2014 tax report – addendum – tax transparency

This document serves as an addendum to the AMP 2014 tax report, originally published on 26 March 2015. This information is to assist with understanding disclosures expected to be made by the Australian Taxation Office (ATO) in December 2015 on AMP's tax position in its tax transparency report for our tax year ended 31 December 2013. It is being released at this time as the timing of the ATO's disclosure does not coincide with AMP's financial reporting period.

In 2013, Australia introduced legislation requiring the ATO to publish specific income tax return data for companies with income of $100 million or more, including AMP Limited and AMP Capital Holdings Limited (AMPCH). These disclosures apply to AMP's Australian income tax position and do not cover any foreign taxes.

This income tax return data will contain both tax attributable to shareholder and policyholder related profits and will therefore differ from the tax paid analysis in the AMP 2014 tax report, which only relates to tax paid on shareholder profits.

The ATO has published documents on its website providing background on its corporate tax transparency report and acknowledges that for companies that include a life insurance business (eg AMP), the effective tax rate for accounting purposes will be impacted by the aggregation of shareholder and policyholder tax. The ATO has also noted that differing applicable tax rates, in particular the 15% rate for superannuation, may give an impression of an artificially low tax paid. These documents also comment on the impact of certain items, including the research and development tax concession (R&D) and imputation credits.

Tax transparency disclosures for the year ended 31 December 2013 (2013 year)

The first set of data will be released by the ATO in the week commencing 14 December 2015 and will include the following information from the AMP Limited and AMPCH 2013 Australian income tax returns:

	Gross income $m[1]	Taxable income $m[2]	Tax payable $m
AMP Limited	30,123	4,939	376
AMP Capital Holdings Limited	664	116	34
Total	**30,787**	**5,055**	**410**

Footnotes:

1 Gross accounting income for AMP and its wholly-owned Australian subsidiaries and their foreign branches as disclosed in the tax returns, prior to offsetting expenses (such as claims, commissions, employee costs or interest). This is not readily comparable to AMP's income statement, which also includes income from foreign subsidiaries and Australian entities that fall outside of the tax consolidated groups.

2 Under Australian tax law, AMP Limited has two classes of taxable income (ordinary class and complying superannuation class). Ordinary class taxable income (2013: $908m) is taxed at the corporate tax rate of 30%, and complying superannuation class taxable income (2013: $4,031m) is taxed at a statutory tax rate of 15%. The taxable income reported by the ATO for AMP Limited is the total of both classes of taxable income.

Note – AMP Limited's tax payable, as a percentage of taxable income, is 7.6% (and 8.1%, including AMP Capital Holdings Limited). This is largely due to how tax payable is determined for life insurance businesses and is explained further below under the heading 'Why tax does not equal 30% of taxable income'. How tax payable is determined for life insurance businesses is also outlined in the ATO's 2013 transparency disclosure report.

Why tax does not equal 30% of taxable income

Separate tax treatment for life insurance business

AMP's tax profile differs to other Australian corporates due to its life insurance and superannuation businesses.

Under the tax rules for life insurance businesses, a significant portion of AMP's gross income, as reported in its tax returns, is not subject to tax (not included in taxable income) or is subject to a concessional rate of tax where it relates to policyholder interests. This includes:

– certain life insurance premiums invested in AMP out of 'after-tax' earnings by policyholders which are not subject to further contributions tax
– income relating to AMP's pension business is exempt from tax, consistent with the taxation of pension phase earnings in a superannuation fund, and
– income relating to complying superannuation business which is taxed at 15%, consistent with the taxation of standalone complying superannuation funds.

Breakdown between the statutory rate of 30% and AMP's tax rate

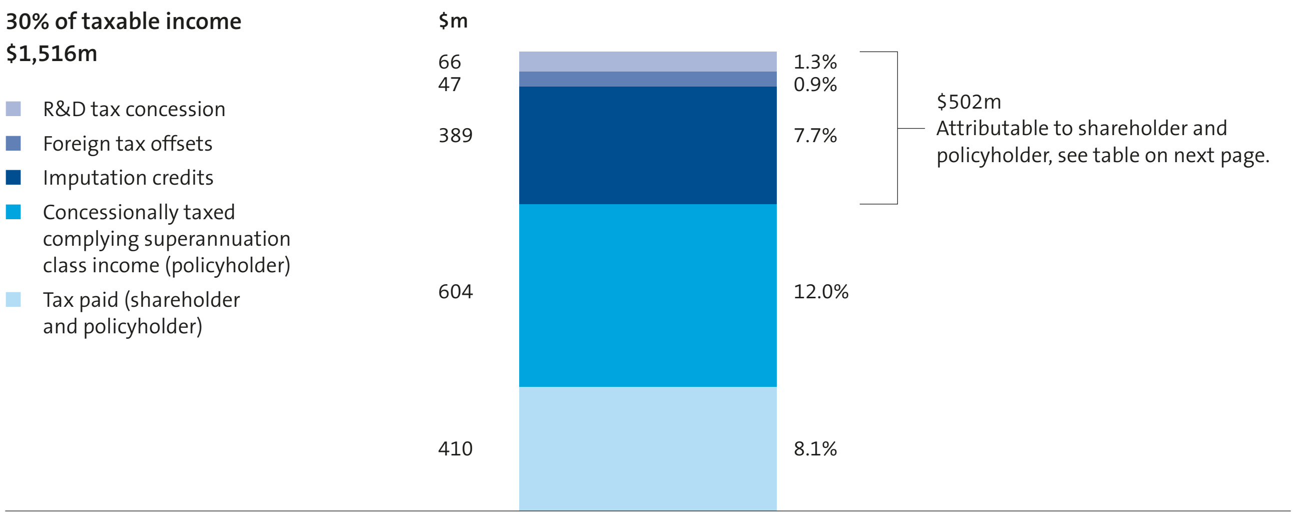
The difference between AMP's tax payable and a tax payable rate of 30% is a result of:

– Complying superannuation class income taxed at a statutory rate of 15%, consistent with the rate of taxation on complying superannuation funds. This contributed a $604m reduction to tax from a 30% tax rate in 2013.
– Imputation credits received by AMP from franked dividends, which reduce its tax payable. These imputation credits arise on dividends received by AMP that have been paid from taxed profits and prevents double taxation of these profits. This contributed a $389m reduction to tax from a 30% tax rate in 2013.
– Foreign tax offsets reflecting payments of foreign tax by AMP. These are allowed as a credit against Australian tax to prevent a double taxation. This contributed a $47m reduction to tax from a 30% tax rate in 2013.
– AMP receives R&D tax offsets from conducting R&D activities in Australia. Under the relevant Australian tax law, R&D expenditure was not deductible and gave rise to a 40% tax offset, which is equivalent to a 10% tax concession. This contributed a $66m reduction to tax from a 30% tax rate in 2013[1].

The nature of AMP's business means that under Australian tax laws its Australian tax payable ($410m for 2013) is lower than 30% of taxable income (30% tax payable would equate to $1,516m for 2013).

Analysis of gap to 30% of taxable income

The impact of these items on AMP's tax payable in 2013 is illustrated in the chart below.

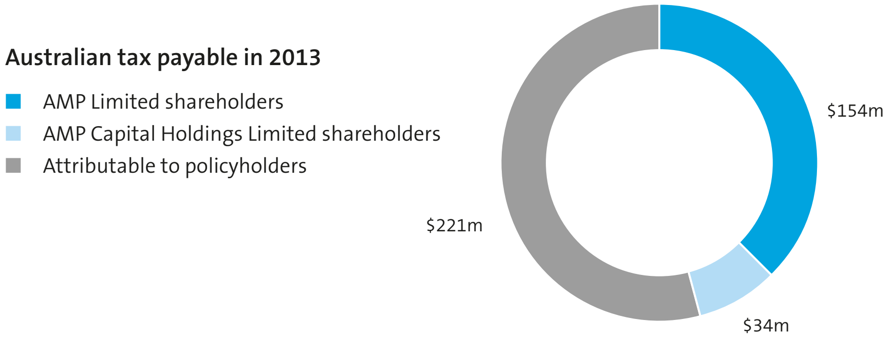


Footnote:

1 The R&D tax offset represents the value of tax deductions for R&D expenditure (at 30%) plus an additional 10% R&D tax concession.

Shareholder vs policyholder tax

Australian tax payable in 2013



The table below summarises AMP's taxable income and the Australian tax payable by each part of AMP's business for 2013.

2013	AMP Limited shareholders $m	AMP Capital Holdings Limited shareholders $m	Total attributable to shareholders $m	Attributable to policyholders $m	Total $m
Taxable income	877	116	**993**	4,062	**5,055**
Tax	262[1]	35[1]	**297**	615[2]	**912**
Tax offsets[3]	(108)	(1)	**(109)**	(393)	**(502)**
Tax payable	**154**	**34**	**188**	**221**	**410**[4]

Footnotes:

1 Shareholder income is subject to tax at a 30% tax rate.

2 Policyholder income is subject to tax at either 30%, 15% or exempt from tax (as discussed above).

3 Tax offsets include R&D offsets of $66m, imputation credits received by AMP on dividends and foreign tax offsets. The $66m of R&D offsets is the total of the 40% benefit under the R&D concession (this includes the $16m disclosed in the AMP's 2014 tax report (in respect of the 2013 year) which represents the excess over the notional 30% deduction benefit).

4 This differs to the amount of tax paid shown in the table on page 4 of AMP's 2014 tax report, due to refunds received by AMP from an amendment request in 2015.

Difference between tax payable and income tax expense

The tax payable disclosed in the tax returns of AMP Limited and AMPCH differs to the shareholder income tax expense disclosed in AMP's accounts and 2014 tax report ($218m for 2013) for reasons including:

– the total tax payable includes tax referable to policyholder income which is not included in shareholder tax expense
– timing differences in respect of the recognition of income and expenses for tax and accounting purposes (eg gains on investments are not included in taxable income until the investments are realised)
– AMP's shareholder income tax expense includes foreign taxes, as well as Australian tax referable to entities that are not included in the AMP Limited and AMPCH consolidated tax groups (eg income of AMP's foreign branches already taxed overseas are not subject to further Australian tax).

Further, the tax payable attributable to policyholders disclosed above represents the cash tax paid in respect of the 2013 income year. The policyholder income tax expense disclosed in AMP's 2013 accounts ($564m) represents both current and deferred tax expense (expected to be paid in future income years).