QSuper Group Tax Transparency Report

For the year ended 30 June 2020

qsuper.qld.gov.au

QSuper

Contents

Introduction

The QSuper Board is committed to the highest standards of governance.

This year, the QSuper Group^ contributed approximately $1.3 billion of taxes on behalf of our members in Australia. In addition, the QSuper Group pays taxes all over the world through our global investment activities.

The Tax Transparency Code (TTC) is a set of principles and 'minimum standards' developed by the Board of Taxation to guide the public disclosure of tax information. For large organisations such as QSuper Group, it is designed to:

1. Encourage public disclosure of our tax affairs and in particular, highlight that we are paying our fair share; and
2. Ensure we are transparent and help educate the public about our compliance with Australia's tax laws.

The QSuper Group supports the TTC and is pleased to publish its fourth Tax Transparency Report in respect of the year ended 30 June 2020. Whilst adoption of the TTC is voluntary, QSuper recognises the importance of transparent disclosure and welcomes the opportunity to provide our members and other interested parties with insight into:

- The tax strategy that the QSuper Board pursues;
- The governance arrangements that the QSuper Board has implemented and follows in pursuit of that strategy; and
- The substantial extent to which QSuper and its members contribute to taxes paid in Australia and elsewhere.

Above all, this report provides a clear picture of how much tax we pay in Australia and overseas.

About the QSuper Group

QSuper is an Australian superannuation fund with more than $94 billion in funds under management. From humble beginnings over a century ago, today we manage the retirement savings of more than 594,000 members, making us one of the largest superannuation funds in Australia[1].

Prior to 1 July 2017, membership in QSuper was restricted to current and former Queensland Government employees and their spouses. However, following State legislation changes, QSuper is now open to everyone. QSuper is a profit-for-member fund and exists solely for the benefit of its members. Our members are at the heart of everything we do and our values are at the heart of our organisation. As an organisation the QSuper Group is united by our values and driven to support QSuper members' financial wellbeing through to retirement and beyond. Our values and culture underpin decisions we make and guide our behaviours. Our differentiating values drive our performance, enhance our reputation, build on our heritage and position us for the future.

We strive to help each of our members make the most of today, because we know what we do creates an impact for 594,000 lifetimes. We do this through access to our financial education and advice, personal member services, unique investment philosophy, and **award-winning products**.

The QSuper Group includes a range of diverse superannuation fund services, including the financial advice business QInvest. We manage much of our end-to-end administration and investments in-house, and four years ago we launched QInsure, our own life insurance company, providing QSuper members with a tailored insurance offer.

We are proud of our heritage and the contribution we make to public finances through the appropriate payment of tax, not only in Australia but in all countries in which we invest.

In 2020, the QSuper Group paid approximately $1.3 billion in taxes and duties to governments, with the vast majority paid here in Australia.

1 Australian Prudential Regulation Authority (APRA), *Annual Fund-level Superannuation Statistics*, June 2019 edition (issued 10 December 2019).

^ When we say 'we' or 'us' or 'our' and 'the QSuper Group', we're referring to the QSuper Board, QInvest Limited (QInvest) (ABN 35 063 511 580, AFSL and Australian Credit Licence 238274), QInsure Limited (QInsure) (ABN 79 607 345 853, AFSL 483057) and QSuper Limited (ABN 50 125 248 286, AFSL 334546), unless the context we're using it in suggests otherwise. QInvest, QInsure and QSuper Limited are ultimately owned by the QSuper Board as trustee for QSuper.

Tax strategy and governance

Tax strategy

The QSuper Board has a fiduciary obligation to act in the best interests of the members of the Fund and pursues organisational strategies consistent with that obligation. In addition, the QSuper Board has a statutory obligation to have regard to expected tax consequences when developing investment strategies. Therefore, QSuper's tax strategy seeks to ensure that it pays the right amount of tax that is due under a reasonable interpretation of tax laws. The QSuper Board considers this approach meets its regulatory obligations as a taxpayer as well as its fiduciary obligation to maximise the value of members' superannuation account balances over time consistent with its duty to members. The Fund's tax strategy balances these two elements.

QSuper invests members' monies across a diverse range of asset classes, geographic locations and structures. Legal structures adopted can vary depending on asset type and location and are implemented to manage risk and maximise post-tax returns for our members. Typically, QSuper will establish an entity or entities in a foreign location in order to acquire investment assets in that location. For example, QSuper has established a considerable number of entities in the United States of America in respect of its extensive real estate and infrastructure assets in that country. QSuper has also established or invested in entities located in countries with low effective income tax rates, including Jersey, Guernsey and Luxembourg.

The QSuper Board does not sanction tax structures that are not supportable under the law. In undertaking its offshore investments, QSuper does not seek to shift profits to low tax rate jurisdictions or rely on secrecy provisions in any foreign locations to hide income or gains. QSuper typically invests in a limited number of entities in low tax rate jurisdictions in order to access investments offered by collective investment vehicles by investment managers. These vehicles are common investment structures established by overseas investment managers to aggregate equity capital from investors around the world to invest for a specific purpose. Aggregating funds in these locations means that no income tax is paid in the location where the funds are aggregated, but tax will generally be payable where the underlying asset and economic activity is located, as well as in the investor's home country, which in QSuper's case is Australia.

Tax governance

In line with the ATO's best practice framework, the QSuper Board has established a Tax Governance Policy.

The purpose of the Tax Governance Policy is to establish a framework within which QSuper's tax liabilities are managed from an operational and risk management perspective. The Tax Governance Policy has, at its heart, the objective of ensuring the tax positions that QSuper takes are valid and supportable, and that appropriate levels of third party review, including consultation with revenue authorities, is undertaken. QSuper undertakes all reasonable efforts to ensure that tax positions taken provide at least a Reasonably Arguable Position (RAP), which provides significant protection against tax shortfall penalties.

Relationship with Regulators

QSuper seeks to maintains an open and transparent relationship with its regulators by:

- Proactively engaging regulators on significant tax issues;
- Providing regulators with required information on a timely basis; and
- Working with regulators in an open and constructive manner to resolve any issues.

Due to QSuper's size and contribution to Australia's tax system, the ATO has categorised QSuper as a key taxpayer, and is a participant in the ATO's Top 100 Justified Trust Program. Under this program, QSuper works closely with the ATO to provide objective evidence that would lead a reasonable person to conclude that a particular taxpayer paid the right amount of tax.

In addition, as part of the Diagnostic Report in relation to member reporting, the ATO noted that QSuper continues to maintain its good results and continues to perform well compared with its industry peers.

International related party dealings

QSuper's international related party dealings are limited to transactions between investment entities, set up to facilitate investments made on behalf of our members. These related party transactions are either debt or equity and are always structured on arm's length terms. QSuper has no other international related party transactions.

Tax contribution

The QSuper Group is a significant contributor to government revenues in Australia. The Group pays over $800 million of tax annually in respect of superannuation contributions it receives for members. It also pays significant levels of income tax and duties in respect of investment returns and insurance premiums.

Summary of taxes paid – Australia

The following table outlines taxes paid or payable for the 2020 financial year by the QSuper Group in Australia:

Tax type	$ million
Income tax – Fund	1,095.8
Income tax – corporate	-
GST	10.5
FBT	0.1
Payroll tax	8.9
Duties	23.0
Levies	4.7
PAYG Withholding Tax (benefits)	92.2
PAYG Withholding Tax (salaries)	49.1
Total	**1,284.3**

Summary of taxes paid – by region

Regions	$ million (AUD)
Australia	1,284.3
North America	22.8
Europe	13.5
Asia	8.0
South America	3.3
Total	**1,331.9**

Income tax reconciliations

Reconciliation of accounting profit to income tax expense

The TTC requires a reconciliation of accounting profit to the income tax expense disclosed in QSuper's financial statements for the year ended 30 June 2020. The reconciliation is outlined below:

	$ million (AUD)
Results from superannuation activities	**(1,019)**
Prima facie income tax expense / (benefit) at the tax rate of 15%	(153)
Imputation and Foreign Income Tax Offsets	(176)
Exempt pension income	27
Difference between accounting and taxation treatment on investment income	191
Notional deduction for self-insurance	(17)
Non-deductible expenditure / Other	6)
Income tax expense / (benefit)	**(122)**
Effective tax rate	***11.97%***

Key items to note are:

1. The effective tax rate of 11.97% relates mainly to tax on net investment revenue. It includes tax exempt earnings on assets supporting Income Accounts, tax offsets for franking credits received, and the one-third capital gains tax discount applicable to capital gains derived from assets held for more than 12 months.
2. The effective tax rate in respect of Net Contribution Revenue is not included in the above calculation as Australian Accounting Standards no longer require it be included. The effective tax rate in respect of Contributions is:

	$ million
Gross contributions	10,485
Less: Member and other non-taxable contributions, incl. deductions relating to contributions	(5,116)
Taxable contributions	5,369
Tax on taxable contributions at 15%	805
Effective tax rate on gross contributions	7.7%

Reconciliation of income tax expense to income tax payable and income tax paid

The TTC also requires participants to disclose a reconciliation of the differences between income tax expense disclosed in the 2020 financial statements and actual tax paid in the 2019/20 financial year. The reconciliation is as follows:

	$ million (AUD)
Income tax expense	**(122)**
Add tax effect of: Taxable contributions	805
Unrealised capital (gains) / losses on investments	452
Unrealised income (gains) / losses on investments	(25)
Accrued franking credits and foreign income tax offsets	(13)
Other	(1)
Income tax payable in the 2020 financial year	**1,096**
Balance of 2019 income tax liability paid	113
Balance of 2020 income tax liability to be paid	(217)
Income tax paid in the 2020 financial year	**992**

Member Centres

70 Eagle Street, Brisbane
63 George Street, Brisbane
Sunshine Coast University Hospital,
Ground Floor, Main Hospital Building,
6 Doherty Street, Birtinya

Ph 1300 360 750

(+617 3239 1004 if overseas)
Fax 1300 241 602
(+617 3239 1111 if overseas)
Monday – Friday 8.00am – 6.00pm (AEST)

QSuper

GPO Box 200
Brisbane QLD 4001

qsuper.qld.gov.au