Australian Government
Commonwealth Superannuation Corporation

Tax Transparency Report

For the year ended
30 June 2019

Commonwealth
Superannuation
Corporation

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Commonwealth Superannuation Corporation (CSC)

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Superannuation schemes

CSS	ABN:	19 415 776 361
	RSE:	R1004649
	USI:	19415776361001
PSS	ABN:	74 172 177 893
	RSE:	R1004595
	USI:	74172177893001
MilitarySuper	ABN:	50 925 523 120
	RSE:	R1000306
	USI:	50925523120001
PSSap	ABN:	65 127 917 725
	RSE:	R1004601
	USI:	65127917725001
ADF Super	ABN:	90 302 247 344
	RSE:	R1077063

For information on each scheme visit **csc.gov.au**

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Introduction

I am pleased to provide the Commonwealth Superannuation Corporation's (CSC) Tax Transparency Report for the year ended 30 June 2019 (FY19). CSC is a signatory to the Board of Taxation's Voluntary Tax Transparency Code (TTC) and has prepared this report on this basis.

CSC was established on 1 July 2011 to meet the superannuation needs of Australian Government employees and members of the Australian Defence Force (ADF). CSC's purpose and vision is to build, support and protect better retirement outcomes for all our members and their families.

CSC is committed to meeting its Australian and overseas tax obligations. Our organisation supports transparency within the Australian taxation landscape and is committed to contributing to the TTC initiative for future years. This report is an example of CSC's ongoing work to maintain strong tax governance and transparency.

Andy Young
Chief Operating Officer
24 January 2020

About CSC

For the purposes of this report, CSC comprises of five regulated public sector and ADF superannuation funds, as well as a single pooled vehicle (known as the ARIA Investments Trust or the AIT) that is used to make investments. The AIT had $48.6 billion in funds under management as at 30 June 2019. The five regulated public sector and ADF superannuation funds are:

For further information on CSC and its regulated funds, please refer to the Basis of Preparation in **Appendix C**.

Tax Strategy

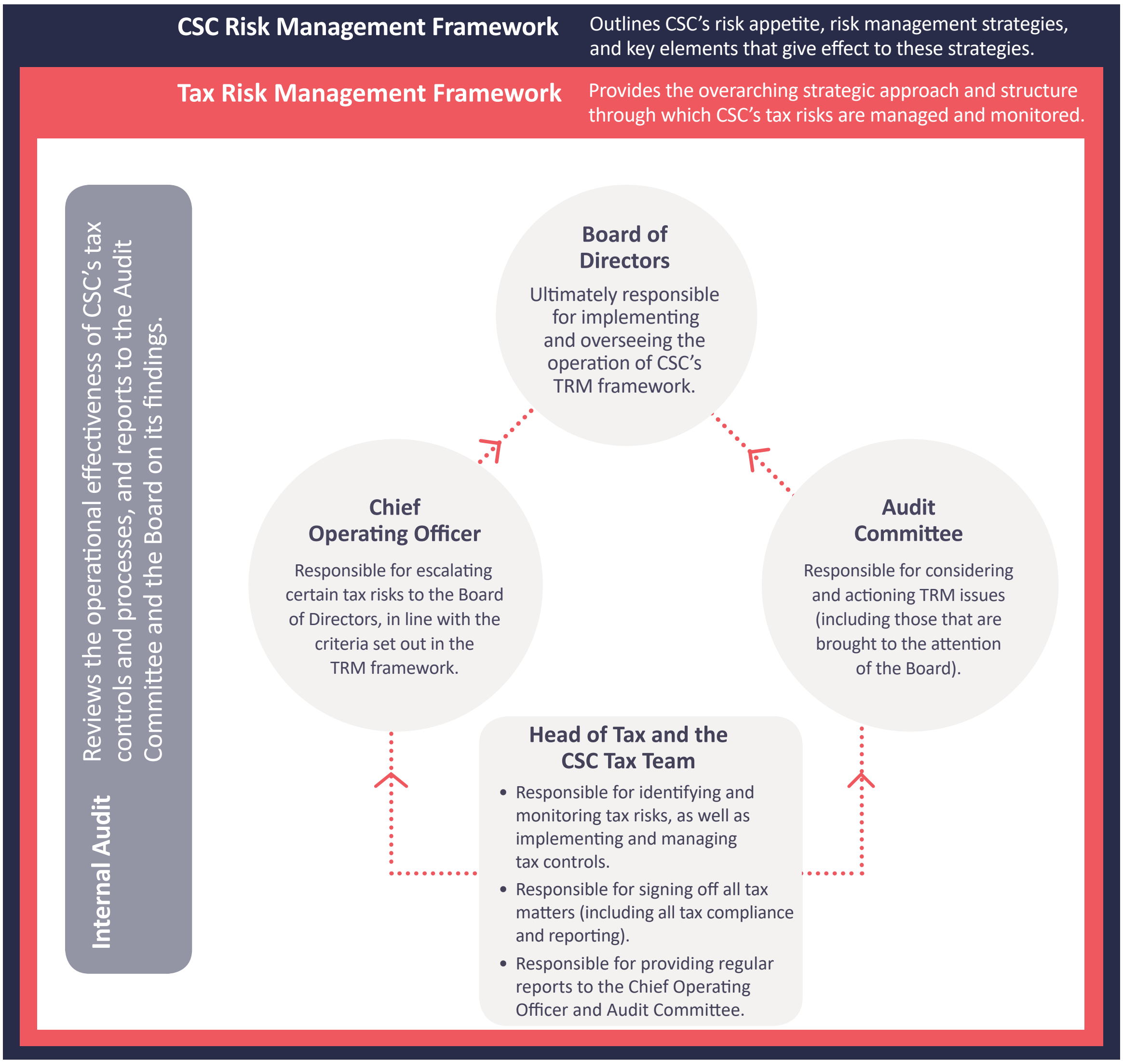
CSC's tax strategy is to maintain a high level of diligence and accountability through tax policies and procedures that reflect 'best practice' as determined by the Australian Tax Office (ATO). CSC considers that its focus on acting with integrity and achieving strong tax compliance is consistent with its long-held objective of building, supporting and protecting better retirement outcomes for its members and their families.

CSC's tax strategy is implemented through a tax risk management (TRM) framework that ensures a high degree of transparency and accountability. Tax risk extends beyond CSC's relationship with tax authorities, and affects almost every area of the organisation, including: investments, investment operations, finance, customer innovation and services, people, legal and compliance. A negative impact in any one of these areas can have a significantly adverse impact on CSC's reputation.

CSC's TRM framework forms part of a wider risk management framework that incorporates clear risk management procedures and responsibilities across all of CSC's staff members. This is reflected in CSC's internal risk and compliance functions, as well as its Board. In line with this wider risk management framework, CSC's TRM framework is supported by:

- Documented tax controls that facilitate the appropriate management and oversight of tax risks and issues. This includes streamlined reporting and sign-off procedures for all transactions involving tax, and for all tax compliance and reporting obligations;
- Regular engagement on significant tax matters and risks with the Audit Committee and/or the Board;
- Regular reviews (undertaken as part of CSC's internal audit program) of the effectiveness of CSC's tax policies, procedures and controls. Internal audit findings and recommendations are reported to both the Audit Committee and the Board;
- Engagement with external advisors (where appropriate) to ensure that complex tax issues (including those that arise from changes in tax legislation) are proactively managed; and
- Investment in technology solutions to ensure a high level of integrity in CSC's tax reporting.

The following diagram illustrates the relationship between CSC's TRM framework and its wider Risk Management Framework.



CSC's TRM framework has been subject to an independent review, which concluded that it is consistent with the ATO's tax corporate governance expectations, as set out in its *Tax Risk Management and Governance Review Guide*.

CSC continues to review its TRM framework and incorporate any external feedback received from our auditors / tax authorities. We continue to strive to maintain and develop best practice in tax transparency reporting to best serve our members.

Engagement with Tax Authorities

CSC proactively engages with its external tax advisers and tax authorities (including the ATO) to ensure that tax positions adopted accord with CSC's stated objectives. CSC considers that a proactive approach to tax risk management supports its robust tax strategy, and a strong relationship with the ATO that is built on integrity and transparency.

In FY19, CSC was a participant in the ATO's 'Top 1,000 Tax Performance Program'. The two entities selected as part of the program were PSSap and the AIT. The program forms part of the ATO's 'Justified Trust' initiative, and examines the taxpayer's tax governance, its approach to meeting tax compliance and tax accounting obligations, and its management of tax risks arising from transactions and emerging issues affecting the superannuation industry as a whole. The ATO has completed its review of PSSap and the AIT for the 2015 to 2018 income years (review period) and advised that it has obtained assurance that PSSap and the AIT have paid the right amount of Australian income tax for the review period.

CSC continues to work collaboratively with the ATO to enhance market transparency and build confidence within the community that the largest Australian businesses are paying the right amount of tax. CSC ensures strong lines of communication are maintained and continues to actively assist the ATO towards reaching positions on current tax issues affecting the superannuation industry.

Attitudes to Tax Planning

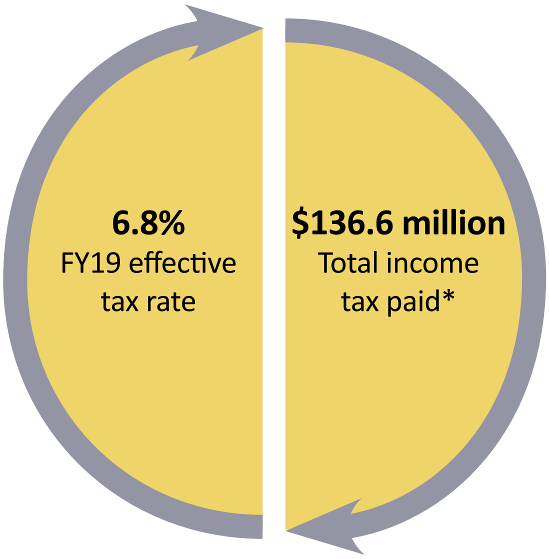
In accordance with CSC's TRM framework, CSC maintains a low tax risk appetite. This means that CSC will only adopt tax positions where the application of the tax law is straightforward or where there is clear authority to support the position.

CSC holds investments in Australia and various overseas jurisdictions. In doing so:

- CSC does not shift or accumulate untaxed profits in low tax jurisdictions, nor does it use the laws of overseas jurisdictions to shelter its income or assets;
- Investment income and gains are repatriated back to Australia (and are subject to Australian tax); and
- CSC fully complies with overseas tax laws and compliance obligations.

Tax Contribution

CSC's tax contribution at a glance



**Total of Australian federal income tax paid and income tax paid in foreign jurisdictions.*

CSC is subject to Australian income tax at a rate of 15%, which is the standard income tax rate for superannuation funds in Australia. However, differences can arise depending on the nature of the income. For example, long-term capital gains and franking credits can reduce the effective tax rate below 15%.

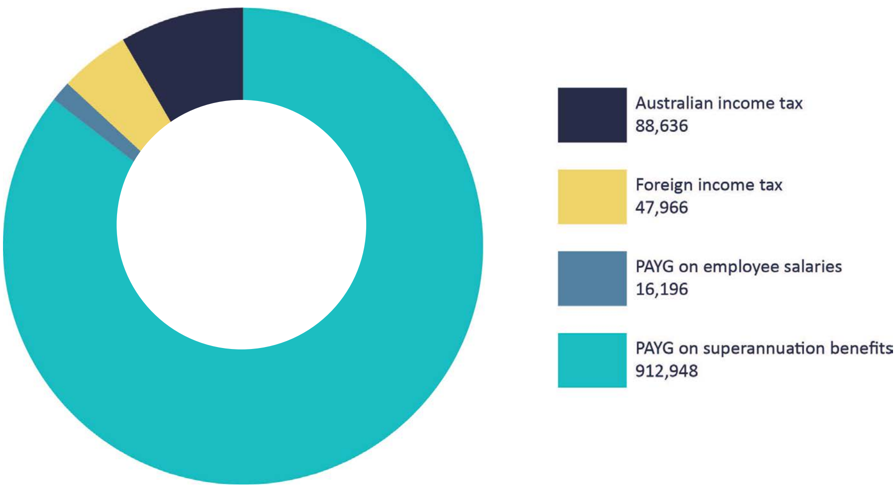
In addition, CSC pays foreign taxes on its overseas investment income. The rate of foreign tax paid may vary from the standard 15% tax rate in Australia for superannuation entities. As this foreign income is also subject to Australian income tax, CSC's foreign investments may give rise to a risk of double taxation. To mitigate this risk, CSC is allowed to claim a foreign income tax offset (FITO) in Australia for these foreign taxes paid.

The difference between CSC's effective income tax rate and the standard 15% tax rate is illustrated on the following page in the Effective Income Tax Rate section of this report.

CSC is also subject to Goods and Services Tax (GST) and employment taxes (including Fringe Benefits Tax (FBT) where applicable). In addition, CSC collects and remits Pay-As-You-Go (PAYG) withholding tax from superannuation benefit payments to members and PAYG withholding tax deducted from employee salaries.

The following diagram provides a summary of CSC's total taxes paid in FY19. Note that the diagram below excludes immaterial amounts relating to GST ($98,193 net refund) and FBT ($56,465 paid). Refer to **Appendix A** for further details.

Taxes paid in 2019 ($000)



Effective Income Tax Rate

CSC's effective income tax rate is calculated as total income tax expense, divided by the sum of net investment and contribution income (after subtracting related expenses). This calculation is not based on accounting profit, as superannuation funds exclude certain revenue and expense items from the income statement (such as superannuation contributions and other items affecting member liabilities). These items may be regarded as assessable income or deductible expenses for tax purposes and as such, are included in calculating CSC's effective tax rate.

Taxpayers often report both an Australian effective income tax rate (which covers the tax expense on Australian operations), as well as a 'global' effective income tax rate that also includes the tax expense for overseas operations. While CSC has international investments that affect its financial performance, these foreign interests are of a passive nature. CSC also does not maintain any international operations. Therefore, CSC's Australian effective income tax rate is the same as its global effective income tax rate.

CSC's effective income tax rate (excluding foreign income tax expense) is set out below.

	CSC ($000)	
	2019	**2018**
Benefits accrued as a result of operations before income tax	6,899,606	7,091,917
Total tax expense (based on the Profit and Loss Statements of CSC entities)*	467,287	539,571
CSC's effective income tax rate under the TTC requirements	**6.8%**	**7.6%**

**The Profit and Loss Statements of the various CSC entities are available from page 97 of CSC's 2019 Annual Report.*

The difference between CSC's effective tax rate and the standard 15% tax rate is largely due to the following:

	Percentage difference	
	2019	**2018**
Contributions not subject to tax	3.3%	3.0%
Franking credits and foreign income tax offsets	4.6%	2.1%
Investment revenue already taxed	1.3%	2.6%
Other adjustments	(1.0)%	(0.3)%
Total difference from the standard income tax rate of 15%	**8.2%**	**7.4%**

Reconciliation of Accounting Profit and Income Tax Expense

In determining CSC's current tax expense, differences arise between 'benefits accrued as a result of operations before income tax' (as determined under accounting standards) and 'taxable income' (which is used to determine income tax expense). These differences are referred to as temporary and non-temporary differences, and arise from the mismatch in Australian tax and financial accounting rules.

The table below provides a reconciliation of CSC's aggregated accounting profit against CSC's total income tax expense and current income tax expense. As mentioned above, CSC's calculation of income tax expense includes taxes paid on CSC's accounting profits on investments and superannuation contributions (net of related expenses).

	CSC ($000)	
	2019	**2018**
Benefits accrued as a result of operations before income tax		
Superannuation contributions	3,158,571	2,943,608
Investment income	3,741,035	4,148,309
Total	**6,899,606**	**7,091,917**
Initial income tax expense calculated at 15%	1,034,941	1,063,788
Non-temporary differences (investments)		
Investment revenue already taxed [A]	(87,597)	(186,328)
Franking credits and foreign income tax offsets [B]	(314,206)	(149,880)
Capital gains adjustments	69,498	(2,233)
Under / (over) provision for income tax relating to prior income years [C]	(6,415)	23,875
Other items [D]	(79)	21
Non-temporary differences (contributions)		
Contributions and transfers not subject to tax [E]	(228,833)	(211,657)
Transfers and contributions subject to tax [F]	4,428	2,114
No-TFN-quoted contributions subject to additional tax	(26)	(118)
Anti-detriment deduction	(108)	0
Under / (over) provision for income tax relating to prior income years	(4,316)	(10)
Income tax expense (current income tax and deferred income tax)	**467,287**	**539,571**
Temporary differences:		
Unrealised taxable capital gains and revenue losses [G]	(368,387)	(135,237)
Accrued income and expenses [H]	(18,964)	30,824
Deferred franking credits and foreign income tax offsets	(10,707)	6,149
Adjustments recognised in the period for current tax of prior periods	19,187	10,470
Other items [I]	220	75
Current tax expense (income tax paid and payable in respect of the current income year)	**88,636**	**451,852**

[A] This amount largely represents movements in the fair value of units of the AIT that are held by CSC's five regulated public sector and ADF superannuation funds and trust distributions that have already been subject to income tax in prior income years. An adjustment is made to prevent them from being taxed twice.

[B] Franking credits arise from Australian income taxes that have been paid by companies. These are passed onto shareholders through franked dividends. Franking credits reduce the total income tax expense, thereby reducing the incidence of double taxation. CSC also pays various foreign taxes in relation to its overseas investment income. This income is also subject to Australian income tax. To prevent double taxation, Australian tax law permits CSC to claim a tax offset in Australia for these foreign taxes paid.

[C] These adjustments relate to differences between the current and deferred tax expense recorded in the current and prior years, when compared against the actual tax paid in respect of that year. These differences generally arise due to additional adjustments made as part of preparing and lodging CSC's income tax returns.

[D] These amounts represent other adjustments which are required under Australian tax law, but are not recognised for accounting purposes.

[E] Under Australian tax law, certain forms of contributions received by superannuation funds are not subject to tax (including personal superannuation contributions where the member has not claimed an income tax deduction, contributions made on behalf of a spouse, government co-contributions and rolled-over superannuation benefits). Amounts that have been transferred from other superannuation funds are generally not recognised as 'superannuation contributions' and are therefore not subject to tax. However, if these amounts have not yet been subject to tax, an adjustment is required to increase the income tax expense.

[F] This amount includes transfers from other funds that are subject to tax and superannuation contributions paid as part of income protection claim payments to members.

[G] This amount represents unrealised capital gains and revenue losses on investments held in the AIT. Under Australian tax law, this amount is not subject to tax until the investment is realised. As such, an adjustment is required to reduce current tax expense. However, because unrealised gains and revenue losses give rise to tax/deductions in the future, there is no impact on total income tax expense.

[H] These adjustments represent investment income and expenses that have been recognised for accounting purposes, but are not yet recognised for tax purposes (either because the revenue has not yet been received, or because the expenses have not yet been paid). These amounts are not immediately reflected in current tax expense, but will be reflected for tax purposes in later income years (therefore, there is no change to total income tax expense).

[I] Other temporary differences include interest receivable and insurance premiums that are deductible or charged to member's accounts.

International Related Party Dealings

CSC did not enter into any international related party dealings during FY18 and FY19.

Material Tax Risks or At Risk Tax Positions

CSC has not identified any material tax risks or at risk tax positions for FY18 and FY19.

Appendix A - Tax Contribution

	Total taxes paid by CSC		Total taxes collected by CSC			
	Income tax paid and payable to the ATO and to overseas tax authorities ($000)	FBT paid by CSC to the ATO[A] ($000)	GST remitted to/(refunded by) the ATO ($000)	PAYG withholding remitted to the ATO (from employee salaries) ($000)	PAYG withholding remitted to the ATO (from member benefits) ($000)	Total ($000)
2019						
Australian federal taxes	88,636	56	(98)	16,196	912,948	1,017,738
Other jurisdictions	47,966					47,966
Total (2019)	**136,600**	**56**	**(98)**	**16,196**	**912,948**	**1,065,704**
2018						
Australian federal taxes	451,852	68	(157)	14,795	762,988	1,229,546
Other jurisdictions	29,991					29,991
Total (2018)	**481,843**	**68**	**(157)**	**14,795**	**762,988**	**1,259,537**

[A] *This includes FBT paid by CSC on non-cash benefits provided to its employees for the FBT years ended 31 March 2019 and 31 March 2018.*

Appendix B - Glossary

Accrued income and expenses

Investment income and expenses that have been recognised for accounting purposes, but not for tax purposes. This may arise because either revenue has not yet been received, or expenses have not yet been paid. These amounts are not immediately reflected in CSC's current tax expense, but will be captured for tax purposes in subsequent income years. Therefore, these amounts do not impact CSC's total income tax expense calculation.

Effective income tax rate

The average tax rate paid by CSC for FY19. CSC's effective income tax rate is calculated as total income tax expense, divided by the sum of net investment and contribution income (after subtracting related expenses).

Franking credits

Franking credits arise from Australian income taxes that have been paid by companies and are passed onto shareholders through the distribution of franked dividends, thereby reducing the incidence of double taxation. Franking credits reduce the total income tax expense for shareholders.

Material tax risks or at-risk tax positions

CSC's TRM framework generally identifies material tax risks as situations where the potential tax at risk is greater than 3% of CSC's total funds under management.

Non-temporary differences

Non-temporary differences refer to differences between the Australian taxation law and Australian financial accounting rules that do not arise from differences in the timing of when revenue and expenses are recognised. These differences may arise because Australian taxation law may include (or exclude) an item in (or from) taxable income that does not follow the same treatment for accounting purposes. For example, some expenses are never deductible for tax purposes.

Over/under provisions

Adjustments representing the differences between the current and deferred tax expense recorded in the current and prior years, when compared to the actual tax paid in respect of that year. Such differences generally arise due to additional adjustments made as part of the preparation and lodgement of CSC's income tax returns.

Temporary differences

Temporary differences arise from mismatches between the Australian taxation law and the Australian financial accounting rules in determining the timing of when revenue and expenses are recognised. For example, CSC's accounting income for FY19 includes transactions that have already been included in CSC's taxable income for FY18.

TRM framework

CSC's internal tax risk management framework which provides the basis from which CSC identifies and manages its tax risks. As discussed above in the Tax Strategy section of this report, the TRM framework forms part of CSC's wider risk management framework.

Unrealised taxable capital gains and revenue losses

Amounts representing unrealised capital gains and revenue losses on investments held in the AIT. Under Australian tax law, such amounts are not subject to tax until the relevant investment is realised. As such, an adjustment is required to reduce current tax expense amounts. However, because unrealised gains and revenue losses give rise to tax and/or deductions in the future, there is no impact on the total income tax expense.

Appendix C - Basis of Preparation

As a signatory to the Board of Taxation's Voluntary Tax Transparency Code, CSC has prepared this report in accordance with the Tax Transparency Code, together with the Australian Accounting Standards Board (AASB) draft guidance in relation to the presentation of Effective Tax Rates in its 2017 Draft Appendix to the Tax Transparency Code. CSC has also adopted disclosures on proposed new minimum standards as recommended in the Board of Taxation's 2019 Consultation Paper on the Post-Implementation Review of the Tax Transparency Code.

All information utilised to prepare this report has been sourced internally and from CSC's financial statements for FY19. This report and any associated disclosures do not form part of any financial statements and have not been subject to independent external audit assurance.

Reporting currency

All amounts are specified in Australian dollars unless otherwise stated.

Approach to materiality

Materiality for disclosures has been set at the nearest thousand dollars. CSC has engaged its external tax adviser to review disclosures contained in this report.

Reporting period

This report has been prepared for CSC's financial year ended 30 June 2019.

Assurance regimes applicable to CSC

CSC is a holder of a Registrable Superannuation Entity licence and an Australian Financial Services licence. This means that it is regulated by the Australian Prudential Regulation Authority under the *Superannuation Industry (Supervision) Act 1993* (Cth), and the Australian Securities and Investments Commission under the *Corporations Act 2001* (Cth).

Further information on CSC

This Tax Transparency Report should be read together with CSC's 2018-19 Annual Report, which includes the financial statements of CSC and its regulated funds, can be accessed at **csc.gov.au**.

Further information on all of CSC's regulated funds can be found on our website **csc.gov.au**

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