

QSuper Group Tax Report

For the year ended 30 June 2018



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Introduction

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

Each year the QSuper Group¹ contributes approximately \$800 million on behalf of our members in taxes to federal and state governments in Australia. In addition, the QSuper Group pays taxes in many other countries 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 report in respect of the year ended 30 June 2018. Whilst adoption of the TTC is voluntary, QSuper is pleased to participate to provide our members and other interested parties with insight into:

- The tax strategy that QSuper Board pursues;
- The governance arrangements that 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 one of Australia's largest superannuation funds, with more than \$80 billion in funds under management. From humble beginnings over a century ago, today we manage the retirement savings of more than 580,000 members, making us one of the largest superannuation funds in Australia.²

QSuper is a profit-for-member fund and exists solely for the benefit of its members. As an organisation the QSuper Group is united by our values and driven to support QSuper members' financial wellbeing through to retirement and beyond.

We strive to help each of our members make the most of today, because we know what we do creates an impact for 580,000 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 on 1 July 2016 we launched QInsure, our own life insurance company, providing QSuper members with a tailored insurance offer.

We are proud of our heritage and the role we play in building a better Queensland and a better nation. This includes ensuring we make a meaningful and fair contribution to public finances through the appropriate payment of tax, not only in Australia but in all countries we invest in and generate returns for our members.

In 2018, the QSuper Group paid approximately \$800 million in taxes and duties to governments, with the vast majority paid here in Australia.

¹ 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. ² Australian Prudential Regulation Authority (APRA), Annual Fund-level Superannuation Statistics, June 2017 edition (issued 28 March 2018).

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. To this extent, the QSuper Board has endorsed the Fund's tax strategy.

QSuper invests members' monies across a diverse range of asset classes, geographic locations and structures. Legal structures 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 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. These vehicles are common investment structures established by overseas investment managers to aggregate equity 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.

QSuper maintains an open, transparent relationship with the Australian Taxation Office and as a key taxpayer, participates in real time reporting on a quarterly basis. We maintain an open, transparent relationship with tax authorities through participation in regular reviews of our tax returns as well as actively seeking advice from revenue authorities where tax positions are significant and unclear.

Tax governance

The QSuper Board has established a Risk Management Framework and 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 appropriate and that appropriate levels of third party review, including consultation with revenue authorities, is undertaken.

International related party dealings

QSuper's international related party dealings are limited to acquiring ownership interests in investments made on behalf of our members. These ownership interests are structured as 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 more than half a billion dollars 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.

The tables below provides important information about taxes paid in Australia and overseas in respect to the year ended 30 June 2018.

Summary of taxes paid - Australia

The following table outlines taxes paid or payable for the 2018 financial year by the QSuper Group in Australia:

Tax type	\$'million
Income Tax - Fund	710.6
Income Tax - Corporate	5.7
GST	9.2
FBT	0.1
Payroll Tax	7.2
Duties	24.1
Total	756.9

Summary of taxes paid - foreign

The following table outlines taxes paid by the QSuper Group in foreign jurisdictions:

Tax type	\$'million
Income Tax - Investments	42.9

Taxes paid by country

Country	\$'million (AUD)	Country	\$'million (AUD)
Australia	756.9	Japan	0.6
United States	15.6	Netherlands	0.5
France	5.4	Canada	0.3
Taiwan	3.6	United Kingdom	0.3
Germany	3.4	Mexico	0.2
Spain	2.6	Luxembourg	0.2
New Zealand	2.4	Ireland	0.2
South Korea	1.5	Italy	0.2
Chile	0.9	Finland	0.1
Belgium	0.9	Papua New Guinea	0.1
Sweden	0.8	Norway	0.1
Denmark	0.7	Other	2.3
		Total	799.8

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 2018. The reconciliation is outlined below:

	\$'million
Results from superannuation activities	5,498
Prima facie income tax expense at the tax rate of 15%	825
Imputation and Foreign Income Tax Offsets	(180)
Exempt pension income	(201)
Difference between accounting and taxation treatment on investment income	(165)
Notional deduction for self-insurance	(17)
Non-deductible expenditure / Other	36
Income tax expense	298
Effective tax rate	5.42%

Key items to note are:

1. The effective tax rate of 5.42% 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 1/3rd 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	8,213
Less: Member and other non-taxable contributions (incl. deductions relating to contributions)	(3,553)
Taxable contributions	4,660
Tax on taxable contributions at 15%	699
Effective tax rate on gross contributions	8.5%

Reconciliation of income tax expense to income tax paid

The TTC also requires participants to disclose a reconciliation of the differences between income tax expense disclosed in the 2018 financial statements and actual tax paid in the 2017/18 financial year. The reconciliation is as follows:

	\$'million
Income tax expense	298
Add tax effect of: Taxable contributions	699
Unrealised (gains) / losses on investments	(299)
Income due but not received	36
Accrued franking credits and foreign income tax off-sets	3
Other	(27)
Balance of 2017 income tax liability paid	158
Balance of 2018 income tax liability to be paid	(124)
Income tax paid in the 2018 financial year	744

Member Centres

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