22 December 2015 and 25% penalty tax as per the Revenue Ruling PTA036 v2 and the OSR Business Rules section 5.1.4 (ii) and 5.3.2(iii).

However, penalty tax has been reduced to 20% because voluntary disclosure was made during the investigation. Penalty tax could not be reduced further as the client did not take reasonable care in respect of the findings and also did not provide information to the Chief Commissioner at the time of default.

The client has queried their legal rights in respect of receiving interest payment as a result of the refund for the 2014 and 2015 financial years, however, as advised in an email dated 12/4/2017, there are no provisions in the Payroll Tax Act 2007 or the Tax Administration Act 1996 to allow for payment on interest in a refund situation as a result of an investigation. Refer to folio 251 and folder 7, for the detailed response.

PAYMENT OF THE DEBT

Not applicable.

LIKELIHOOD OF OBJECTION

Issues identified during the investigations were agreed with the client and there is no likelihood of objection.

CONCLUSION

In conclusion, the following was identified:

- There is a payroll tax liability for the 2012 and 2013 financial years of \$386,363 and \$81,122 respectively, relating primarily to the under declaration in apprentices & trainee wages (2012) and shares/options (2013).
- The client is owed a refund of \$350,948 and \$860,147 for the 2014 and 2015 financial years respectively as a result of a number of over and under declaration in

APPENDIX 1

Salary Sacrifice		2014		2015	
Code	Description	Employee	Executives	Employee	Executives
BS	MV DEVICE - SAL SAC	- 247,961.19	- 80,951.63	- 279,623.35	- 16,815.36
BU	IHB SS DED	-	-	122.50	-
CZ	CHILD CARE SAL SAC	- 245,598.26	- 93,592.92	- 228,997.95	- 30,188.26
GF	GYM FEES SAL SAC	- 94,660.44	- 36,037.03	- 113,256.10	- 14,442.30
JC	MV UPGRADE SAL SAC	- 35,565.64	- 60,462.26	- 18,671.83	- 11,713.85
MC	MOVING SAL SACRI (Relocation)	- 30,280.76	- 86,300.64	- 37,184.62	- 57,888.87
PT	MV PARK	-	2,079.00	-	-
QW	QCLUB M/SHIP-DEDUCT	-	7,746.11	- 13,103.73	- 5,000.40
EU	EDU SS	-	329,883.39	- 226,265.21	-
RS	Rent SS	-	33,276.72	-	-
JZ	MGSM D	-	4,261.80	-	-
AF	Food ALL	-	8,068.69	-	-
		- 654,066.29	- 742,660.19	- 917,225.29	- 136,049.04

Before Tax Deductions		2014		2015	
Code	Description	Employee	Executives	Employee	Executives
NO	JURY DUTY FEE	- 13,829.22	- 314.25	- 12,839.68	-
NW	NOTICE WITHHELD	- 935.40	-	- 397.11	-
VH	CO CAR DEDUCT	- 1,230.72	-	- 14,517.21	- 5,133.29
47	DED. ON TERMINATION	- 7,741.48	-	- 5,365.39	-
70	OVERPAYMENT	- 132.99	- 923.22	- 56.78	-
PZ	PURCHASE LEAVE	- 52,889.34	- 75,737.58	- 72,259.15	- 31,608.62
PZ	PURCHASE LEAVE- Cellarmaster Wines division	-	-	- 641.10	-
		- 76,759.15	- 76,975.05	- 106,076.42	- 36,741.91
		- 730,825.44	- 819,635.24	- 1,023,301.71	- 172,790.95
		Total - 1,550,460.68		Total - 1,196,092.66	

APPENDIX 2

2013	Audited		Originally Landed		Variance
	Jul-Jun	Jul-Jun	Jul-Jun	Jul-Jun	
Gross Wages	1,637,482,827	1,636,124,625	1,358,201	0	1,358,201
FBI	3,986,637	3,986,637	0	0	0
ETP	140,614,283	140,614,283	0	0	0
Superannuation	722,630	722,630	0	0	0
Contractors	19,234	19,234	0	0	0
Allowances	10,911,227	10,911,227	0	0	0
Apprentice & Trainee	1,809,417,107	1,795,147,679	12,269,428	0	12,269,428
Total NSW Wages	2,851,168,665	2,851,168,665	0	0	0
Interstate wages	314,648,591	2,851,168,655	-2,636,519,064	0	-2,636,519,064
Member NSW Wages	1,175,104,871	1,175,104,871	0	0	0
Other Interstate Wages	5,749,339,624	8,673,569,660	-2,924,230,036	0	-2,924,230,036
Total Australian Wages	8,673,569,660	8,673,569,660	0	0	0
Discrepancies identified:					
percentage of wages		9%			

2013 Discrepancies Identified:	2013 Discrepancies Identified:
Gross Wages	689,000
Adjusted for the shares & Options under declaration of \$1,158,200.37	35%
	237,877.99
	5.45%
Finance benefits allocation per working papers:	99,545,767.07
Woodworth Limited NSW	593,616.70
Woodworth 1519/L	97,951,151.27
Total	97,951,151.27
Disclosed in IR	97,869,928.92
Difference	81,222.35
	18,244.19
Group member NSW wages* excludes Dick Smith Electronics (from Nov 12)	81,222.35
and SCA Pty Ltd as it exited the group in Dec 12	18,244.19
	97,466.54
	Interest rate
	Market Rate
	Interest approx \$ 2,748,550
	-59,616.7 AT rebate per MARS

APPENDIX 2

2015	Audited		Variance	2015 Discrepancies Identified:	
	Jul-Jun	Jul-Jun		Cellarmasters	Retail FM
Gross Wages	1,857,589,758	1,875,556,271	-17,966,513	107,333	39,568
FBT	8,745,814	8,745,814	0	Woolworths (SA) - NSW portion	32,999
ETP	1,332,794	1,332,794	0	Woolworths - NSW	8,565,914
Superannuation	154,646,979	156,204,988	-1,558,009	Discovered in AR	8,745,814
Contractors	880,777	880,777	0	Difference	1
Allowances	36,959	36,959	0		
Bonuses/Commissions	0	0	0		
Director fees	0	0	0		
Shares/Options	41,533,380	37,692,502	3,840,878		
Apprentice & Trainee	7,861,889	0	7,861,889		
Total NSW Wages	2,072,828,350	2,080,450,106	-7,621,756		
Interstate wages	3,025,661,010	4,310,142,021	-1,284,481,011		
Member NSW Wages	350,181,162	350,743,211	-562,049		
Member Interstate Wages	1,250,411,470	3,965,389,410	-2,714,977,940		
Total Australian Wages	6,738,882,091	10,712,735,347	-3,973,853,256		
Discrepancies Identified:	8.3%				

NSW annual threshold	750,000
NSW threshold proportion	36%
NSW threshold available	269,845.19
Tax rate	5.45%
Tax payable on audited wages	112,943,549.39
Apprentices rebate	428,442.38
Tax payable based on audit	112,515,107.01
Tax previously paid	113,375,254.36
Tax payable on variance	-860,147.35
20% penalty tax	-
Total tax liability	-860,147.35
Interest rate	Market Rate
Interest approx	\$ -

Total Liabilities Payable 2012-2015	
Tax liability (refund)	743,509
20% penalty tax	93,517
Interest	28,157
Total	621,835 (allow for minor rounding diff)

APPENDIX 2

Woolworths Limited (including Cellarmasters via NPO)
 Company code: 1001 (Woolworths Limited) and 6001 (Cellarmaster Wines division)

2013 Financial Year

2013		FY13 Audited	Comment
1001 WOOLWORTHS LTD		A.B.N: 88000014675	
Gross Earnings		N.S.W.	
1001 WOOLWORTHS LTD GROSS WAGES	1,478,913,298.82	1,480,271,409.19	Includes Share/option under declared amount of \$1,358,200.37
6001 Cellarmasters Wages	9,496,432.12	9,496,432.12	
EXECUTIVE WAGES	175,528,429.00	175,528,429.00	
1001 WOOLWORTHS MEAL	19,234.41	19,234.41	
6001 Cellarmasters Meal	0.00	0.00	
1001 WOOLWORTHS LUMP SUM	1,497,837.56	1,497,837.56	
6001 Cellarmasters Term	82,079.37	82,079.37	
EXECUTIVE LUMP SUM	2,406,719.62	2,406,719.62	
1001 WOOLWORTHS SUPERANNUATION	126,406,760.47	126,406,760.47	
6001 Cellarmasters Super	813,259.57	813,259.57	
EXECUTIVE SUPERANNUATION	13,394,263.18	13,394,263.18	
1001 WOOLWORTHS CONTRACTORS	722,629.53	722,629.53	
Options	0.00	0.00	
Define Bonuses Step Up	1,929,535.00	1,929,535.00	
1001 WOOLWORTHS FBT	14,680,269.00	14,680,269.00	
1001 WOOLWORTHS CPKM	0.00	0.00	
Sub-Total Wages	1,825,890,747.65	1,827,249,946.02	
Less:			1,358,200.37
1001 GOVT PPL	5,991,685.16	5,991,685.16	
6001 GOVT PPL	21,834.00	21,834.00	
1001 WW Novate lease	954,032.33	954,032.33	
6001 Cellarmasters Novate Lease	0.00	0.00	
	6,967,551.49	6,967,551.49	
Sub Total A	1,818,923,196.16	1,820,281,395.53	1,358,200.37
1001 WOOLWORTHS LTD WCOMP	9,436,125.35	9,436,125.35	
6001 Cellarmasters Wcomp	11,826.39	11,826.39	
1001 WOOLWORTHS LTD PD P/L	2,407,200.98	2,407,200.98	
6001 Cellarmasters Parental Leave	9,137.04	9,137.04	
Less Trainees/Apprentices Wages	10,911,227.33		
Sub Total B	22,775,517.09	11,884,289.76	-10,911,227.33
	1,796,147,679.07	1,808,417,106.77	12,269,427.70
LESS THRESHOLD			
Sub Total (A-B)	1,796,147,679.07	1,808,417,106.77	
Payroll Tax Rate	5.45%	5.45%	
PAYROLL TAX	97,890,048.61	98,568,732.32	
Loss App Rebate	0.00	594,661.89	
TOTAL PAYROLL TAX	97,890,048.61	97,964,070.43	
TAX PAID	97,889,928.92	97,889,928.92	
Being Threshold	20,119.59	94,141.61	
	(Diff Is Threshold)	(a portion of the payable amount will be absorbed by the threshold. Remaining is payroll tax liability)	
Apprentice & Trainees wages for the rebate			10,911,227.33
	Per AR	Audit	Difference
Gross wages	1,636,124,626	1,648,394,054	12,269,428
Superannuation	140,614,283	140,614,283	0
FTP	3,986,637	3,986,637	0
Allowances	19,234	19,234	0
FBT	14,680,269	14,680,269	0
Contractors	722,630	722,630	0
Taxable Wages	1,796,147,679	1,808,417,107	12,269,428
Payroll tax liability pre A/T rebate			668,683.81
less : A/T rebate not claimed			594,661.89
Payroll tax liability (approx)			74,021.92
			Tax payable

APPENDIX 2

Over Declaration - Woodworth's limited wages (includes Over declaration - Epat wages 12 months of \$155,054.00)	Per Payroll report	Per PT Annual Rec	Offset
Under declaration - Cellarmasters wages	134,777,051	134,813,341	36,792
Over declaration in before tax deductions	14,972,369	14,972,369	13,136
Under claim of exempt workers compensation amounts 1001	11,194		1,457
Under claim of exempt workers compensation amounts 1001	1,009,332	1,007,874	1,457
Under declaration in before tax deductions	150,745,618	150,791,185	45,567
Total Refund expected re Superannuation			45,567
Under declaration in Contributions			725,876
Payroll Tax payable			12,274
Total Refund expected (Approx)			350,941

APPENDIX 2

	0.33%
Under deduction - Employer's superannuation	7,961,889
Under deduction - Employer's superannuation - 25% super	71,187
Under deduction - Employer's superannuation - 25% super - 2014	15,415,877
Under deduction - Employer's superannuation - 25% super - 2015	1,840,378,000
Under deduction - Employer's superannuation - 25% super - 2016	135,052
Under deduction - Employer's superannuation - 25% super - 2017	74,166
Under deduction - Employer's superannuation - 25% super - 2018	172,338
Under deduction - Employer's superannuation - 25% super - 2019	1,079,710
Under deduction - Employer's superannuation - 25% super - 2020	177,171
Under deduction - Employer's superannuation - 25% super - 2021	47,756
Under deduction - Employer's superannuation - 25% super - 2022	85,514
Under deduction - Employer's superannuation - 25% super - 2023	1,217,762
Under deduction - Employer's superannuation - 25% super - 2024	25,869
Under deduction - Employer's superannuation - 25% super - 2025	141,315
Under deduction - Employer's superannuation - 25% super - 2026	428,473
Under deduction - Employer's superannuation - 25% super - 2027	762,847
Total	1,558,008

	Per PT Annual Rec	Difference
SUPERANNUATION	104,951,618	104,951,618
Superannuation 1001 - Employees Preceda	30,105,556	100,553
SAP Super-employees	5,572,625	5,572,625
Superannuation 1003 - Recruiters Preceda	8,872,083	7,006,781
SAP Super-executives	11,509	21,969
Superannuation 1001 - Exam user (leave & month) exempt	343,691	610
Superannuation 6001 - Colfarmasters	4,869,704	4,869,704
Defined Benefit Scheme - top up included for PT	154,646,979	154,646,979
Admin Fee	156,703,988	156,703,988
Total	311,538,009	311,538,009

	Per PT Annual Rec	Difference
YTD (Rebates expected) (approx)	851,253	851,253

Note 1 The following was deducted from wages for Woolworths 1001 company as the amounts in the Preceda reports contained this value
 Deduct 29.06.15 weekly payment as this was included on F2014 PRT workings
 WOVY 1001 - Additions
 (41,143,181.79)
 (41,143,181.79)
 Colfarmaster-hours
 (208,998.29)

APPENDIX 3

		2013					Notes relating to 2013	
Client Name	Client ID	In Woolworths Annual Return-2013	NSW Wages	Interstate wages	Gross NSW wages paid by other members of the group	Gross Interstate wages paid by other members of the group		Total group Australian wages
							1 Woolstar Pty Ltd	
2 HP Distribution Pty Ltd		x	5,760,665	-			5,760,665	
3 Philip Leong Stores Pty Ltd		x	8,938,163	24,212,741			33,147,902	
4 Queensland Property Investments Pty Ltd		x	57,531,184	33,635,706			91,166,890	
5 John Danks & Sons/ JHM Group Pty Ltd		x	6,014,004	20,234,792			26,248,796	
6 HTH Stores Pty Ltd		x	7,366,870	26,024,515			33,391,385	
7 Langtons Brokerage Pty Ltd			2,239,608	-			2,239,608	Note 7
8 Retail FM Pty Ltd		x	7,665,511	5,510,955			13,176,466	Note 7
9 Woolworths Credit Union		x	398,998	1,376,098			1,775,096	
10 Southtrade International Pty Ltd [Note 3]			-	-			-	
11 Cellarforce Pty Ltd			3,721,761	86,280			3,808,041	Note 7
12 ALH Group Pty Ltd		x	58,847,898	450,570,839			509,418,737	Note 7
13 Cellarmaster Wines Pty Ltd		x	11,778,287	5,024,658			16,802,945	Note 7
14 Woolworths Management Pty Ltd		x	3,409,446	-			3,409,446	
15 Masters Home Improvement Pty Ltd		x	43,872,518	133,326,539			177,199,057	
16 Dick Smith Electronics Pty Ltd			34,525,732	35,231,153				
17 SCA Pty Ltd			2,578,405	-				
18 Hardings Hardware Pty Ltd [Note 2]			-	537,940				
19 Woolworths (SA) Pty Ltd			-	378,720,579				
20 Statewide Ind. Wholesalers Pty Ltd			-	-				
21 Vinpac International Pty Ltd			-	-				
22 Sara Apparel Ltd			-	-				
23 Woolworths Limited			1,608,417,107	2,851,168,655	314,648,991	1,158,730,114	5,132,964,866	
Per Annual Return Difference			1,796,147,679	2,851,168,655	2,851,168,655	1,175,104,871	8,673,589,860	
Audit adjustments			12,269,428	-	2,536,519,664	16,374,757	2,540,624,994	
				Audit Adj	13,575	Note 9		
					2,536,533,239			
					Note 8			

APPENDIX 3

		2015				Notes relating to 2015	
Client Name	Client ID	NSW Wages	Intrastate wages	Gross NSW wages paid by other members of the group	Gross interstate wages paid by other members of the group	Total group Australian wages	
1 Woolstar Pty Ltd		63,475,595	48,841,345			117,316,940	
2 HP Distribution Pty Ltd		6,417,681				6,417,681	
3 Philip Leong Stores Pty Ltd		9,778,679	22,489,184			32,267,864	
4 Conestmid Property Investments Pty Ltd		63,676,824	39,958,277			103,635,101	
5 John Danks & Sons/ JHR Group Pty Ltd		8,026,459	26,896,889			34,923,348	
6 HTH Stores Pty Ltd		15,369,038	34,514,639			49,883,677	
7 Langtons Brokerage Pty Ltd		1,827,718				1,827,718	
8 Retail PM Pty Ltd		8,677,702	18,589,841			27,267,543	
9 Woolworths Credit Union		558,825	1,568,029			2,126,854	
10 Woolworths International Pty Ltd (Note 1)		1,896,728	912,363			2,809,091	
11 Cellarforce Pty Ltd		3,311,691	39,470			3,351,161	
12 ALH Group Pty Ltd		65,440,082	478,201,517			543,641,599	
13 Cabramatta Wines Pty Ltd		13,900,522	5,581,253			19,481,776	
14 Woolworths Management Pty Ltd		2,267,493				2,267,493	
15 Abaxx Home Improvement Pty Ltd		85,766,185	187,517,291			273,283,476	
16 Dick Smith Electronics Pty Ltd							
17 SCA Pty Ltd							
18 Bending Ironware Pty Ltd (Note 2)		9,210,744				9,210,744	
19 Woolworths (SA) Pty Ltd		394,654,266				394,654,266	
20 Enrowide Ltd, Wholesaler Pty Ltd		19,223,157				19,223,157	
21 Wapak International Pty Ltd		1,613,860				1,613,860	
22 Sara Apparel Ltd		255,403				255,403	
23 Woolworths Licensed		1,072,628,350	3,025,661,110	350,191,162	1,290,411,470	6,798,662,091	
Per Annual Return Difference		2,080,550,105	4,316,941,671	350,743,211	3,965,399,410	10,712,735,547	
		7,821,755	1,290,411,511	562,049	2,674,987,940	3,673,653,245	
		Audit Adj			Net 15		
					802,979		
					245,970		
					Note 14		
					Note 13		

Annexure A- Other Companies – Woolworths Group

- **Vinpac International-** wine packaging employs solely in South Australia. Wages for this entity will be included in Other Group Member Interstate Wages
- **Statewide Independent Wholesalers Limited-** Employees wholly in Tasmania. Warehouse management and logistics provider to TAS region. Wholesale business 60% owned and also provides supplies to other independent business besides Woolworths (per discussion 9-2-2016).
- **Woolworths (SA) Pty Ltd-** employs solely interstate, including South Australia and Northern Territory.
- **Dick Smith Electronics-** As the focus of the investigation was on the 2014 and 2015 financial years and due to the divestment of the Dick Smith Electronics in November 2012 as well as the announcement on 6 January 2016 that Dick Smith Electronics has gone into voluntary administration, a decision was made not to continue with the investigation of this entity and the case was terminated
- **Sara Apparel Limited (ABN 94 107 783 200)-** this entity is part of the international group of companies owned by Woolworths Limited and is not registered for payroll tax in NSW.

This has been confirmed by [REDACTED] in an email dated 15/3/2016 as follows:

“Sara Apparel Limited is an Australian branch of a New Zealand incorporated company. It is part of the Ezibuy group which Woolworths Limited acquired in August 2013. Sara Apparel is only a small business in Australia with just one or two customers. It does not trade in NSW - most of its sales comes from Victoria.

Pentaho search indicates there are 4 employees employed, 3 in Victoria and 1 in NSW, with total salary of \$248,773. The amount included for interstate wages in Victoria is \$255,403. Woolworths has included these interstate wages as part of its group reconciliation.

The following entities did not form part of the Woolworths Group for the period under review (ie sample years 2014 and 2015).

- **Shopping Centres Australasia Property Operations Pty Ltd (ABN 83 160 890 433)-** refer to email sent by [REDACTED] on 15/3/2016, which advises that this entity is no longer part of Woolworths Group, extract of email as follows:

“We can confirm that Shopping Centre Australasia Property Operations Pty Ltd (“SCA”) exited the Woolworths Ltd group on 11 December 2012 when the SCA group was floated on the Australian stock exchange as part of a transaction that was approved by the Woolworths shareholders. Essentially, this transaction allowed Woolworths to dispose of a large amount of property that it would otherwise have been unable to dispose of in one large bundle.

As part of a transitional services agreement (“TSA”) entered into by SCA and Woolworths, Woolworths agreed to provide payroll services (amongst other things) to SCA for 12 months after the transaction had been implemented to allow SCA to build the required capacity internally to handle these matters. The TSA has now ceased and, accordingly, Woolworths is no longer providing these services to SCA.

identified in the 2014 and 2015 Payroll Annual Reconciliations and it would be in the form of a refund. Refer to folio 215 (folder 7).

7. A audit meeting with the client was schedule on 16 Feb 2016 in which the trial balance and contractor related accounts were discussed in detail. Refer to contractor section.
8. On 13/4/2016- additional Payroll Summary reports via Preceda were sent by [REDACTED] as a result of enquiries made during the audit. These additional wage reports were in relation to cut-off dates differences between what is lodged with the ATO for PAYG reasons and wages included for Payroll Tax purposes. As noted in the same email:
 - a. The Woolworths payroll closed for PAYG payment summary purposes for 2014 year at the period end date 22.06.2014 and for 2015 at 21.06.2015. The Pay46 reports previously provided to you were for these cut off dates.
 - b. The Woolworths payroll team then also include the weekly payroll for the final week of the financial year in the payroll tax workings. This final pay occurs after the above cut off dates and as such a separate Pay46 report shows the relevant amounts and these are manually added to the payroll tax workings.
 - c. The Pay46 report at year end which is generated would include the final weekly payroll for the previous year-end. For example, the Pay46 report for the period end date 21.06.2015 includes the weekly payrun for the week end 29.06.2014.
 - d. The final weekly payroll for FY2013 had not been added to the final payroll tax workings for FY2013. As such, you will note that there has been no adjustment in FY2014 for this weekly pay (i.e. the weekly pay has been included in the FY2014 wages rather than manually added to FY2013).
9. On 22/4/2016- additional payroll summary reports for some Executive wages paid via SAP was provided. Refer to folio 225-226 Folder 7.
10. There was also gaps identified in the Apprentice & Trainee information provided for the 2014 and 2015 financial years, with the final version reports received on 28/4/2016. Refer to Apprentice & Trainee section below for further discussion and findings.
11. Information regarding inpats and expats were provided on 5/5/2016.
12. In May 2016 a number of correspondence and work was complete in respect of contractors, home delivery and online delivery.
13. Audit findings around various entities within the group was communicated in to the client – refer to email dated 3/6/2016 folio 241 folder 7.
14. Further work on Apprentices & trainees were performed in July 2016 and findings were agreed.
15. Further work was done around audit findings of other group members leading up to and including September 2016.
16. Between January 2017 and current, focus has been on completing Woolworths Limited, Cellarmaster Wines Pty Ltd and Masters Home Improvement Australia Pty Ltd investigations.

A - NSW Vendors with ABNs

Section 1- Vendors with External data for 2014 Financial Year

6. For NSW vendors with ABNs (tab NSW Only), a CAV contractor analysis (excluding payments) was complete for the 2014 financial year. This generated two lists; one for vendors that had relevant 2014 financial year external data (i.e. ATO via Pentaho) and another list that did not contain any 2014 external data. The listing with no 2014 external data is discussed in detail in section 2 of this Annexure.

For the list that contained 2014 ATO data, the following was undertaken;

- a. Remove from further analysis any vendors that are registered for payroll tax in NSW;
 - b. Remove from analysis any vendors that are registered for payroll tax in another state.
 - c. The next step involved analysing the remainder of vendors based on BAS Wages, number of PAYG employees and Workcover employees, ITX Income, contractor payments etc. Refer to tab NSW only.
 - i. Where there was 3 or more employees identified via the ATO PAYG records and
 - ii. BAS Sales/ITX Income was above \$1M and there was sufficient evidence available via company websites or if the business has a recognisable name, then these businesses were removed from further analysis and allowed the exemption under s.32(2)(b)(iv) PTA 2007.
- Businesses with the following Entity Types were removed from further analysis as it was expected that they were providing services to the public at large:
 - Other Unincorporated entities- e.g. Clubs, unions and Associations;
 - ATO Regulated Self –Managed Superannuation Fund
 - Local Government
 - State Government
 - APRA Regulated Non-Public Offer Fund
 - Strata title
 - Deceased Estate
 - State Government Statutory Authority
 - Commonwealth Government Entity
 - I have removed from further analysis (as recognised by ANZIC and business name):
 - Laundry and Pest control services
 - Takeaway Food Services
 - Farmers & wholesalers- beef, lamb/cattle and fruit and veg, diary etc.
 - Fish and Seafood Wholesalers
 - Other Grocery Wholesalers/Goods Wholesalers
 - For ANZIC code containing the word Accommodation; a review of these suppliers was performed to ensure that they were representative

- Trophy supply
- For suppliers with \$10,000 or less in sales in the 2014 financial year, a risk managed approach has been adopted for these and the suppliers have been eliminated from further analysis based on the likelihood of exemption under s.32(2)(b)(iii) PTA – services provided for 90 days or less applying.
- Legal services- in these cases, I have also relied on external data and internet searches to eliminate from further analysis.
- Surveyors;
- Bicycle shop/services;
- Cleaners- where external data indicates they are employing at least 3 employees and/or have subcontractors.
- Goods wholesales business
- Lawn mowing services

The overall listing was condensed to 297 Individual/Sole Traders where there was insufficient evidence to eliminate them from further analysis. This list was emailed to the client, where I have requested information about payments made to each in the 2014 year. The results are discussed in the body of the audit report.

Section 2- Vendors with no External data available for 2014 Financial Year

Vendors/contractors with no 2014 ATO data totalled 4,601. A CAV analysis was undertaken for these to extract the ABN Cancellation date as well as the 2015 financial year data (where applicable).

For vendors that contained an ABN Cancellation date prior to 1 July 2011, these were eliminated from further analysis as I expected these businesses to have ceased operation or does not trade. There were 1,800 vendors with ABN cancellation date prior to 1 July 2011. These vendors were also checked for ATO data in the 2015 financial year and it was confirmed that these vendors did not have any BAS sales or employees in this financial year. As a result, they were eliminated from further analysis.

For the remaining 2801 vendors, the following was undertaken to condense the listing to a workable number before returning requesting any further information from the client:

1. As per section 1 above, I have removed from further analysis the following entity types:
 - Other Unincorporated entities- e.g. Clubs, unions and Associations;
 - ATO Regulated Self –Managed Superannuation Fund
 - Local Government
 - State Government
 - APRA Regulated Non-Public Offer Fund
 - Strata title
 - Deceased Estate
 - State Government Statutory Authority
 - Commonwealth Government Entity
2. Again, similarly to Section 1 addressed earlier, I have removed from further analysis any vendors that are classified as the following based on either business name or ANZIC code (these represent the main categories):
 - Accommodation services

File name: *Copy of Woolworths Contractor Analysis - No ABN_1_6-9-2016.xlsx*

As these records did not contain an ABN, a CAV ABN name match analysis was undertaken for the 1,046 records and where there was a match, where necessary, the top three names and ABN match was taken for further analysis. Again, the sample year taken was the 2014 financial year and the ATO data as well as the work cover data was extracted for further analysis.

The CAV analysis revealed the following:

- From the 1046 records, there were a number of contractors that had a registered ABN outside of NSW. I have taken only the NSW entity states for further analysis.
- Based on the ATO data, any vendors with BAS sales greater than \$1m, employing greater than 3 employees, were excluded from further analysis. For these, I have assumed that it is likely that the vendor/contractor is providing services to the public (exemption under s.32 (2) (b) (iv) PTA 2007). In cases where it is a supplier of goods, then the contractor provisions won't apply. (There were 94 vendors in this category)
- Any vendors registered or Payroll tax and has lodged a return in 2015 was eliminated from further analysis.
- As per section 1 and 2 above, the vendors with entity type listed below were removed from further analysis:
 - Other Unincorporated entities- e.g. Clubs, unions and Associations;
 - ATO Regulated Self-Managed Superannuation Fund
 - Local Government
 - State Government
 - APRA Regulated Non-Public Offer Fund
 - Strata title
 - Deceased Estate
 - State Government Statutory Authority
 - Commonwealth Government Entity
- Vendors with ABN cancellation date prior to 1 July 2012 was removed from further analysis. I have assumed that these businesses have ceased to operate/provide service.
- Due to the limited data available and the fact that I had to rely on ABN name match, I have limited my review of the remaining list of vendors as follows:
 - For vendors with BAS Sales in the 2014 financial year, I have undertaken further review of their business activity and where necessary searched for the business via the internet to identify if there was a risk in it being liable for payroll tax purposes. None of the business identified were investigated further (6 vendors in total).
 - For Individual/Sole trader entity types, it was noted that all businesses had an ABN cancellation date post 1 July 2012. For each business, I have checked prior year sales to gauge if the business was operating leading up to the 2014 financial year. As a result of this review, there was no Individual/sole trader businesses identified for further review.
 - Based on the work performed above and in consideration that there were no additional contractors identified as being liable for payroll tax purposes, I have taken a risk management approach and not pursued checking the remaining vendors.

Refer to the Audit Report for a summary of the outcome of this review.

declaration in wages. In the 2014 financial year, this issue was primarily in relation to maternity/paternity leave paid to Executive staff.

Further, payroll tax exemptions allowed under the Commonwealth Government Paid Parental Leave scheme were not fully claimed in both the 2014 and 2015 financial years.

- Woolworths Limited payroll returns include the wages paid on behalf of some executives for the Cellarmaster Wines Pty Ltd business. Review of these wages have identified minor under declaration in both wages and superannuation in the 2014 and 2015 financial years.

Superannuation

- There was an over declaration in superannuation identified in both the 2014 and 2015 financial years relating primarily to duplication in reporting of the August 2014 and January 2015 executive superannuation. Also, included in the over declaration is superannuation paid on behalf of expatriates, working overseas for greater than 6 consecutive months, whereby, the amount paid is exempt from payroll tax under s.66A Payroll Tax Act 2007.
- There were no issues identified in the top-up amounts declared in the 2012- 2015 financial years. However, as discussed with you during the investigation and in reference to Revenue Ruling PTA 040- Payroll Tax- Exempt superannuation contributions Pre 1 July 1996 Services, it is recommended that for future financial years that Woolworths' Statement of Advice from Towers Watson (or the respective Actuary) clearly separates the normal contributions from the top-up contributions towards the defined benefit fund.

Performance & Retention Rights

- Under declaration in the value of performance rights declared in the 2013 financial year relating in particular to the Dick Smith employees who ceased employment with Woolworths Limited and were able to retain their rights to the shares.

In addition, the weighted average share price (WASP) calculated for these above mentioned shares were different to the WASP calculated by Woolworths Limited. Please refer to an email sent to [REDACTED] dated 14/4/2016 in which I have provided further detail and also we have agreed to the methodology used in determining the WASP.

Similarly, please note that further issues were identified in relation to the value of the WASP calculation, resulting in under declaration in the value of shares in the 2014 and 2015 financial years:

- There was an over declaration in the taxable value of shares in the 2015 financial year as a result of the inclusion of non-NSW employees in the taxable value.

Contractors

- There was an extensive review undertaken in respect of contractor payments with focus on both the 2014 and 2015 financial years. This review identified two additional relevant contracts within the meaning under s. 32(1) Payroll Tax Act 2007 (PTA) as no exemptions under s.32 (2) PTA 2007 could be applied to these contracts. The business names, ABNs and amounts have been disclosed to you in the email dated 11/4/2017.

- make correction to discrepancies in the reporting of these items (as per email dated 10/5/2017).

Moving forward

- As advised during the audit, we have performed a very high level review of the wages declared via the SAP Payroll System in the 2015 financial year. We have taken this approach in consideration that the first phase of the roll-out was in October 2014 and Woolworths was running two systems simultaneously. As discussed during the audit, we will undertake further reviews of the SAP Payroll System and declared wages for payroll tax purposes at a future agreed date.
- Finally, please note that our Payroll Tax System records all members of a group under a single group number. In Woolworths' case the group number (ID) currently does not contain all of Woolworths group members. The following entities are not included in the group number mentioned above:
 - Masters Home Improvement Australia Pty Ltd (Client ID:)
 - Cellarmaster Wines Pty Ltd (Client ID:)
 - Langton's Brokerage Pty Ltd (Client ID:) and Cellarforce Pty Ltd (Client ID) are recorded in their own separate group ID . Both entities have not claimed the threshold.
 - Southtrade International (Client ID)

Would you please ensure that any changes to the Woolworths' group affecting NSW payroll tax is communicated to our office.

Penalty Tax & Interest

A failure to pay the correct amount of payroll tax when it falls due is a tax default and is subject to interest and penalty tax. Tax defaults identified after investigations have commenced, incur minimum penalties of 25% and market rate of interest, providing you have not intentionally disregarded the law. As advised, Penalty tax has been reduced to 20% as voluntary disclosure was made during the investigation. Please refer to Revenue Ruling PTA 036_v2- Payroll Tax – Interest and Penalty Tax for further information.

Please find enclosed the 2012 to 2015 financial years Payroll Tax Notice of Assessments. A refund will be issued shortly.

Please Note:

For the purpose of administering NSW taxation laws, the OSR exchanges information with other State and Territory Revenue Offices and the Australian Taxation Office to assist in the proper identification and accurate assessment of taxation liabilities.

In this regard, the sharing of information with other Revenue Offices and with the ATO across all taxation laws administered by the OSR, is carried out in accordance with *Part 9 of the Taxation Administration Act 1996 NSW*, similar legislation in other States and Territories and under *section 355-65 Schedule 1 of the Commonwealth Taxation Administration Act 1953*.

ANNEXURE A

WAGES	2012	2013	2014	2015	Total
Audited Wages	1,583,181,664	1,667,802,824	1,823,102,267	1,917,981,370	6,992,068,125
Amount declared per Payroll Tax Annual Return	1,576,071,068	1,655,533,896	1,825,400,596	1,924,245,117	6,981,250,477
Difference	7,110,596	12,268,928	(2,298,329)	(6,263,747)	10,817,648
Discrepancies Identified:					
Clerical Error in line insert and duplicate of August 2014 wages (Error in Excel)				(15,416,877)	(15,416,877)
Under declaration apprentices and trainees (amount excluded from wages)- includes blanket 9.25% super				7,861,889	7,861,889
Under declared apprentices and trainee wages (amount deducted from wages)	7,401,221	10,911,227			18,312,448
Difference between audited amount of Apprentices & Trainees and amount originally identified by Woolworths (\$7,861,889 less \$7,784,642)				(77,247)	(77,247)
Under / (Over) declaration - Woolworths Limited wages (includes Over declaration - Expat wages (> 6months) of \$155,834.02 (2014) and \$180,319.66 (2015))			1,968,240	(326,052)	1,642,188
Over declaration in wages relating to exempt Expat wages	(290,625)				(290,625)
Under declaration - Cellarmasters wages			30,057	24,168	54,225
Under declaration in shares/options		1,358,200	11,238	3,840,878	5,210,316
Over declaration in before tax deductions			(153,734)	(122,323)	(276,057)
Over declaration in salary sacrifice towards FBT amount			(1,396,726)	(1,073,770)	(2,470,496)
Under/ (Over) Claim of exempt Gov. PPL (code G4) 1001			(72,633)	3,741	(68,892)
Under Claim of exempt Paid Maternity Leave (code I2) 1001			(239,530)	(47,376)	(286,906)
Over claim of exempt Workers compensation payments 1001			146,691	255,164	401,855
Under declared Salary sacrifice- Novated Leases 1001			(2,817,508)	(1,211,752)	(4,029,259)
Under declaration Termination payments				25,809	25,809
Under declaration in contractor payments			225,576		225,576
Total Under/ (Over) declaration	7,110,596	12,268,928	(2,298,329)	(6,263,747)	10,817,648
Refund based on wage reconciliation	387,527	668,684	(125,259)	(341,374)	
Under claim apprentice & trainee rebate		(594,617)			
Under claimed Apprentices and trainee rebate (rebate includes blanket 9.25% (2014), 9.5% (2015) superannuation applied to wages)			(229,025)	(428,442)	
(Refund)/ Liability relating to Wages, Contractors and FBT	387,527	74,067	(348,284)	(769,817)	(656,506)

ANNEXURE A

2 (a) (ix)

OTHER GROUP MEMBER NSW AND INTERSTATE ADJUSTMENTS:	Interstate	Other Group member NSW Wages	Other Group member Interstate Wages
2012			
Audited	2,716,074,677	282,471,787	1,098,041,737
Disclosed in the Payroll Tax Annual Return	2,716,074,677	282,471,787	1,098,041,737
2013			
Audited	2,851,168,655	314,648,991	1,175,104,871
Disclosed in the Payroll Tax Annual Return	2,851,168,655	2,851,168,655	1,175,104,871
		2,536,519,664	
2014			
Audited	2,999,977,910	321,344,024	1,241,264,691
Disclosed in the Payroll Tax Annual Return	2,999,977,910	312,839,395	1,240,752,464
		8,504,629	512,227
2015			
Audited	3,025,661,110	350,181,162	1,290,411,470
Disclosed in the Payroll Tax Annual Return	4,316,142,621	350,743,211	3,965,399,410
	1,290,981,511	562,049	2,674,987,940