

2017

Tax Transparency Report



Message from the Chief Financial Officer

As a member-owned company, Australian Unity Limited (“**Australian Unity**”) is a mutual business proud of the contribution it makes to the Australian community. We are committed to providing accessible and transparent information about our businesses, including tax contributions and our approach to tax strategy.

We have based this report on the overarching principles of the Australian Board of Taxation’s Voluntary Tax Transparency Code (“**TTC**”). It details the tax contributions we made in Australia with \$36 million of taxes borne by Australian Unity and \$77 million of taxes withheld and remitted by Australian Unity for the financial year ended 30 June 2017.

As a mutual, Australian Unity is ideally positioned to respond to the burgeoning national challenge of meeting the health and financial needs of Australia’s growing and ageing population. We understand that this national economic and societal challenge can only be met by the provision of ‘social infrastructure’ that can service these needs. This includes both ‘hard’ infrastructure—built-form projects such as hospitals, residential aged care and community precincts, and ‘soft’ infrastructure—including workforce requirements, new business systems and new models of care.

Australian Unity has broad and strategic ambitions to respond to this challenge. For example, the Herston Quarter project, a \$1.1 billion integrated health precinct development currently underway in Brisbane, is an example of built-form social infrastructure. We are also expanding the provision of our soft social infrastructure in the form of service delivery across a number of our business platforms, such as the Home & Disability Services business, our Trustee Services business and through Remedy Healthcare.

Our structure as a mutual company allows us to carefully consider long-term and transformational business opportunities without the short-term pressure of delivering returns to shareholders. However, as a mutual, we advocate for legislative change designed to better enable mutual organisations to raise different forms of capital to fund growth without being required to demutualise.



Kevin McCoy
Chief Financial Officer

About Australian Unity

Australian Unity is a health, wealth and living organisation providing products and services designed to help people thrive. Over one million Australians have created a bright future with us.

As a mutual company, we trace our roots back to a group of optimists who met in Melbourne over 175 years ago. They had a vision to provide for their own and their community’s needs which were unmet by the government of the day.

Our taxation position explained

Australian Unity (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. The Australian Unity Tax Consolidated Group includes Lifeplan Australia Friendly Society Limited (“**Lifeplan**”), a Friendly Society which is registered as a life insurance company under the *Life Insurance Act 1995* (Cth). As a Friendly Society and issuer of life insurance policies, Lifeplan pays the income tax on earnings and investments held on behalf of its policyholders.

In addition, Australian Unity holds interests in a number of joint venture companies, which are included in its financial results as investment in joint ventures for accounting purposes. These joint venture companies are taxed as separate entities to the Australian Unity Tax Consolidated Group as they are not wholly owned.

As a group, Australian Unity is unique because it continues to be a mutual company while exclusively earning non-mutual income. Therefore, it is taxed just like other corporate taxpayers. However, as a mutual, it is also unable to access one of the key benefits available to a corporate taxpayer as it is not able to make distributions to its members and pass on franking credits.

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 how a mutual is taxed and also by the restriction we face in raising different forms of capital in the capital market while maintaining our mutual status. 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 market while being able to pay franked distributions. 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.

Our approach to tax

We take our tax obligations seriously. 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**”). These principles also govern our tax reporting, tax strategy and tax 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 quarterly. Australian Unity’s approach to engagement with the Australian Tax Office (“**ATO**”) is cooperative and transparent and involves engaging early with the ATO on major transactions.

Income taxes disclosed in 2017 Annual Report

Income taxes are disclosed at Note 4 of Australian Unity’s 2017 Annual Report. It sets out the reconciliation of accounting profit to income tax expense and contains income tax payable amount as follows:

	FY 2017 \$'000
Reconciliation of income tax expense/(benefit) to prima facie tax payable	
<i>(see Note 4(b) of Australian Unity’s 2017 Annual Report)</i>	
Profit before income tax	45,266
Less: profit in benefit funds	(12,034)
	33,232
Tax at the Australian tax rate of 30%	9,970
Non-assessable income	(12,315)
Non-deductible expenditure	3,953
Other deductible expenditure	(3,549)
Tax in benefit funds	12,034
Tax credits	(6)
Over provision in prior years	(11,669)
Income tax expense/(benefit)	(1,582)
Reconciliation of income tax expense/(benefit) to income tax payable	
Income tax expense/(benefit)	(1,582)
Temporary differences: deferred taxes	(2,204)
Adjustments for current tax of prior periods	16,307
Current year tax paid or payable	12,521
<i>(see current tax expense at Note 4(a) of Australian Unity’s 2017 Annual Report)</i>	

Income taxes disclosed in 2017 Annual Report *continued*

The effective tax rate (“ETR”) for Australian Unity was negative 3.49% per the Annual Report. However, for comparability and consistency as required under the TTC guidance, the material under or overstatements of \$11.669m is to be excluded for the current year TTC’s ETR calculation, as illustrated below:

	2017 \$'000	2017 \$'000
	Per Annual Report	Per TTC
Effective tax rate		
Income tax expense/(benefit) per Annual Report	(1,582)	(1,582)
Adjustments for over provision in prior years	-	11,669
Income tax expense/(benefit) per TTC	-	10,087
Profit before income tax	45,266	45,266
Effective tax rate %	(3.49%)	22.28%

The key difference between Australian Unity’s ETR per the Annual Report and the corporate tax rate of 30% can be attributed to the following key factors:

Items increasing ETR

- **non-deductible expenditure:** attributed to the non-recognition of a deferred tax asset in respect of impairment and share of losses in joint venture companies.
- **non-deductible expenditure:** attributed to expenditure such as entertainment and deductions incurred on certain life insurance products’ income that is not deductible under the tax law.
- **tax in benefit funds:** the total income tax expense disclosed in Australian Unity’s 2017 Annual Report includes tax paid on behalf of life insurance policyholders.

Items decreasing ETR

- **non-assessable income:** attributed to management fee income reported by Australian Unity on certain life insurance products issued before 1 January 2003 which are not subject to tax under the tax law.
- **non-assessable income:** attributed to the receipt of a loan amount upon a resident entering a retirement village which is non-assessable (as confirmed by the ATO via a private binding ruling).
- **other deductible expenditure:** recognition of an income tax benefit associated with current year capital loss arising from the termination of a joint venture arrangement.
- **tax credits:** franking credits received from external investments.
- **over provision in prior years:** prior year tax return amendments (see below) and unders/overs such as tax incentives claimed on certain expenditure qualifying as research and development activities.

The significant reduction in Australian Unity’s income tax expense (and effective tax rate) for the year ended 30 June 2017 as outlined in the 2017 Annual Report was due to a large “Adjustments of prior periods” income tax benefit of \$10.4m referable to the receipt of a loan amount upon a resident entering a retirement village which is non-assessable income. The income tax position was confirmed by the ATO via a private binding ruling covering multiple financial years.

Our total tax contribution

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

Our operations employed over 7,500 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.

Total taxes payable/paid/estimated to be payable by Australian Unity to Australian Federal and State tax authorities are in its own capacity and on behalf of employees/unitholders for the financial year ended 30 June 2017 and 30 June 2016 are set out below.

	Corporate income tax \$'000	Non recoverable GST \$'000	Employer / payroll taxes \$'000	Total taxes paid & borne by Australian Unity \$'000	Stamp duty borne by Property Fund Unit holders \$'000	Employee taxes withheld and remitted by Australian Unity \$'000	Total taxes withheld and remitted by Australian Unity \$'000
FY 2017							
Federal	12,521	6,731	674	19,926		74,299	74,299
States/Territories							
– VIC			8,424	8,424	964		964
– NSW			7,799	7,799	123		123
– SA			209	209			
– QLD			229	229	1,701		1,701
– WA			65	65			
Total – Federal and States/Territories	12,521	6,731	17,400	36,652	2,788	74,299	77,087
FY 2016							
Federal	13,965	3,628	643	18,236		54,843	54,843
States/Territories							
– VIC			7,370	7,370	3,946		3,946
– NSW			5,007	5,007	188		188
– SA			176	176	289		289
– QLD			189	189	4,894		4,894
– WA			67	67	1,848		1,848
Total – Federal and States/Territories	13,965	3,628	13,452	31,045	11,165	54,843	66,008

ATO tax transparency disclosures

Each year the ATO publishes selected (historical) income tax information from the Australian Unity Tax Consolidated Group's lodged tax return on the ATO Corporate Tax Transparency website. For the year ended 30 June 2016, the data which will be published in December 2017 is as follows:

Description	FY 2016 \$'000 as lodged with ATO
Total income	1,420,565
Taxable/net income	44,312
Tax payable	7,511

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 2016 \$'000
Total income of the Australian Unity Tax Consolidated Group	1,420,565
Less total expenses of the Australian Unity Tax Consolidated Group	(1,365,419)
Profit/(loss) before Tax Australian Unity Tax Consolidated Group	55,146
Tax adjustments	(10,834)
Taxable/net income	44,312
Prima facie tax payable/(refundable)	13,294
Less tax offsets and credits*	(5,783)
Tax payable/(refundable)	7,511

* For the Australian Unity Tax Consolidated Group, the primary tax offsets includes Research and Development tax offsets, refundable tax offsets on franked distributions on behalf of Lifeplan's policyholders' investments and franking credits on distributions from managed investment trusts.



This report should be read in conjunction with the Australian Unity 2017 Annual Report:
australianunity.com.au/annualreports

Front cover: artist's impression of the future Herston Quarter health precinct in Brisbane.

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