

22 July 2015

Tax White Paper Task Force
The Treasury
Langton Crescent
PARKES ACT 2600

Dear Task Force

**Submission to the Tax Discussion Paper
nib health funds limited (nib)**

nib welcomes the opportunity to comment on the Tax Discussion Paper released by the Treasurer on 30 March 2015.

nib is Australia's fourth largest private health insurer providing health cover to more than 1.2 million people in Australia and New Zealand. Established more than 60 years ago, our mission is to help people finance and access healthcare. Today nib provides health and medical cover to international students, skilled migrant workers as well as Australian and New Zealand residents.

nib was also the first Australian health fund to demutualise and list on the Australia Securities Exchange (ASX: nhf).

nib believes the current regime for taxing the non-mutual income of mutuals, in the context of the Australian private health insurance industry, is not appropriate in today's increasingly competitive commercial environment.

nib is of the view that the tax concessions presently extended to Not-For-Profit (NFP) be removed. We submit it is more appropriate that tax treatment for NFP health insurers be consistent with the underlying and original intent of the common law Principle of Mutuality, in so far as tax concessions only apply to any surpluses generated from direct member contributions and not from income derived from other third party sources such as investment income.

Removal of inappropriate income tax concessions

1. Many Australian NFP organisations are provided with tax exemptions or concessions through the operation of the Income Tax Assessment Acts and application of the common law Principle of Mutuality.
2. Present legislative arrangements provide that all surpluses generated by NFP health insurers, including underwriting profit and income from third party sources, are exempt from income tax (ITAA 1997 Division 50-30 Item 6.3).

3. Historically, a significant portion of enterprise value generated by private health insurers is attributable to revenue from third party sources including investment income. As at 30 June 2014, 25 of the 34 registered and operating health insurers were NFP entities. A major component of revenue from third party sources includes returns on the investment of prudential and surplus capital. Using information disclosed by APRA (Source: *The Operations of Private Health Insurers Annual Report 2013-14*), NFP health insurers generated just over \$286 million in investment revenue for FY14. Applying the Australian corporate tax rate of 30%, this amounts to \$85.9 million in potential annual Government tax revenue. We submit that the application of the common law Principle of Mutuality was never intended to apply to income from third party sources and that this concession for NFP health insurers unfairly disadvantages other insurers and further exacerbates the allocative efficiency implicit in mutual structures.

We recommend that the Commonwealth Government:

1. Amend the specific tax exemption (ITAA 1997 Division 50-30 Item 6.3) to reflect the underlying and original intent of the common law Principle of Mutuality, in so far as tax concessions only apply to surpluses generated from direct member contributions and not from income derived from third party sources.
2. Alternatively, remove the specific tax exemption (ITAA 1997 Division 50-30 Item 6.3) and clarify that the common law Principle of Mutuality only applies in line with above.

This proposal is not new to the Australian taxation landscape. It is presently in use by registered and licensed clubs.

Yours sincerely



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