Tax Report

For the year ended 30 June 2017

Contents

This report and the QSuper products held by you are issued by the QSuper Board (ABN 32 125 059 006 AFSL 489650) as trustee for QSuper (ABN 60 905 115 063).

Introduction

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

Each year, the QSuper Board contributes almost $800 million on behalf of our members in taxes to federal and state governments in Australia. In addition, The QSuper Group[1] 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, 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 Board supports the TTC and is pleased to publish its first report for the year ended 30 June 2017. While adoption of the TTC is voluntary, the QSuper Board has decided to participate, 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 $72 billion in funds under management. From humble beginnings over a century ago, today we manage the retirement savings of more than 566,000 members.

QSuper is a profit-for-member organisation and exists solely for the benefit of its members. Though we've grown significantly, we still care about our members more than anything else. Everything we do is designed to help our members achieve better financial outcomes.

From industry-leading products and award-winning service, to our great range of seminars and innovative tools that focus on our members' overall financial wellbeing, we're constantly looking at better ways to do things so our members can feel confident we're putting their financial future first.

QSuper's products and services are made up of a range of diverse superannuation fund services, including the financial advice business QInvest and the mortgage broking advice service QInvest LoanFinder. 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 offering.

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 2017, the QSuper Group paid in excess of $835 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.

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 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 that own 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 aggressive tax structures. 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 fund 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 still be payable where the 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 (ATO), and as a key taxpayer, we participate 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 that tax positions that QSuper takes are appropriate, and that appropriate levels of third party review, including consultation with revenue authorities, are 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 of entities is a significant contributor to government revenues in Australia. The Group pays more than half a billion dollars of tax annually for superannuation contributions it receives for members. It also pays significant levels of income tax and duties for investment returns and insurance premiums.

The tables below provide important information about taxes paid in Australia and overseas for the year ended 30 June 2017.

Summary of taxes paid – Australia

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

Tax type	$ million
Income Tax – Fund	740
Income Tax – Corporate	5
GST	10
FBT	-
Payroll Tax	7
Duties	34

Summary of taxes paid – foreign

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

Tax type	$ million
Income Tax – Investments	39

Foreign taxes paid by country

Country	$ million
Australia	796.2
United States of America	11.6
France	4.7
Germany	2.8
United Kingdom	2.7
New Zealand	1.1
South Korea	0.8
Belgium	0.8
Spain	0.5
Denmark	0.5
Sweden	0.6
Japan	0.5
Taiwan	0.4
Chile	0.3
The Netherlands	0.3
Hong Kong	0.2
Canada	0.2
Mexico	0.1
South Africa	0.1
Finland	0.1
Other	9.9
Total	**834.6**

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 2017. The reconciliation is outlined below:

	$ million
Change in net assets before income tax	4,866
Prima facie income tax expense at the tax rate of 15%	730
Imputation and foreign income tax offsets	(193)
Allocated income earnings exempt from tax	(268)
Other[3]	(231)
Notional deduction for self-insurance	(16)
Income tax expense	22
Effective tax rate[1,2]	0.4%

Key items to note are:

1. The effective tax rate of 0.4% 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 for Net Contribution Revenue is not included in the above calculation, as Australian Accounting Standards no longer require it be included. The effective tax rate for Contributions is:

	$ million
Gross contributions	7,973
Less: Member and other non-taxable contributions (incl. deductions relating to contributions)	(3,507)
Taxable contributions	4,466
Tax on taxable contributions at 15%	670
Effective tax rate on contributions	8.4%

3. Other includes capital gains tax discount of $164 million.

Reconciliation of income tax expense to income tax paid

The TTC also requires participants to disclose a reconciliation of the differences between income tax expenses disclosed in the 2016/2017 financial statements and actual tax paid in the 2016/2017 financial year. The reconciliation is as follows:

	$ million
Income tax expense	**22**
Add tax effect of:	
Taxable contributions	670
Unrealised (gains)/losses on investments	54
Income due but not received	11
Carry forward losses	(8)
Accrued franking credits and foreign income tax offsets	(4)
Other	(5)
Balance of 2015/2016 income tax liability paid	210
Balance of 2016/2017 income tax liability to be paid	(134)
Income tax paid in the 2016/2017 financial year	**816**

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