Australian Government
Commonwealth Superannuation Corporation

Tax Transparency Report

For the year ended
30 June 2021

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 2021 (FY21). CSC is a signatory to the Board of Taxation's (BoT) 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 customers and their families.

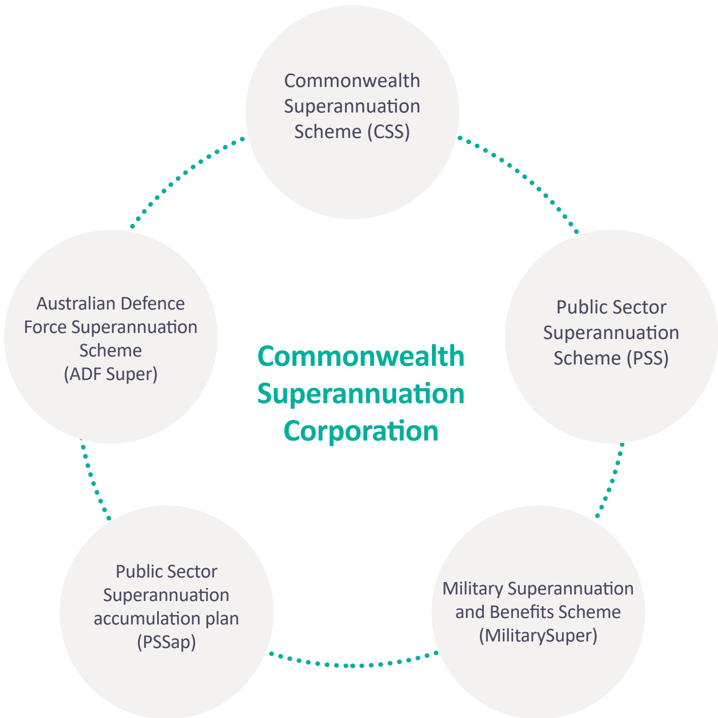
CSC is committed to meeting its Australian and overseas tax obligations. Our organisation supports transparency within the Australian taxation l andscape and is committed to contributing to the TTC initiative for future years. This report is an example of CSC's ongoing work to maintain strong tax governance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

Andy Young
Chief Operating Officer
10 February 2022

About CSC

CSC operates within the Australian superannuation industry, regulated by the Australian Prudential Regulation Authority (APRA) and the Australian Securities and Investments Commission (ASIC). 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 is a pooled superannuation trust (PST) for tax purposes. The AIT had $58.12 billion in funds under management as at 30 June 2021.

The five APRA and ASIC 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

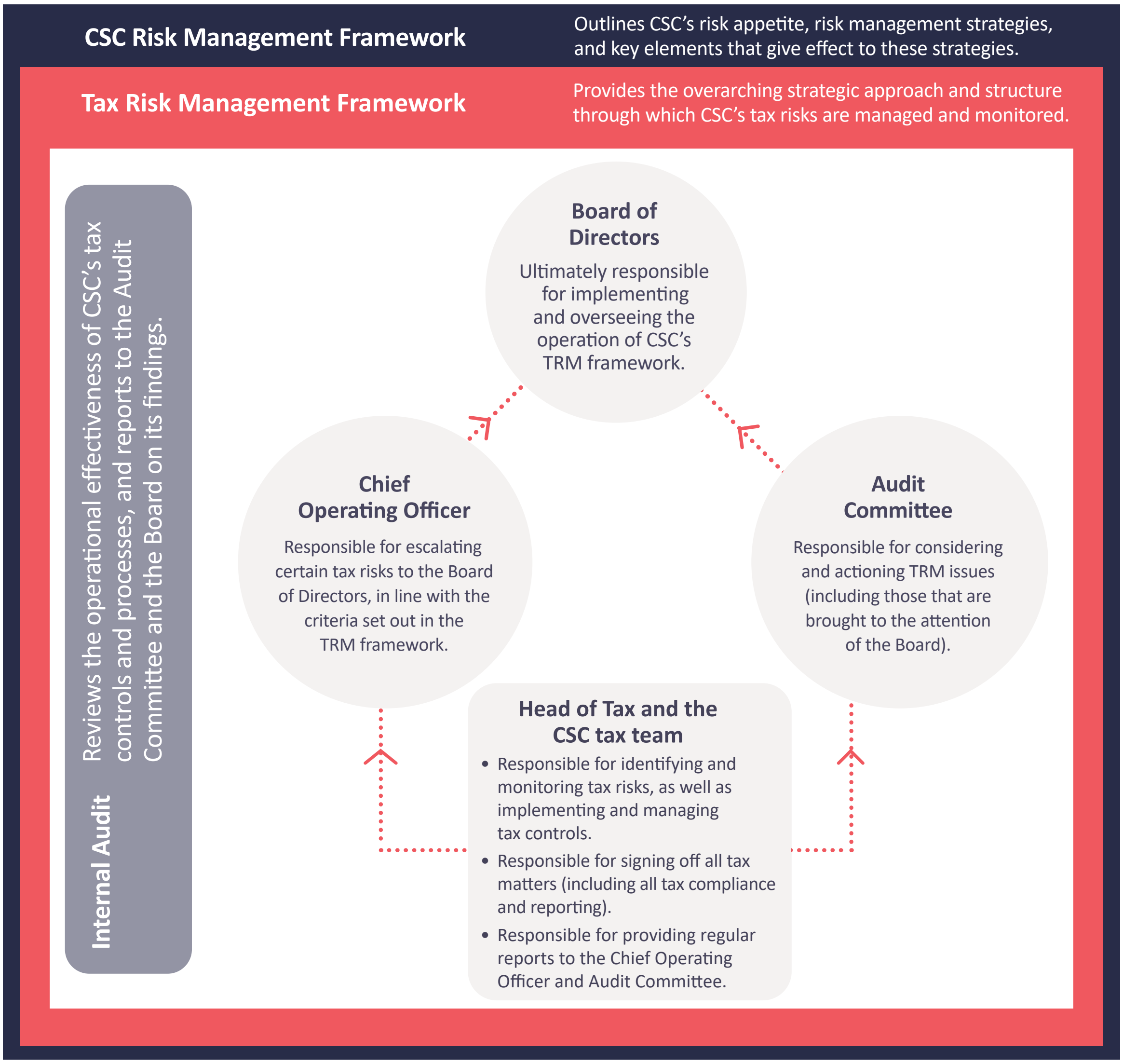
Given the inherent complexities of Australian and international tax laws, a systematic approach is required to manage tax risk. CSC has developed a tax strategy that maintains a high level of diligence and accountability through the implementation and execution of tax policies and procedures that reflect 'best practice' standards as determined by the Australian Tax Office (ATO). As the superannuation provider for Australian government and defence force employees, CSC is required to maintain its reputation as a model taxpayer. CSC therefore must ensure that it not only operates within the confines of Australian and international tax laws, but it also avoids adopting aggressive tax positions and structures as determined by tax authorities (including the 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 customers and their families. A negative impact in relation to CSC's management of tax risk can also give rise to severe implications on its reputation, as well as its relationship with the ATO and other regulators.

CSC's tax strategy is implemented through a tax risk management (TRM) framework that ensures a high degree of transparency and accountability. Regular testing of tax controls (including through external reviews) ensures CSC's TRM framework is designed and operating effectively. 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 and legal and compliance.

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 and complex tax matters and risks with the Audit Committee and/or the Board. This includes ongoing updates on tax issues and developments (including legislation and case law) imapcting CSC and its investments;
- 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 advisers (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 and efficiency in CSC's tax reporting. This includes the use of tax data analytics to ensure the integrity of disclosures.

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



CSC's TRM framework, as last approved by the CSC Board on 25 March 2021, includes both board level and management level controls, and 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. This includes the ATO's recently released draft guidance on third party tax information.

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 has a strong relationship with the ATO that is built on integrity and transparency.

CSC is an ongoing participant in the ATO's 'Top 1,000 Tax Performance Program', having undergone reviews for the PSS International Investments Fund, PSSap and the AIT. The ATO advised that it had obtained assurance that these entities had paid the right amount of Australian income tax for the periods under review.

CSC continues to assist the ATO to achieve its objectives by working 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. To access large-scale international opportunities, CSC may invest in collective investment vehicles such as limited partnerships, which are funded by investors around the world. These pooled investment vehicles may be situated in low or no tax rate jurisdictions, in line with the commercial, legal and investment strategies of the pooled vehicles. 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.

CSC has a fiduciary obligation to act in the best financial interests of all its customers in accordance with the provisions of the various legislation and trust deeds that govern the schemes. Accordingly, CSC pursues tax strategies consistent with that obligation. CSC has a statutory obligation to consider the expected tax consequences when developing investment strategies, including a 'best reasonable efforts' approach in considering optimal tax structures that prevent double taxation. At the same time, CSC also expects its investment managers to use their best efforts not to engage in aggressive tax planning practices and to follow the spirit of the law. CSC defines aggressive tax planning as the exploitation of technicalities in a tax regime for the primary purpose of reducing tax.

To facilitate the above strategy, CSC has recently developed a set of TRM principles for CSC's unlisted investment managers in the form of a Tax Code of Conduct (TCC). The aim of the TCC is to help CSC's investment managers understand its approach to TRM.[1] CSC expects that its investment managers will give appropriate consideration to CSC's TRM framework in managing the tax affairs of CSC's unlisted investments.

[1] *CSC's Tax Code of Conduct can be accessed here:* **csc.gov.au/Members/About-CSC/Corporate-governance**.

Reliance on third party tax information

CSC is reliant on tax information received from its custodian and investment managers ('third party tax information') to fulfil its tax obligations. Accurate third party tax information is important in allowing CSC to validate that the correct amount of investment income derived from its investments has been reported, as well as the claiming of any associated tax offsets and deductions.

CSC's TRM framework requires an assessment of the controls and processes in place to reduce the risks of reliance on third party tax information.

The ATO has recently broadened its scope of review of large Australian superannuation funds to include testing of tax controls over third party tax information, including the direct receipt of investment tax information. CSC ensures that it obtains comfort that its investment managers are acting on CSC's behalf in accordance with CSC's low appetite to tax risk, and that the tax reporting provided to CSC is accurate and reliable. Specifically, CSC recognises the role of a strong tax governance framework in managing third party tax information, as it ultimately ensures accuracy over information reported in CSC's income tax returns.

An independent third party reviews the operating effectiveness of CSC's tax control framework annually. CSC's in-house tax team also conducts periodic sample testing of its tax controls to identify any improvements required. Where any gaps are identified, CSC will introduce new tax controls and communicate the ongoing management of tax risks to the Audit Committee where appropriate.

Tax contribution

CSC's tax contribution at a glance

8.93%
FY21 effective tax rate

$826.5 million
Total income tax paid*

**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, CSC's effective tax rate is reduced below 15% by tax exempt superannuation contributions received, long-term capital gains subject to a reduced tax rate, and franking credits and foreign income tax offsets (representing amounts of tax on income and gains that have already been paid).

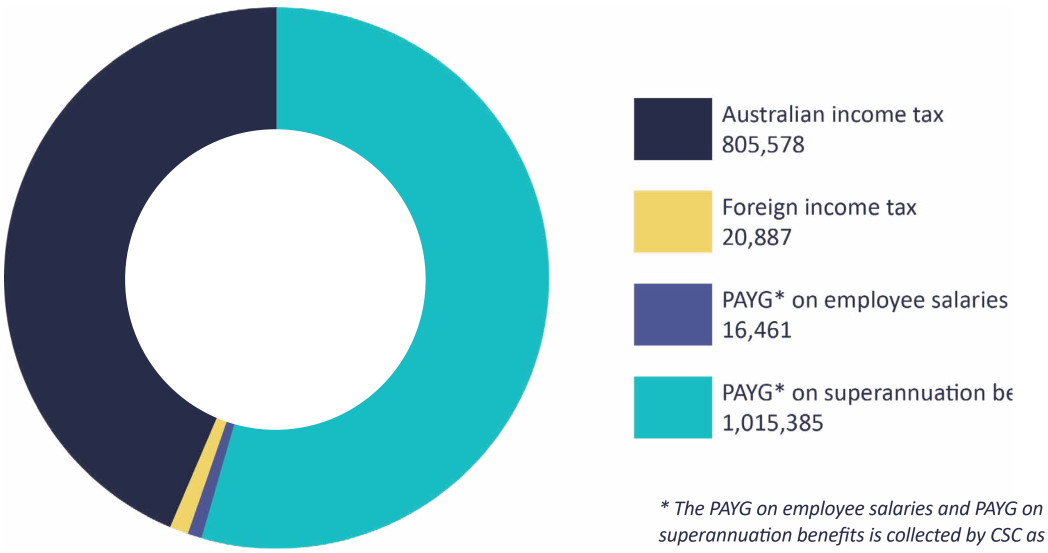
In addition, CSC pays foreign taxes on its overseas investment income. The rate of foreign tax paid may vary from the standard 15% tax rate in Australia for superannuation entities. As this foreign income is also subject to Australian income tax, CSC's foreign investments may give rise to a risk of double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

The increase in CSC's effective tax rate in FY21 is a result of higher investment income including short-term capital gains taxed at a rate of 15% (driven by improved investment performance following the impact of the COVID-19 pandemic) and reductions in franking credits and the amount of contribution income not subject to tax. The difference between CSC's effective income tax rate and the standard 15% tax rate is illustrated below 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 our customers and PAYG withholding tax deducted from employee salaries.

The following diagram provides a summary of CSC's total taxes paid in FY21. Note that the diagram below excludes amounts relating to GST ($11,910,062 net refund) and FBT ($12,792 paid). Please refer to the tax contribution breakdown in **Appendix A** for further details.

Taxes paid in FY21 ($000)



** The PAYG on employee salaries and PAYG on superannuation benefits is collected by CSC as the withholding agent.*

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 customer 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)	
	2021	**2020**
Benefits accrued as a result of operations before income tax	12,756,688	2,719,804
Total tax expense (based on the Profit and Loss Statements of CSC entities)	1,139,459	25,295
CSC's effective income tax rate under the TTC requirements	**8.93%**	**0.9%**

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

	Percentage difference	
	2021	**2020**
Contributions not subject to tax	1.7%	8.5%
Franking credits and foreign income tax offsets	1.1%	5.3%
Investment revenue already taxed	0.2%	4.0%
Capital gains adjustment	2.77%	(3.0%)
Other adjustments	0.3%	(0.7%)
Total difference from the standard income tax rate of 15%	**6.07%**	**14.1%**

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 in the "**Effective income tax rate**" **section** of this report, 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)	
	2021	**2020**
Benefits accrued as a result of operations before income tax		
Superannuation contributions	3,375,627	3,320,493
Investment income	9,381,061	(600,689)
Total	**12,756,688**	**2,719,804**
Initial income tax expense calculated at 15%	1,913,503	407,971
Non-temporary differences (investments)		
Investment revenue already taxed [A]	(24,992)	(109,050)
Franking credits and foreign income tax offsets [B]	(134,255)	(143,883)
Capital gains adjustments [C]	(353,906)	82,796
Under / (over) provision for income tax relating to prior income years [D]	(45,783)	16,647
Other items[E]	(49)	(35)
Non-temporary differences (contributions)		
Contributions and transfers not subject to tax [F]	(221,069)	(234,076)
Transfers and contributions subject to tax [G]	5,131	4,366
No-TFN-quoted contributions subject to additional tax	6	8
Anti-detriment deduction	0	0
Under / (over) provision for income tax relating to prior income years	873	551
Income tax expense (current income tax and deferred income tax)	**1,139,459**	**25,295**
Temporary differences:		
Unrealised taxable capital gains and revenue losses [H]	(568,861)	261,269
Accrued income and expenses [I]	121,903	(54,654)
Deferred franking credits and foreign income tax offsets	2,936	(10,879)
Adjustments recognised in the period for current tax of prior periods	1,446	6,555
Other items [J]	108,695	37
Current tax expense (income tax paid and payable in respect of the current income year)	**805,578**	**227,623**

[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] *This amount represents the portion of CSC's total capital gains which have been reduced due to the capital gains tax concession (discount) together with any movement in unrealised profits on CSC's assets. Under Australian tax law, Australian tax residents (including superannuation funds such as CSC) are entitled to reduce the total capital gain arising on the sale, realisation or transfer of certain assets, provided they are held by the same Australian tax resident for at least 12 months.*

[D] *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.*

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

[F] *Under Australian tax law, certain forms of contributions received by superannuation funds are not subject to tax (including personal superannuation contributions where the customer 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.*

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

[H] *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.*

[I] *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).*

[J] *Other temporary differences include interest receivable, insurance premiums that are deductible or charged to customer's accounts, foreign exchange gains and foreign income.*

Foreign tax

In FY21, CSC paid $20.887M in foreign tax in the following regions

North America	Europe	Asia and Middle East
$8,599	$3,535	$7,679
South America	**Oceania**	**Other**
$122	$479	$473

All figures represented above are in ($,000)

Global Total [A]

$20,887

[A] This amount is net of any foreign taxes reclaimed from foreign tax authorities, according to the relevant double tax treaty. The FITO claimed in CSC's Australian income tax return is $13.307M (after exempt current pension income) for FY21.

International related party dealings

CSC may establish investment vehicles outside of Australia to allow international investments to be held on behalf of our customers, in line with CSC's wider investment objectives. Any such international related party dealings of CSC are entered into strictly for commercial reasons only.

Material tax risks or at risk tax positions

CSC has not identified any material tax risks or at risk tax positions for FY20 and FY21. This is consistent with CSC's audited financial statements which disclose no uncertain tax treatments in accordance with International Financial Reporting Standards Foundation and Australian Accounting Standards Board (AASB) Interpretation 23.

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[B] ($000)	PAYG withholding remitted to the ATO (from employee salaries) ($000)	PAYG withholding remitted to the ATO (from customer benefits) ($000)	Total ($000)
2021						
Australian federal taxes	805,578	13	(11,910)	16,461	1,015,385	1,825,527
Other jurisdictions	20,887					20,887
Total (2021)	**826,465**	**13**	**(11,910)**	**16,461**	**1,015,385**	**1,846,414**
2020						
Australian federal taxes	227,623	45	(3,500)	18,271	999,878	1,242,317
Other jurisdictions	17,486					17,486
Total (2020)	**245,109**	**45**	**(3,500)**	**18,271**	**999,878**	**1,259,803**

[A] This includes FBT paid by CSC on non-cash benefits provided to its employees for the FBT years ended 31 March 2021 and 31 March 2020.

[B] The increase in CSC's net GST refundable position is largely driven by the increased GST claimed on investment performance fees and other expenses compared to FY20.

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 FY21. 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 FY21 includes transactions that have already been included in CSC's taxable income for FY20.

TRM framework

CSC's internal TRM 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 BoT's Voluntary TTC, CSC has prepared this report in accordance with the TTC, together with the AASB's draft guidance in relation to 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 BoT'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 FY21. 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 2021.

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 2020-21 Annual Report, and can be accessed at **csc.gov.au**.

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

Facebook link	**facebook.com/CommonwealthSuperannuationCorporation**
Instagram link	**instagram.com/commsupercorp**
Linkedin link	**linkedin.com/company/commonwealth-superannuation-corporation**

CSC

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