Australian Tax Transparency

Australian Scholarships Group Friendly Society Ltd (ASG) is committed to ensuring effective Corporate Governance and this includes managing all taxes in a sustainable manner as part of serving our policy holders.

The taxation of friendly societies and life insurance companies such as ASG is subject to specific provisions in the income tax legislation and ASG determines its income tax liabilities in accordance with these provisions.

Broadly, ASG pays tax on the fees and charges component of premiums paid by policy holders as well as the income earned from its investments which are held to support policy holder claims. In addition, ASG is entitled to a tax deduction for the claims paid to policy holders (to the extent the claims paid are sourced from investment income) and for costs incurred in relation to the operation of its business. There is a portion of ASG's business which is not subject to income tax (refer to adjustment 1 below) in relation to exempt benefit funds.

ASG has dedicated internal resources who are responsible for the preparation of its income tax calculations. In addition, ASG engages external advisors to review the tax calculations contained in its financial statements and income tax returns to support ASG in reporting and paying the appropriate taxes to the ATO.

ATO public disclosure

The Commissioner of Taxation publicly disclosed on the ATO's website the income tax details of corporate taxpayers with a turnover of $100m or greater for the 2016-17 income year. The following details are expected to be disclosed in respect of ASG's income tax return for the 2016-17 income year:

	A$
Total Income	153,440,669
Taxable income	47,779,670
Income Tax Payable	11,298,406

The differences between ASG's total income, taxable income and tax payable for the year ended 30 June 2017 are a result of a number of factors, some of which are specific to ASG's status as a friendly society and a life insurance company. These differences are explained further below.

Total income

Total income reported in the tax return represents gross income for accounting purposes – i.e. income before any expenses are taken into account. After allowing for expenses, ASG's accounting profit before tax is $16,639,588 as set out in the table below (note this is the amount reported in the tax return):

	A$
Total Income	153,440,669
Less: Total Expenses	(136,801,081)
Accounting Profit	16,639,588

For further details in relation to the items which comprise the "Total Income" and "Total Expense" lines above, please refer to our 2016-17 Annual Report which is available on our website.

Please note that the profit before tax reported in the Annual Report is higher than the profit reported in the tax return by approximately $189,000. The reason for the difference is that, in accordance with the tax law, the tax return only takes into account the results from ASG's Australian based entities whereas the profit in the annual report also includes the results from ASG's New Zealand operations.

ASG has a wholly owned subsidiary company based in New Zealand which provides support services to ASG.

Reconciliation of profit to taxable income

A reconciliation of ASG's accounting profit to taxable income for the year ended 30 June 2017, as reported in the tax return, is set out below:

	A$
Accounting Profit	16,639,588
1. Income from exempt benefit funds net of expenses incurred in relation to exempt benefit funds	(25,829,368)
2. Accounting profits allocated to policy holders	74,084,049
3. Increase in fair value of investments	(7,558,193)
4. Other book to tax adjustments	(9,556,406)
5. Taxable Income	47,779,670
Tax @ 30%	14,333,901
Tax offsets	(3,035,495)
Income tax payable	11,298,406

See the following text for an explanation of the above adjustments:

Adjustment 1 – exempt benefit funds

Prior to 1 January 2003, friendly societies were generally exempt from tax on amounts attributable to scholarship plans and certain other policies. This exemption was removed from 1 January 2003 following the Review of Business Taxation. The purpose of this change was to ensure comparable tax treatment with other investment products.

To ensure equitable outcomes for policy holders who took out a policy prior to 1 January 2003, the tax exemption for scholarship plans and certain other policies issued prior to 1 January 2003 was retained in the income tax law (i.e. only income in respect of those policies issued on or after 1 January 2003 is subject to tax).

As a result, no tax is payable on the income earned by ASG in relation to scholarship plans issued pre-1 January 2003 and, similarly, no deduction is available to ASG in respect of expenditure incurred in earning this income.

Adjustment 2 – allocation of profits to policy holders

For accounting purposes, the allocation of accounting profits to policy holders is treated as an expense in ASG's income statement. This allocation to policy holders should not give rise to a deductible expense for tax purposes and is therefore treated as non-deductible in the tax calculation.

Adjustment 3 – fair value of investments

As a result of fluctuations in the financial markets, there was an increase in the fair value of investments held by ASG to support policy holder claims during the period. However, as a majority of these investments were not disposed of during the year, this fair value gain is not included in calculating ASG's taxable income.

Adjustment 4 – other adjustments

Various other adjustments are included in the ASG tax calculation to determine ASG's taxable income. These other adjustments include, but are not limited to, book to tax differences in relation to distributions from unit trust investments and movements in provision and accrual balances.

Tax offsets

The investment income received by ASG includes imputation credits and foreign income tax amounts to which ASG is entitled to a tax offset under the income tax law. This offset has been applied to reduce ASG's tax payable in the tax calculation.