QSuper Group
Tax Report

For the year ended 30 June 2019

Revised as at 21 November 2019

qsuper.qld.gov.au

QSuper

Contents

Introduction

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

Each year, the QSuper Group[1] contributes more than $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
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 2019. While 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
- 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 $90 billion in funds under management. From humble beginnings over a century ago, today we manage the retirement savings of more than 587,000 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 more than 585,000 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 three 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.

1 When we say 'we', 'us', 'our', 'QSuper', or the 'QSuper Group', we're referring to the QSuper Board, and the entities (which are ultimately owned by the QSuper Board as trustee for QSuper) consisting of QSuper Limited (ABN 50 125 248 286), QInvest Limited (ABN 35 063 511 580), One QSuper Pty Limited (ABN 90 601 938 774), QInsure Limited (ABN 79 607 345 853), and QSuper Asset Management Pty Ltd (ABN 67 608 694 471), unless the context we are using it in suggests otherwise.

2 Australian Prudential Regulation Authority (APRA), *Annual Fund-level Superannuation Statistics, June 2018 edition* (issued 21 December 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. The Fund's tax strategy balances these two elements.

QSuper invests members' money 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 income tax is generally payable in the investor's home country (Australia) and the country where the underlying asset and economic activity are located, rather than where the funds are aggregated.

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

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 policy has, at its heart, the objective of ensuring that QSuper takes appropriate tax positions and undertakes appropriate levels of third party review, including consultation with revenue authorities.

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 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 provide important information about taxes paid in Australia and overseas in respect of the year ended 30 June 2019.

Summary of taxes paid – Australia

The following table outlines taxes paid or payable for the 2018-19 financial year by the QSuper Group in Australia:

Tax type	$ million
Income tax – Fund	785.8
Income tax – corporate	2.7
GST	9.2
FBT	0.1
Payroll tax	8.0
Duties	25.3
Levies	4.6
Total	**835.7**

Summary of taxes paid – foreign

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

Tax type	$ million
Income tax – investments	**51.3**

Taxes paid by country

Country	$ million (AUD)	Country	$ million (AUD)
Australia	835.7	Denmark	0.9
United States	20.8	Sweden	0.7
France	6.2	United Kingdom	0.5
Germany	3.9	Mexico	0.5
Taiwan	3.8	Brazil	0.5
Luxembourg	2.1	Japan	0.2
New Zealand	1.7	Finland	0.3
South Korea	1.5	Netherlands	0.2
Chile	1.5	Canada	0.2
Spain	1.1	Ireland	0.2
Belgium	0.9	Others incl. Italy, Singapore, etc.	3.6
		Total	**887.0**

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 2019. The reconciliation is outlined below:

	$ million
Results from superannuation activities	**8,187**
Prima facie income tax expense at the tax rate of 15%	1,228
Imputation and foreign income tax offsets	(321)
Exempt pension income	(294)
Difference between accounting and taxation treatment on investment income	(51)
Notional deduction for self-insurance	(17)
Non-deductible expenditure / other	38
Income tax expense	**583**
Effective tax rate	***7.12%***

Key items to note are:

1. The effective tax rate of 7.12% relates mainly to tax on net investment revenue. It includes tax exempt earnings on assets supporting Retirement 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	9,138
Less: Member and other non-taxable contributions, incl. deductions relating to contributions	(4,155)
Taxable contributions	4,983
Tax on taxable contributions at 15%	(747)
Effective tax rate on gross contributions	8.2%

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 2019 financial statements and actual tax paid in the 2018-19 financial year. The reconciliation is as follows:

	$ million
Income tax expense	**583**
Add tax effect of: Taxable contributions	747
Unrealised (gains) / losses on investments	(465)
Income due but not received	(47)
Accrued franking credits and foreign income tax offsets	(8)
Other	12
Balance of 2018 income tax liability paid	124
Balance of 2019 income tax liability to be paid	(113)
Income tax paid in the 2018-19 financial year	**833**

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