Tax Transparency Report 2016-17

RACQ
It pays to belong

Message from the CFO

I am pleased to present the first Tax Transparency Report for RACQ.

As Queensland's largest mutual, RACQ is at the forefront of that movement of organisations that exist fundamentally to serve their members (customers) and not shareholders through the provision of assistance, insurance, lifestyle, banking and advocacy services.

Our members and the community expect that not only are we delivering products and services at the highest quality and best price, but that we are compliant with our regulatory obligations. Our compliance with tax obligations is taken seriously, which is why we are committed to being transparent with our members and the community regarding all our tax affairs.

This report has been prepared based on the principles set out in the Australian Board of Taxation's Voluntary Tax Transparency Code. It details our approach to tax policy, strategy and governance, our tax contributions and reconciliations of income tax expense, effective tax rate and income taxes payable.

Michael Lonergan
Chief Financial Officer

RACQ – Our Business

After 112 years, RACQ supports approximately 1.7 million members across Queensland through the provision of assistance, insurance, lifestyle, banking and advocacy services.

As a mutual organisation, everything we do aims to benefit our members and the communities in which they live. RACQ is committed to ensuring that we remain relevant to our members by continuing to enhance our product and service offerings to meet the changing needs of members and their families. Our recent merger with QT Mutual Bank, now RACQ Bank, has given our members a unique opportunity to fulfil their financial needs with the same trust, service and experience they've come to expect from RACQ.

By 2030, we want to be a multi-dimensional membership organisation offering products and services that add value to our members across a wide range of business sectors. To achieve this, we need to continue to enhance member value across existing service offerings, providing new products and services, streamlining the digital member experience and focusing on our sustainability and efficiencies.

TAX POLICY, STRATEGY AND GOVERNANCE

RACQ has no tolerance for non-compliance with regulatory obligations.

Our Tax Risk Management and Governance framework comprises and forms part of our overall risk management framework that includes the following:

- Corporate Governance Statement
- Group Risk Management Policy
- Group Risk Management Strategy Framework[1]
- Group Risk Appetite Statement
- Tax Risk Management Policy and Plan

The Tax Risk Management and Governance framework is approved by the Board and Senior Management and is subject to ongoing reviews and enhancements.

RACQ's Tax Risk Management Policy contains the following key principles:

- RACQ will not engage in aggressive tax planning or tax minimisation
- RACQ's tax position will align with the views of the Australian Taxation Office (ATO) where published in a formal ruling or similar format
- RACQ will engage external tax advisors where required under its risk escalation framework to assist with managing tax risks
- RACQ will seek a private ruling from the ATO in areas of uncertainty
- RACQ's tax function has professionals with the necessary knowledge and expertise for effectively managing RACQ's tax obligations
- RACQ co-operates with revenue authorities and operates in a professional manner.

As a large business, RACQ is part of the ATO's early engagement program. This program provides RACQ with the opportunity to engage in open, honest and transparent discussions about our tax affairs.

International related party dealings

RACQ and its controlled resident entities[2] do not have any international related party dealings.

[1]Enterprise risk management approach incorporating the concept of "three lines of defence"
[2]See Appendix

TAXES COLLECTED

Income Tax

RACQ and its controlled entities are not part of an income tax consolidated group. Consequently, each entity is separately assessed for income tax.

Set out in the table across the page is an aggregation of RACQ Limited and its controlled entities'[3] corporate income tax contributions for the year ended 30 June 2017 based on a surplus before income tax for income tax purposes.

The adjustment for extraordinary items comprises:

- The realisation of revaluation gains on the sale of Land and Buildings recognised in current year retained earnings; and
- Acquisition costs in respect of the RACQ Bank acquisition recognised in the surplus before income tax as per the financial statements.

The tax implications of the extraordinary items are included in RACQ Limited and its controlled entities corporate income tax contributions for the year ended 30 June 2017.

Reconciliation of surplus before income tax as per the financial statements to surplus before income tax for income tax purposes	2017 $'000
Surplus before income tax per 2017 financial statements[4]	**39,769**
Adjust for	
Accounting consolidation entries	5,028
Acquired entities' pre-acquisition loss before income tax[5]	(1,080)
Extraordinary items, being the realisation of revaluation gains on the sale of Land and Buildings and acquisition costs	30,727
Adjusted surplus	**74,444**

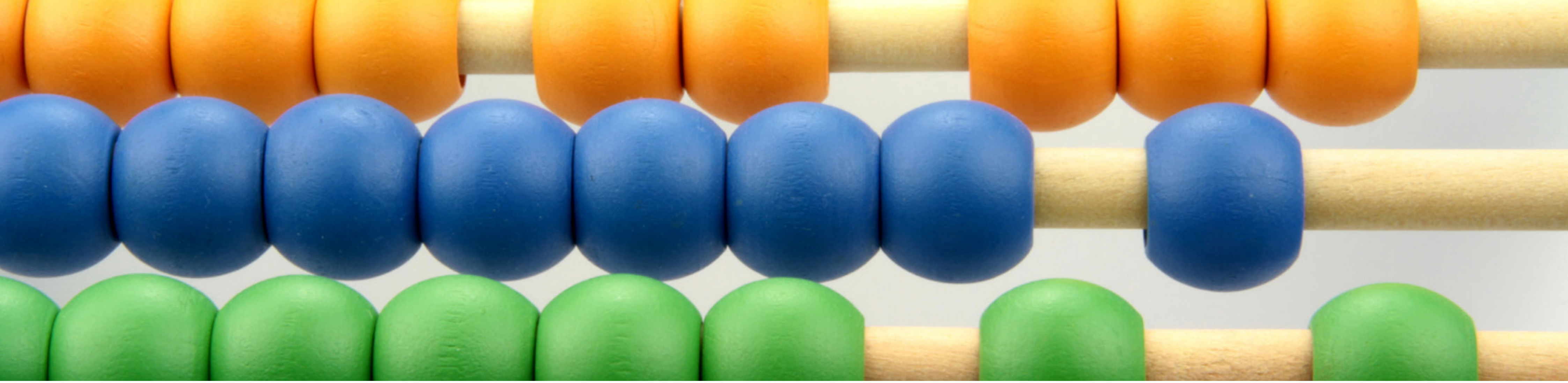
Reconciliation of income tax payable as per the financial statements to corporate income tax contributions	2017 $'000
Current tax payable per 2017 financial statements	**3,628**
Adjust for	
Income tax paid in the current year	20,546
Income tax payable before income tax paid	**24,174**
Adjust for	
Current year over provision	(526)
Corporate income tax contributions	**23,648[6]**

[3] See Appendix

[4] The audited financial statements of RACQ Limited and its controlled entities includes the surplus before income tax for RACQ Bank and RACQ Financial Planning for the seven months ended 30 June 2017. The merger between RACQ and RACQ Bank occurred on 24 November 2016.

[5] The pre-acquisition loss before income tax is RACQ Bank's and RACQ Financial Planning's surplus before income tax for the 5 months to 24 November 2016.

[6] Includes RACQ Bank and RACQ Financial Planning for the 12 months ended 30 June 2017.

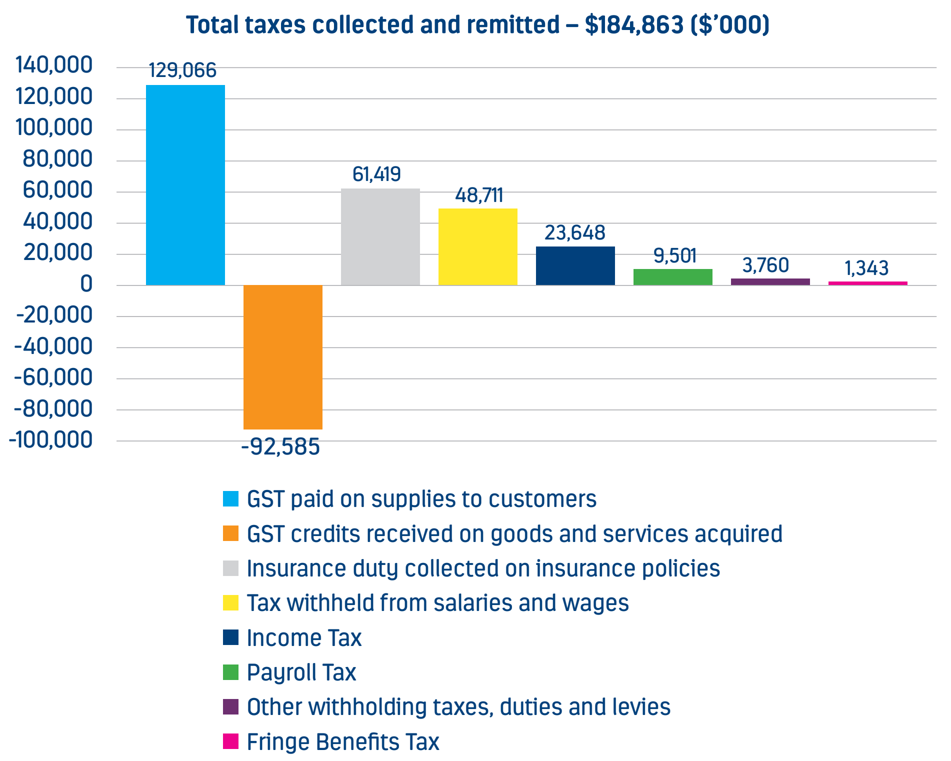


Other Taxes

RACQ also collects and remits the goods and services tax (GST), insurance duty, salary & wages withholding tax, payroll tax, fringe benefits tax (FBT) and other withholding taxes, duties and levies to federal and state revenue authorities.

The total taxes collected and remitted to revenue authorities is illustrated in the table below and the chart across the page.

Total taxes collected and remitted	**2017 $'000**
GST paid on supplies to customers	129,066
GST credits received on goods and services acquired	(92,585)
Insurance duty collected on insurance policies	61,419
Tax withheld from salaries and wages	48,711
Income Tax	23,648
Payroll Tax	9,501
Other withholding taxes, duties and levies	3,760
Fringe Benefits Tax	1,343
Total taxes collected and remitted	**184,863**



ACCOUNTING PROFIT TO INCOME TAX PAYABLE RECONCILIATION

The table below provides a reconciliation between income tax expense and income tax payable for the financial year ended 30 June 2017 for RACQ and its controlled entities.

The information is derived from the audited financial statements of RACQ Limited and its controlled entities for the year ended 30 June 2017. Income tax expense is calculated based on the Australian Accounting Standards.

Reconciliation of surplus before income tax to income tax expense	2017[7] $'000
Surplus before income tax per Consolidated Income Statement	**39,769**
Income tax at corporate tax rate of 30%	11,931
Adjust for tax effect of:	
Non-deductible expenses	673
Non-assessable income	(364)
Mutual income and related deductions	1,672
Tax offset in franked dividends	(874)
Foreign income tax offsets	(115)
Withholding tax credits	–
Prior year over provision for research and development amendments	(742)
Prior year under provision other	845
Income tax expense per Consolidated Income Statement	**13,026**
Effective tax rate	**32.75%**

[7]The audited financial statements of RACQ Limited and its controlled entities includes the surplus before income tax and income tax expense for RACQ Bank and RACQ Financial Planning for the seven months ended 30 June 2017. The merger between RACQ and RACQ Bank occurred on 24 November 2016.
[8]RACQ Bank and RACQ Financial Planning

Reconciliation of income tax expense to income tax payable	2017 $'000
Income tax expense per Consolidated Income Statement	**13,026**
Add / Subtract prior year adjustments:	
Prior year over provision for research and development amendments	742
Prior year under provision other	(845)
Temporary differences between accounting and tax:	
Property, plant and equipment	4,315
Intangibles	2,608
Accruals	92
Acquisition Adjustment	3,165
Investments	2,519
Claims handling costs on outstanding Claims	1,850
Employee benefits	295
Provisions	577
Other items	(1,035)
Tax offsets carried forward	(7,138)
Tax losses recognised	(989)
Adjust for:	
Merger Entities'[8] provision for income tax as at 24 November 2016	3,872
Merger Entities' income tax paid included in the provision for income tax as at 24 November 2016	1,120
Income tax payable for the current year	**24,174**
Adjust for:	
Income tax paid in the current year	(20,546)
Income tax payable per Consolidated Balance Sheet	**3,628**

APPENDIX
RACQ's controlled entities:

	2017
RACQ Operations Pty Ltd	100%
RACQ Insurance Limited	100%
The Road Ahead Publishing Co Pty Ltd	100%
RACQ Investments Pty Ltd	100%
Members Banking Group Limited ("RACQ Bank")	100%
Arrow Funding Trust No. 1	100%
RACQ Financial Planning Pty Ltd	75%
Club Insurance Holdings Pty Ltd	100%
Club Finance Holdings Limited	100%

	2017
RACQ – Queensland Driving Excellence Centre Pty Ltd	100%
Fuel Assist Pty Ltd	100%
RACQ Investments No. 2 Pty Ltd	100%
RACQ Foundation Pty Ltd	100%
RACQ Foundation Fund	100%
RACQ Foundation Trust	100%
Club Equities Pty Ltd	100%
Club Equities Holdings Pty Ltd	100%

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