

Tax Transparency Report – 2016

1. Chief Financial Officer statement

As one of Australia's largest mutual organisations, we are pleased to sign up to the Tax Transparency Code and support greater tax disclosure in Australia as this reflects our commitment to compliance from a regulatory and financial perspective and strives for transparency with respect to our tax strategy and corporate governance.

As a mutual, member owned entity, Australian Unity is uniquely placed to help Australians with its social purpose and its objective of creating community value. This is underpinned by our purpose of enabling millions to enjoy wellbeing.

Our structure as a mutual company allows us to carefully consider transformational long-term business opportunities without the short-term pressure of delivering returns to shareholders. However, as a mutual, we believe there is a case for legislative changes designed to better enable mutual organisations to raise different forms of capital in the capital markets to fund growth in the services we provide to the community and without being required to demutualise.

Signed



Kevin McCoy
Chief Financial Officer
30 May 2017

2. About Australian Unity

Australian Unity is a national healthcare, financial services, and independent & assisted living organisation providing services to almost one million customers, including 300,000 members nationwide. We employ more than 7,000 staff in various locations across Victoria, New South Wales, South Australia and Queensland.

Established in response to unmet community needs in 1840, the modern Australian Unity still aims to identify and help solve the health, wealth, and living needs of its members, customers and the broader community.

Our antecedents were energetic and effective advocates for change and better government policy. In the 1940s the organisation assisted soldiers returning from the battlefield to access cheap housing for their families. In the 1970s members lobbied for the mandatory use of seatbelts in Victoria.

Today, the nation is facing increasing pressures from its ageing population. Consequently, Australians are faced with new challenges, including creating financial security in an increasingly uncertain economic environment, dealing with the rise of chronic diseases and finding a secure and healthy life in retirement.

Australian Unity is directly involved in relieving these pressures and continues in this vein today to advocate on behalf of members in matters such as navigating the complexity of the aged care system, identifying wastage in the Australian healthcare system and working through the new legislation of the National Disability Insurance Scheme (NDIS).

3. Australian Unity's unique taxation profile

Australian Unity Limited (the parent entity) and its wholly owned Australian controlled entities have formed a tax consolidated group and are taxed as a single entity for income tax purposes. In addition, the Australian Unity Group includes Lifeplan Australia Friendly Society Limited (Lifeplan) which is a registered Friendly Society under the *Life Insurance Act 1995* (Cth). As a registered Friendly Society and issuer of life insurance policies, Lifeplan pays tax on earnings from investments held on behalf of policyholders.

Australian Unity holds a controlling but not wholly owned interest in a number of joint venture companies which are consolidated into its accounting financial results as investment in associates for accounting purposes but are taxed as separate entities to Australian Unity.

Australian Unity is unique in that, while it continues to be a mutual company, it exclusively earns non-mutual income. Therefore it is taxed just like other corporate taxpayers. In the absence of deriving any mutual income, Australian Unity does not utilise the advantage of its mutual status in being exempt from taxation, whilst at the same time we are not able to enjoy one of the key benefits available to a corporate taxpayer in being able to distribute franking credits to its members.

If Australian Unity were to raise share equity on which franked distributions could be paid, it would cause Australian Unity to demutualise and thereby undermine our social purpose and our objective of creating community value by balancing social and financial outcomes.

Our objectives are constrained by the tax inequity arising from how a mutual is taxed and also by the restriction we face in raising different forms of capital in the capital market. Therefore, we believe that government and regulators need to consider changing relevant legislation to enable mutual organisations to raise different forms of capital in the capital market. This would assist mutual organisations, such as Australian Unity, to fund growth in the services we provide to the community without the need to demutualise.

4. Our approach and contribution to Tax

4.1 Our approach to Tax

We take our tax obligations seriously and our approach to paying tax is predicated on integrity and transparency, which are the overarching principles governing the Australian Unity Group Tax Risk Framework (**Tax Framework**) as well as our tax reporting, tax strategy and governance.

Australian Unity's General Manager of Taxation reports on the operation and effectiveness of the Tax Framework to the Board of Australian Unity via the Audit and Compliance Committee at least on an annual basis.

Australian Unity's approach to engagement with the ATO is to be cooperative and transparent. This includes seeking to engage early with the ATO on major transactions.

4.2 Income taxes disclosed in 2016 Annual Report

In addition to Note 4(b) of Australian Unity Limited's 2016 Annual Report *Reconciliation of income tax expense to prima facie tax payable*, the effective tax rate for the Australian Unity Group was 35.54%.

Consolidated Position - Description	FY 2016 \$'000
Income Tax Expense	19,610
Profit before Income Tax	55,172
Effective Tax Rate %	35.54%

The key difference between Australian Unity Group's effective tax rate and the corporate rate of 30% can be attributed to the following key factors:

- The Statutory income tax expense includes tax paid on behalf of Policyholders;
- Management fee income and deductions reported by Australian Unity on certain life insurance products issued before 1 January 2003 are not subject to tax under the tax law;
- Certain expenditure qualifying as research and development activities;

- Franking credits received from unit trust investments on income which has already been subject to corporate tax;
- Earnings and accounting impairments arising from Australian Unity's investment in associates; and
- Prior year tax adjustments from tax return unders/overs and changes in the Australian Taxation Office positions.

4.3 ATO tax transparency disclosures

Each year, the Australian Taxation Office publishes selected information from our tax return on its corporate tax transparency website.¹ For the year ended 30 June 2015, this data was as follows:

Description	FY 2015 \$'000 as published by ATO
Total Income	1,280,911
Taxable/Net Income	57,605
Tax Payable	9,425

To align the above disclosures, a high level reconciliation of accounting profit before tax to the taxable income of the Australian Unity tax consolidated group (including income tax payable/refundable) is set out below:

Description	FY 2015 \$'000
Total Income of the Australian Unity Tax Consolidated Group	1,280,911
Less Total Expenses of the Australian Unity Tax Consolidated Group	(1,217,372)
Profit/(loss) before Tax Australian Unity Tax Consolidated Group	63,539
Tax Adjustments	(5,934)
Taxable/Net Income	57,605
Prima facie tax payable/(refundable)	17,282
Less tax offsets and credits*	(7,857)
Tax payable/(refundable)	9,425

* For Australian Unity, the primary tax offsets which reduce the tax payable amount includes the Research and Development tax offsets and imputation credits on distributions from managed investment trusts.

¹ Corporate tax transparency website accessible: <https://data.gov.au/dataset/corporate-transparency>. Financial Year 2015 information is published by the ATO and we expect Financial Year 2016 to be published by the ATO in December 2017

4.4 Our contribution to Tax

Corporate taxes paid are only one part of our economic contribution to Australia.

We are a significant employer, employing over 7,000 Australians. We also provide a wide range of services to members, customers and communities all of which add economic value. We are also a major contributor to the construction of social infrastructure in Victoria, Queensland and New South Wales.

Taxes paid by Australian Unity to Australian (Federal and State) tax authorities in its own capacity and on behalf of employees for the financial years ended 30 June 2015 (to align the timing with the financial year of corporate tax transparency information publication²) are set out below.

FY 2015

Australian Tax Authority	Corporate income tax ¹	Employer / payroll taxes ²	Total taxes paid & borne	Employee taxes remitted ³
	\$'000	\$'000	\$'000	\$'000
Federal	9,425	637	10,062	40,875
State	-	10,498	10,498	-
Total	9,425	11,135	20,560	40,875

Notes

1. Tax liabilities payable to the ATO (as published on the ATO's corporate tax transparency website) by Australian Unity Tax consolidated group.
2. Australian Federal based employer tax comprises Fringe Benefits Tax (FBT) on non-cash benefits to employees and associates for the FBT 31 March year end returns; State based payroll tax is imposed on an employer's 'taxable wages'.
3. Employee taxes withheld from employee remuneration and remitted to the ATO for the 30 June year end.

² We intend to publish the Financial Year 2016 Australian Unity contributions to Tax in the 2017 Tax Report