AustralianSuper

AustralianSuper's tax transparency report

Contribution to Australia's tax system FY17

Introduction

AustralianSuper invests over $130 billion on behalf of more than 2 million Australians with the aim of helping them achieve their best possible retirement outcomes.

In doing this, AustralianSuper plays a significant role in the Australian community and national economy.

For the 2017 financial year (FY2017), AustralianSuper paid almost $1.4 billion of income tax in Australia – which makes AustralianSuper one of Australia's largest taxpayers.

AustralianSuper is pleased to publish this tax transparency report which follows the federal government's introduction of the Voluntary Tax Transparency Code (the Code). The key aim of the Code is to encourage greater tax related public disclosure and transparency.

Whilst the specific requirements of the Code do not extend to include superannuation funds, AustralianSuper is pleased to support this initiative through its voluntary participation.

Australia's tax regime for superannuation funds

Superannuation is a long-term retirement savings system and a special tax regime applies to Australian superannuation funds including AustralianSuper.

The tax that Australian superannuation funds pay largely depends on the type of income generated and the retirement savings phase of members.

Like all superannuation funds, AustralianSuper is required to pay tax on:

- contributions that we receive from or on behalf of members
- investment earnings that we generate for some members
- some benefits that we pay to members.

This has been summarised in the table below.

Australia's tax on superannuation funds

Contributions	Investment earnings for members in accumulation phase	Investment earnings for members in pension phase	Benefits paid to members
Contributions made by employers on behalf of members are generally **taxable at 15%***	Investment earnings that support member assets in accumulation phase are generally **taxable at 15%†**	Investment earnings that support member assets in pension phase are generally **not taxable**	Benefits paid to members are generally not taxed in AustralianSuper, however we may be required to withhold tax when paying a benefit. The amount of tax withheld depends on the type of benefit, and the age and circumstance of the recipient
Contributions that members make from their after-tax income, and member asset roll-ins from other super funds, are generally **not taxable**	Franking credits and offsets for foreign tax paid on investment earnings are applied to **offset tax payable**	Franking credits are applied to increase pension member assets	
		Foreign tax paid on earnings that support member assets in pension phase is not creditable	

* Members that earn over $300,000 (in 2017) may be required to pay an additional 15% tax on their contributions, bringing their overall contribution tax rate to 30%. If members don't provide us with their TFN, their contributions are taxed at 49% (in 2017).

† Investment gains made on long term capital assets are taxed at an effective rate of 10%.

AustralianSuper's approach to tax risk management and governance

AustralianSuper's approach to tax risk management and governance aims to support AustralianSuper's objective of helping members achieve their best possible retirement outcomes.

To do this, AustralianSuper ensures the highest possible standards of integrity and transparency are applied to all our tax affairs, while adopting an approach that appropriately maximises after-tax returns for members.

The key purpose of our tax risk management and governance process is to ensure our tax affairs are managed so that we comply with all our tax obligations and pay the correct tax in all countries, ensuring we:

- comply with both the letter and the spirit of the tax laws
- maintain an open, honest and co-operative approach with all tax authorities
- do not engage in aggressive tax planning practices
- do not tolerate practices that rely on secrecy.

AustralianSuper's process ensures that its tax positions are reviewed with the aim of ensuring that AustralianSuper does not take aggressive tax positions and that we always work with tax authorities as a responsible taxpayer to comply with all tax laws.

Our approach to tax risk management and governance is approved by AustralianSuper's Board, and is documented in our tax risk management & governance framework in accordance with ATO public guidance.

The ATO has rated AustralianSuper as a 'key taxpayer' and assessed us as having a lower likelihood of non-compliance.

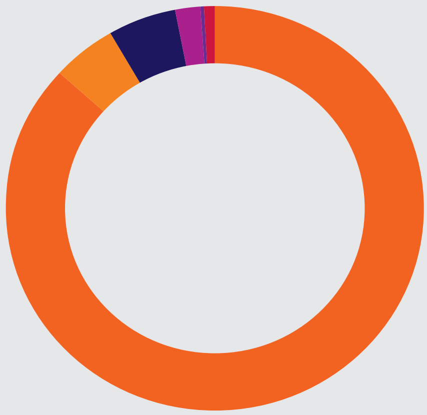
In an assessment confirmation from the ATO (29 November 2016), the ATO stated that:

> "Over the past year, AustralianSuper has clearly demonstrated an ongoing willingness to maintain a cooperative and open relationship with us [the ATO] on a real time basis."

AustralianSuper's FY2017 tax payments

AustralianSuper pays a range of different taxes to the Australian state, territory and federal governments each year. The chart below summarises the taxes that AustralianSuper paid for FY2017, and also the factors that influence the amount of those taxes paid.

AustralianSuper tax paid 2017



Tax paid	$(m)	Amount of tax paid is driven by:
Income tax	1,368	Contributions and investment returns
Direct foreign taxes	77	Foreign investment returns
Withholding tax	83	Benefit payments to members (borne directly by members)
Withholding tax	31	Employee salaries (borne directly by employees)
Employment taxes	6	Employee salaries and benefits
GST	6	Acquisition of goods and services
Total	**1,571**	

AustralianSuper's FY2017 income tax expense

Income tax expense is calculated using accounting principles and is included in our financial statements, published on our website. The accounting standards for superannuation funds require that income from investing activities be shown separately to member related activities. This is shown in the table below.

As a superannuation fund, our taxable income is taxed at 15%, however some income that is included as income for accounting purposes is not included in income for tax. For example, investment earnings that support member assets in pension phase are exempt from tax, and long term capital gains are allowed a one-third capital gains tax discount. Most transfers in from other superannuation funds are also not taxable.

The Australian tax law also allows tax offsets (for example, for foreign tax and franking credits that reflect that tax has already been paid) which apply to offset our tax payable.

This means that our income tax expense is lower than 15% of our accounting income. The table below reconciles the differences between our FY2017 accounting income (at 15%) to our income tax expense.

FY2017 reconciliation of accounting income to income tax expense ($m)	**Income Statement**	**Change in members' benefits**	**Total**
Accounting income	**12,593**	**15,739**	**28,332**
Prima facie income tax expense (at the superannuation tax rate of 15%)	1,889	2,361	4,250
Adjusted for tax effect of the following items:			
Non-taxable member contribution		-339	-339
Non-taxable transfers in from other superannuation funds		-930	-930
Tax deductible Group Life insurance premiums		-99	-99
Anti-detriment tax deduction on death benefits		-17	-17
Capital gains tax concession and tax exempt capital gains	-492		-492
Tax exempt income supporting pension balances	-197		-197
Franking credits and foreign tax offsets	-349		-349
Other	-1		-1
Over-provision for tax in the prior year	-59		-59
Income Tax Expense	**791**	**976**	**1,767**
Effective rate of income tax expense (after adjustment for amounts which are not deductible/not taxable)	6.3%	6.2%	6.2%

The actual income tax that AustralianSuper pays each year is different to the amount of income tax expense shown in AustralianSuper's financial statements each year. This is largely due to the income tax expense including a provision for tax on items which are assessable or deductible for tax purposes in a different year. For example, unrealised market value movements on investments are recognised for accounting each year, but are only taken into account for tax purposes when we sell those investments.

The below table shows the difference between the amount of income tax expense in our financial statements, compared to the income tax that we paid for FY2017.

FY2017 reconciliation of income tax expense to income tax paid ($m)	Income Statement	Change in members' benefits	Total
Income Tax Expense	**791**	**976**	**1,767**
Over-provision for tax in the current year*	-32		-32
Net unrealised investment gains	-437		-437
Accrued income and expenses	11		11
Impact of over-provision for tax in the prior year	59		59
Income tax paid for 2017	**392**	**976**	**1,368**

* Largely relates to trust distribution income where the tax components were provided to us after completion of the financial statements

AustralianSuper's trustee

AustralianSuper Pty Ltd is the corporate trustee of AustralianSuper (the fund). As trustee, AustralianSuper Pty Ltd provides trustee services to AustralianSuper and in doing so incurs operating costs in fulfilling its trustee obligations. AustralianSuper Pty Ltd recovers those operating costs through charging a trustee services fee to AustralianSuper.

The financial result of AustralianSuper Pty Ltd can be impacted by timing differences in charging the trustee fee. In FY2017, AustralianSuper Pty Ltd's trustee fee income was $375 million, and its operating costs were $370 million (resulting in a net accounting income for FY2017 of $5 million). This income recouped prior year losses and AustralianSuper Pty Ltd was not required to make payments of tax to the ATO for FY2017.

AustralianSuper's global investments

AustralianSuper invests globally to diversify investments across a broad range of assets, which helps achieve the best possible returns for members. We pay tax in accordance with the tax rates and tax laws in the foreign countries in which we hold investments.

Our global investments include interests in listed equities, cash and fixed interest securities. Our scale and reputation also allows us to invest in unlisted assets such as property, infrastructure and private equities.

In order to access global unlisted assets which provide diversification benefits, investment scale, desired commercial outcomes and co-investment with other global institutional investors, AustralianSuper invests into pooled entities. This enables AustralianSuper to access investments that might otherwise not be available if investing alone.

Some of AustralianSuper's global pooled entities are located in low or no tax countries. There are a variety of commercial and legal reasons for this and from a tax perspective these pooling locations generally mean that the co-investors don't unnecessarily pay tax twice on the same income. For AustralianSuper, this means that tax is paid where the global investments are located, and in Australia where all of our income is returned and is subject to tax appropriately with offsets for eligible foreign tax paid.

Consistent with our approach to Australian investment, when investing globally, we apply the same approach to tax governance regarding compliance with both Australian and international tax laws.

As a global investor, AustralianSuper indirectly pays foreign tax on income earned by the foreign companies that it invests in. AustralianSuper also directly pays foreign tax, predominantly on interest and dividend income earned from its foreign investments. A summary of the direct foreign tax paid by AustralianSuper for FY2017 appears in the table below.

Region	$ (m)
North America	29
Europe	21
Asia	17
South America	2
Africa	1
Other*	7
Total	**77**

* Relates to receipts from external trust distributions.

In addition to our seven office locations in Australia, AustralianSuper also has offices in London and Beijing which operate to help support AustralianSuper's global investment activities. Investment support activities that are performed by our international offices are provided within the requirements of the tax laws and tax authorities of both Australia and those foreign countries.

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