Australian Government
Commonwealth Superannuation Corporation

Tax Transparency Report

For the year ended
30 June 2017

CSC Commonwealth Superannuation Corporation

Introduction

I am pleased to provide the Commonwealth Superannuation Corporation's ("CSC") Tax Transparency Report for the year ended 30 June 2017 (FY17). This report has been prepared in accordance with the Voluntary Tax Transparency Code ("TTC"), which was introduced by the Board of Taxation in May 2016.

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 vision is to build, support and protect better retirement outcomes for all of our members and their families.

For the purpose of this report, CSC comprises five regulated public sector and ADF superannuation funds, as well as a single regulated pooled vehicle (known as the ARIA Investments Trust or "AIT") that is used to make investments for these funds. The single regulated pooled investment vehicle has $41 billion funds under management as at 30 June 2017. The five regulated public sector and ADF superannuation funds are:

- Commonwealth Superannuation Scheme ("CSS");
- Public Sector Superannuation Scheme ("PSS");
- Military Superannuation and Benefits Scheme ("MilitarySuper");
- Public Sector Superannuation accumulation plan ("PSSap"); and
- Australian Defence Force Superannuation scheme ("ADF Super").

CSC is committed to meeting its Australian and overseas tax obligations. This report forms part of its ongoing work to maintain strong tax governance and transparency.

Andy Young
General Manager, Finance
5 December 2017

Assurance regimes applicable to the business

CSC is a holder of a Registrable Superannuation Entity licence and an Australian Financial Services licence, meaning 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)*.

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 Taxation Office ("ATO"). CSC considers that its focus on achieving strong tax compliance, certainty and integrity 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 has an impact on almost every area of the organisation, including: investments, investment operations, finance, member and employer services, people, scheme administration and 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 CSC staff, its internal risk and compliance functions, and 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;
- Reporting and sign-off procedures for all transactions involving tax (including all tax compliance and reporting obligations);
- Regular reporting of significant tax matters and risks to the Audit Committee and/or to the Board; and
- 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 the Audit Committee and the Board.

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

CSC Risk Management Framework
Outlines CSC's risk appetite, risk management strategies and key elements that give effect to these strategies.

Tax Risk Management Framework
Provides the overarching strategic approach and structure through which CSC's tax risks are managed and monitored.

Internal Audit
Reviews the operational effectiveness of CSC's tax controls and processes and reports to the Audit Committee and the Board on its findings.

Tax Risk Management Framework
Ultimately responsible for implementing and overseeing the operation of CSC's TRIM framework.

Audit Committee
Responsible for considering and actioning TRIM issues (including those that are brought to the attention of the board).

General Manager, Finance
Responsible for escalating material tax matters and providing regular reports to the Audit Committee or Board of Directors.

Head of Tax and the CSC Tax Team
Responsible for identifying and monitoring tax risks, as well as implementing and managing tax controls.
Responsible for signing off all tax matters (including all tax compliance and reporting).

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's 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 tax position adopted. CSC proactively engages with its external tax advisers and the ATO to ensure the positions adopted accord with those stated objectives. CSC considers that being proactive in managing these positions supports a robust tax strategy, and a strong relationship with the ATO that is built on integrity and transparency.

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

- CSC does not shift or accumulate profits in low tax jurisdictions;
- Investment income and gains are repatriated back to Australia (and are subject to Australian tax);
- CSC fully complies with overseas tax laws and filing obligations; and
- CSC does not use the laws of overseas jurisdictions to avoid the disclosure of income or assets.

Tax Contribution

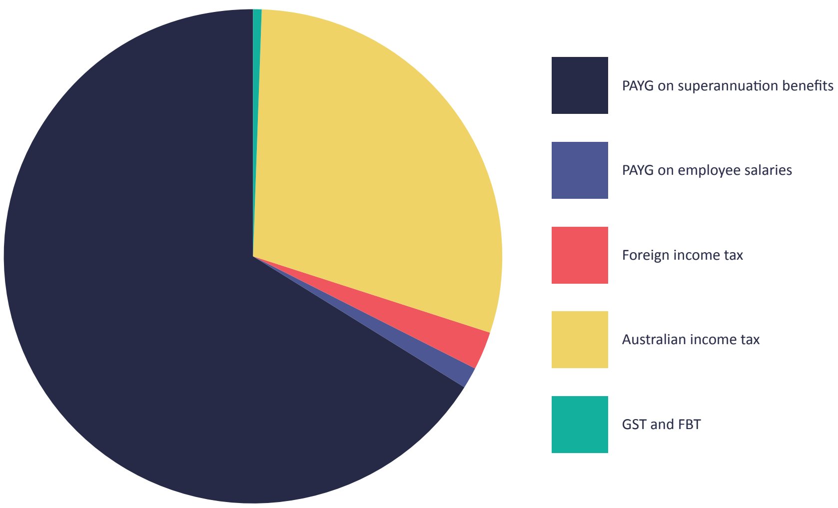
CSC is subject to Australian income tax at a rate of 15%, which is the standard rate for superannuation funds in Australia. However, differences can arise depending on the nature of the income. For example, long-term capital gains and franking credits reduce this headline rate of 15%.

In addition to Australian income tax, CSC pays various foreign income taxes in relation to its overseas investment income. The rate of foreign income tax may be different to the standard 15% income tax rate in Australia. Given that these gains are also subject to Australian income tax, CSC's foreign investments give rise to a risk of double tax. To mitigate double taxation, Australian tax law permits CSC to claim a foreign income tax offset ("FITO") in Australia for these foreign income taxes paid.

The difference between CSC's effective income tax rate and the superannuation rate of 15% is illustrated at part 5.1 of this report.

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

The following is a summary of the taxes that were paid or remitted in 2017. Refer to Appendix A for further details.



Effective income tax rate

The 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 now exclude certain revenue and expense items from the income statement (such as superannuation contributions and other items affecting member liabilities).[1] These items may be regarded as assessable income or deductible expenses for income tax purposes and as such, should be included in calculating the effective income tax rate.

Taxpayers often report both an Australian effective income tax rate (which covers taxes paid on Australian operations), as well as a 'global' effective income tax rate that also includes taxes paid on overseas operations. While CSC has international investments that affect its financial performance, these foreign interests are of a minority and passive nature, and neither CSC nor any controlled entities have any international operations. Therefore international operations do not affect the overall effective income tax rate. CSC's effective income tax rate is set out below.

[1]This relates to the introduction of accounting standard AASB 1056 Superannuation Entities which replaced AAS 25 Financial Reporting by Superannuation Plans with effect from the year ended 30 June 2017.

	CSC ($000)	
	2017	**2016**
Benefits accrued as a result of operations before income tax	6,621,779	3,508,357
Total tax expense (based on the Profit and Loss Statements)	549,505	153,494
Effective income tax rate under the TTC requirements	**8%**	**4%**

The difference between CSC's income tax rate and the standard superannuation fund tax rate is largely due to the following:

	Percentage difference	
	2017	**2016**
Contributions not subject to income tax[A]	3.0%	5.6%
Franking credits from franked dividends received	1.6%	3.1%
Investment revenue already taxed	1.6%	2.7%
Foreign income tax offsets	0.3%	0.6%
Other adjustments	0.2%	(1.4)%
Total difference from the standard income tax rate of 15%	**7%**	**11%**

[A] Under Australian tax law, certain types of contributions received by superannuation funds are not subject to income tax (such as 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).

Reconciliation of accounting profit and income tax expense

The table below is a reconciliation of CSC's aggregated accounting profit against CSC's total income tax expense and current income tax expense. As mentioned in part 5.1 above, CSC's calculation of income tax includes taxes paid on CSC's accounting profits on investments, as well as superannuation contributions (net of related expenses).

In determining CSC's current income 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 called non-temporary differences and temporary differences.

Non-temporary differences are differences between accounting and tax that do not arise from the timing of when revenue and expenses should be recognised. These differences can arise because the tax law may include (or exclude) an item in (or from) taxable income that would not be treated the same for accounting purposes. For instance, an expense that is never deductible for tax purposes.

Temporary differences occur because the tax and financial accounting rules operate differently in determining the timing of when revenue and expenses are recognised. For example, CSC's 2017 accounting income may include revenue and expense transactions that have already been included in CSC's 2016 taxable income (or vice versa).

	CSC ($000)	
	2017	**2016**
Benefits accrued as a result of operations before income tax		
Superannuation contributions net of related expenses (including insurance premiums and scheme administration fees)	2,859,296	2,788,882
Investment income	3,762,483	719,475
Total	**6,621,779**	**3,508,357**
Initial income tax calculated at 15%	993,267	526,254
Non-temporary differences (investments)		
Net change in member benefits from investing activities[A]	519,559	103,215
Investment revenue already taxed[B]	(625,429)	(197,877)
Non-deductible expenses	1,615	1,527
Franking credits from franked dividends received[C]	(107,141)	(110,264)
Foreign income tax offsets[D]	(20,677)	(21,018)
Capital gains adjustments	(16,949)	48,031
Under / (over) provision for income tax relating to prior income years[E]	6,836	303
Other items[F]	(80)	(287)
Non-temporary differences (contributions)		
Contributions not subject to tax[G]	(199,605)	(195,500)
Amounts transferred from other funds[H]	(1,349)	65
Notional employer contributions subject to tax	53	0
No-TFN-quoted contributions subject to additional tax	243	19
Anti-detriment deduction	(865)	(775)
Under / (over) provision for income tax relating to prior income years	26	407
Total income tax expense (current income tax and deferred income tax)	**549,505**	**153,494**
Temporary differences:		
Interest receivable	10	5
Unrealised taxable capital gains[I]	(238,975)	164,133
Accrued income and expenses[J]	10,711	(21,475)
Unrealised investment losses	(171)	(9,332)
Deferred franking credits and foreign income tax offsets	532	3,808
Adjustments recognised in the period for current tax of prior periods[E]	4,285	17,709
Deductible insurance premiums and scheme administration fees (deferred movement)	(596)	(66)
Insurance premiums charged to members' accounts (deferred movement)	3	(28)
Current income tax expense (income tax paid and payable in respect of the current income year)	**325,304**	**308,248**

[A] This amount represents 'inter-group' movements in the fair value of units in the AIT that are held by CSC's five regulated public sector and ADF superannuation funds.

[B] These amounts largely represent 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.

[C] Franking credits arise from Australian income taxes that have been paid by companies. These are passed onto shareholders through franked dividends, thereby reducing the incidence of double taxation. Franking credits are applied to reduce income tax expense.

[D] CSC 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.

[E] These adjustments relate to differences between the current and deferred income tax expense recorded in the current and prior years, against the tax actually 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.

[F] These amounts represent other adjustments that are required under the tax law, but are not recognised for accounting purposes.

[G] Under Australian tax law, certain types of contributions received by superannuation funds are not subject to income tax (such as 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).

[H] Amounts that have been transferred from other superannuation funds are generally not recognised as 'superannuation contributions' and are not subject to income tax. If these amounts have not yet been taxed however, an adjustment is required to increase income tax expense.

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

[J] These adjustments represent investment income and expenses that have been recognised for accounting purposes, but are not yet recognised for income 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 income tax expense, but will be reflected for income tax purposes in later income years (hence there is no change to total income tax expense).

International related party dealings

CSC did not enter into any international related party dealings during FY16 and FY17.

Material tax risks or at risk tax positions

CSC has not identified any material tax risks or at risk tax positions for FY16 and FY17.

CSC

Commonwealth
Superannuation
Corporation