Tax Transparency Report 2018

Improving the lives of Victorians

1. Chief Financial Officer statement

We are pleased to present this Tax Transparency Report for 2018 for the Royal Automobile Club of Victoria (RACV) Limited.

RACV has prepared this report based on the recommendations outlined in the Board of Taxation's Tax Transparency Code (TTC). It should be read in conjunction with the RACV Group's 2018 Annual Financial Report which is available on our website, *www.racv.com.au*. RACV is also a signatory to the TTC Register, having committed to applying the TTC principles of transparency and disclosure.

This report presents an overview of RACV's conservative appetite to tax, its approach to tax strategy and governance and the tax contributions made to the Australian State and Commonwealth Governments. We will continue to monitor our tax framework, taking into account best practice and regulatory developments.

Michael Sheehy
Chief Financial Officer

11 June 2019

2. About RACV

Founded in 1903, RACV exists to improve the lives of Victorians by delivering valued benefits to members and their communities.

RACV addresses the needs of Victorians by informing, advising and representing them through products and services spanning motoring, mobility, leisure, travel, insurance and the home. RACV seeks to help shape a smarter, safer and more connected future for Victoria.

The past year has seen a period of significant growth for RACV. The primary focus has remained on implementing RACV's strategic plan to grow the business in our chosen fields of Motoring, Mobility, Home and Leisure.

During the 2018 financial year, RACV invested $4.8 million into the wider Victorian community, demonstrating our close connection with the members we serve.

As RACV does not have shareholders, surplus funds are either returned in member value or invested for the members' long-term benefit.

3. Tax strategy and governance

3.1 Approach to risk management and governance

RACV has a conservative appetite towards tax risk. It seeks to fully and properly comply with applicable tax laws and to maintain a high standard of integrity in managing its tax obligations. It is committed to ensuring its systems, procedures and practices reflect a high standard of corporate governance and risk management to ensure the correct amount of tax is paid.

Pursuant to RACV's Corporate Governance Statement, the Directors have implemented a Risk Management Framework, which mandates for balanced and considered risk to achieve business objectives. This involves input from all levels within RACV, from Directors providing oversight and guidance on the organisation's risk appetite, through to individual departments identifying and managing the risks inherent in their activities, processes and systems. Key risks and mitigating strategies are also the subject of ongoing monitoring and review by management and Directors.

Responsibility for RACV's tax strategy sits with the Board and management. The Board oversees and reviews tax risks in the context of the organisation's Risk Management Framework, and monitors tax compliance and reporting obligations. Management operationalises tax strategy and manages significant tax matters and risks on a day-to-day basis. Tax is also included within the ambit of the internal audit review process as a mechanism to ensure adequate controls are in place.

RACV has a framework for managing tax risk, which encompasses both policies and layers of defence, to minimise breaches from occurring. Policies include mechanisms to measure and assess significant transactions, procedures to ensure tax compliance and payment obligations are met in a timely manner, and governance to ensure an appropriately resourced tax function with experienced professionals who manage tax risks through regular reporting and engagement of external tax advisors where necessary.

3.2 Attitude towards tax planning

RACV's attitude towards tax planning is to ensure that transactions and compliance activities are undertaken within a low risk tolerance environment. RACV seeks to fully and properly comply with applicable tax laws and to maintain a high standard of integrity in managing its overall tax position. RACV does not establish or maintain operations in jurisdictions that are considered tax havens, nor participate in aggressive tax arrangements.

Where RACV has a potential uncertain tax outcome, in relation to a material business transaction or initiative, it will seek advice from an independent external tax advisor to consider and support its position.

RACV does not enter into arrangements that are artificial and not linked to business requirements or that rely on non-disclosure.

3.3 Approach to engagement with the ATO

RACV's approach to engagement with the Australian Tax Office (ATO) is to be transparent and collaborative. In 2015, RACV adopted the ATO's Early Engagement Initiative ("EEI") and began proactive and ongoing engagement with the ATO in relation to tax compliance. As part of the EEI process, RACV has clear lines of communication with the ATO and provides the ATO with an opportunity to perform a timely review of RACV's tax obligations. The ATO considers RACV a "Low Risk Taxpayer", the lowest risk rating that can be attained.

3.4 International related party dealings

RACV has indirect interests in a number of foreign joint venture entities which have minor operations. It has not entered into aggressive international related party transactions or structures and does not have related party dealings with entities in low tax jurisdictions.

4. Income taxes disclosed in 2018 Annual Financial Report

4.1 RACV's tax position

RACV Limited is a company limited by guarantee and is a tax resident of Australia that operates mainly within Australia. As a mutual organisation, it is not taxed on member contributions or receipts from member dealings that are not of a commercial nature, nor is expenditure incurred in deriving mutual receipts tax deductible. However, it is subject to tax on the commercial activities it conducts with both members and non-members and on gains derived from its investment portfolio.

RACV Limited and its wholly owned Australian controlled entities have formed an income tax consolidated group and are taxed as a single entity for income tax purposes.

RACV holds interests in a number of associates and joint venture companies, which are reflected in its accounting financial results using the equity method. It also holds interests in a number of partially owned subsidiaries, which are consolidated into RACV's financial results. These entities are taxed as separate entities to the RACV Tax Consolidated Group as they are not wholly owned. Dividends received by RACV from associates and partially owned subsidiaries are included in the RACV Tax Consolidated Group's taxable income.

To the extent that RACV receives franked dividends from partially owned entities and through its investment portfolio, its tax payable is reduced to the extent of the franking credits via a tax offset. This reflects the fact that the underlying income has already been subject to corporate tax at source.

4.2 Income tax expense in Annual Financial Report

The RACV Group Income Tax Expense ("ITE") Reconciliation was previously published in the RACV Group's 2018 Annual Financial Report in Note 12, which is largely reproduced overleaf in 4.3. The disclosure was prepared for the statutory accounts in accordance with the relevant Australian Accounting Standards.

The ITE disclosed in a company's income statement does not represent its liability to the ATO, but rather ITE is calculated in accordance with Australian accounting standards and represents the accounting profit multiplied by the prima facie corporate income tax rate, with subsequent adjustments for amounts which are not taxable or tax deductible. These adjustments take into account the difference between expense and income recognition criteria under accounting principles and the income tax legislation. Some examples include non-deductible expenses, non-assessable income, concessionally taxed income and the Research and Development ("R&D") tax offset available in Australia.

RACV calculates its Effective Tax Rate ("ETR") based on an accounting methodology as ITE divided by accounting profit before income tax. For 2018, the ETR for RACV was 27.5%, as demonstrated in Table 1 on page 6. This method of calculating the ETR should not be compared to the corporate income tax rate (30%) as it is distorted by a number of factors. Refer to 4.3 below for details.

Income taxes disclosed in 2018 Annual Financial Report (Continued)

4.3 Reconciliation of accounting profit to income tax expense

Table 1 below provides a reconciliation of accounting profit to ITE and the ETR for the RACV Group of companies as disclosed in RACV's Annual Report for the year ended 30 June 2018.

Table 1: Income Tax Expense Reconciliation

	2018 $m
Statutory Profit before income tax expense **[A]**	97.3
Prima face income tax at the Australian tax rate of 30%	**29.2**
Add / (Deduct) tax effect of amounts not deductible / (assessable)	
(Profit) / loss attributable to mutual dealings	(3.2)
Share of net profit of equity accounted investments [1]	(25.2)
(Over) / under provision of tax from previous year	(0.1)
Prior year tax losses derecognised [2]	24.7
Sundry items	1.4
Income tax expense on profit before income tax **[B]**	**26.8**
Effective tax rate [B] / [A]	**27.5%**

Notes:

(1) This represents the profits from associated entities that were equity accounted and excluded on the basis that dividends received or receivable from these entities are fully franked. As franked dividends represent income that has previously been taxed, they reduce the amount of income that is subject to tax.

(2) In accordance with the RACV's tax loss recognition policy and taking into account the expected future utilisation of carry forward income tax losses, a deferred tax asset of $24.7m relating to income tax losses from the 2011 and 2012 financial years was derecognised.

RACV's ITE does not properly reflect income taxes paid at source on dividend income that has been fully franked. The majority of RACV's accounting profit consists of franked dividends from associated entities and its investment portfolio. As franking credits attached to these dividends represent income tax that has previously been paid, the income tax effect of these dividends is not included in RACV's ITE. RACV's ETR, when based on taxes paid at source and after adjusting for tax losses that are no longer recognised, broadly reflects the corporate tax rate, in line with community expectations.

As part of the EEI process, the ATO has reviewed and accepted RACV's methodology regarding its ETR on income taxes paid at source.

4.4 Reconciliation of income tax expense to income tax payable

A reconciliation of ITE to income tax payable for the RACV Group for the year ended 30 June 2018 is set out in Table 2 below.

Table 2: Reconciliation of Income Tax Expense to Income Tax Payable

	2018	
	$m	$m
Income tax expense on profit before income tax		**26.8**
Timing differences recognised in deferred tax:		
Property, plant and equipment	(2.4)	
Superannuation plan	0.3	
Unearned income	(0.4)	
Available for sale financial assets	0.1	
Finance leases	(0.1)	
Intangible assets	5.3	
Tax losses and credits	(24.3)	
Other	(1.3)	(22.8)
Income tax payable		**4.0**

A reconciliation of income tax payable for the RACV Group as at 30 June 2018 is set out in Table 3 below.

Table 3: Income Taxes Payable

	2018
	$m
Income Tax payable at beginning of financial year	0.8
Less: Income tax paid during the year*	(5.7)
Less: Foreign tax withheld at source*	0.5
Income taxes payable for the current financial year	4.0
Income tax payable	**(0.4)**

Notes:
*Relate to taxes paid by subsidiaries that are not part of the tax consolidated group.

4.5 ATO tax transparency disclosures

As one of its tax transparency initiatives, the ATO annually publishes on the *data.gov.au* website the "Report of entity tax information" for entities with income of $100 million or more. The current tax information published by the ATO for RACV for the year ended 30 June 2017, along with the expected disclosures relating to the year ended 30 June 2018 are outline below.

RACV	2018	2017
Total income	$688,675,128	$645,743,496
Taxable income	$24,621,026	$93,359,312
Tax payable	**$ –**	**$ –**

The tax payable amount is calculated by applying the corporate income tax rate (30%) to taxable income, reduced by available tax offsets. For RACV, the main tax offset which reduces the tax payable amount to nil relates to franking credits attached to the dividends received from associated entities.

Table 4 below provides a reconciliation of taxable income to tax payable based on taxes paid at source for the RACV Group of companies, which shows that RACV's share of taxes paid at source is $17.5 million and RACV's otherwise tax payable is reduced to nil by the taxes already paid at source.

Table 4: Reconciliation of Taxable Income to Tax Payable

	2018
Taxable Income	$24,621,026
Gross Tax	$7,386,308
Less Non-refundable non-carry forward tax offsets*	($7,386,308)
Tax payable	**$ –**
Non-refundable non-carry forward tax offsets utilised	$7,386,308
Excess franking tax offsets converted to tax losses	$10,091,543
Total tax offsets*	$17,477,851

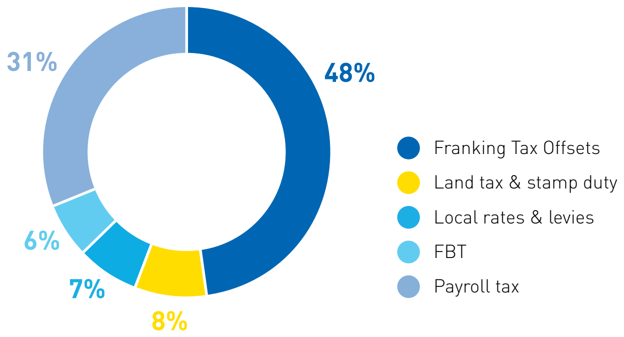
*Tax offsets represent taxes paid at source, and include franking tax offsets and foreign income tax offsets

5. Australian tax contribution summary

A summary of the RACV's tax contribution to the Australian tax authorities for the 2018 financial year is outlined below. The majority of RACV's taxes are paid in Australia.

Total taxes borne* by RACV

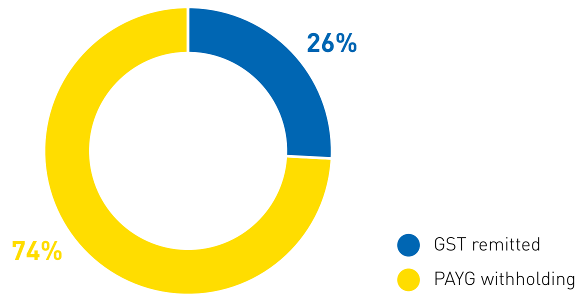
	FY18 $m
Franking Tax Offsets	17.0
Land tax & stamp duty	2.9
Local rates & levies	2.6
FBT	2.1
Payroll tax	11.3
Total	**35.9**



*Under the Australian dividend imputation system, company income received as dividends by shareholders is taxed at the recipient taxpayer's marginal income tax rate. Shareholders also receive a franking tax offset representing the company tax already paid on that income. The franking tax offset may be offset against the shareholder's tax liability or redeemed in cash by certain shareholders if the liability is exhausted. On this basis RACV has included non-refundable franking tax offsets in its taxes borne.

Total taxes collected by RACV on behalf of others

	FY18 $m
GST collected	56.1
GST claimed	(38.3)
Net GST remitted	17.8
PAYG withholding	51.3
Total	**69.1**



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