

# Netwealth Superannuation Master Fund Tax Transparency Report

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For the year ended 30 June 2021

ABN 94 573 747 704

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# Contents

Statement from trustee _____	3
Basis of preparation _____	3
Netwealth Superannuation Master Fund's trustee _____	3
Netwealth Superannuation Master Fund's investment operation _____	4
Approach to tax risk management and governance _____	4
Tax risk appetite and engagement with the Australian Tax Office (ATO) _____	5
Superannuation funds and taxation _____	5
1. Contributions _____	5
2. Investment earnings for members _____	5
3. Benefits paid to members _____	6
Tax payments _____	6
FY2021 Tax reconciliations _____	7

## Statement from trustee

Netwealth Superannuation Services Pty Ltd (NSS), the trustee for the Netwealth Superannuation Master Fund (NSMF) is pleased to adopt the Tax Transparency Code (TTC) and publish the NSMF inaugural tax transparency report for FY2021 (Report). The TTC is a set of principles and minimum standards developed by the Board of Taxation to guide medium and large businesses on public disclosure of tax information. Adoption of the TTC is voluntary and intended to complement Australia's existing tax transparency measures.

Superannuation funds are taxed under special rules that significantly differ from the taxation of companies. While the specific requirements of the TTC do not extend to include superannuation funds, NSS recognises the importance of transparent disclosure. NSS is committed to apply the principles of the TTC consistent with the Australian Government's efforts to promote tax transparency. The Report assists the NSMF members and other interested parties in understanding the NSMF compliance with Australian tax laws, its approach to tax governance and helps demonstrate the contribution that NSMF and its members make to taxes paid in Australia.

## Basis of preparation

This Report has been prepared in accordance with the requirements set out in the Australian Board of Taxation's Voluntary Tax Transparency Code. The Report is for the income year ended 30 June 2021 and should be read in conjunction with the NSMF 2021 Annual Financial Report. All figures are presented in Australian dollars.

The Report is prepared internally with information in the Report sourced directly from NSMF's audited financial statements for FY2021 and the information lodged with the Australian Tax Office. The Report is reviewed by our external tax advisor, undergoes an internal review process and is tabled to the Board of NSS for approval prior to publication.

## Netwealth Superannuation Master Fund's trustee

During the 12 months to 30 June 2021, the trustee of the NSMF was Netwealth Investments Limited (ABN 85 090 569 109). However, from 1 July 2021 the Financial Sector Reform Act 2020 (Hayne Royal Commission Response) prohibited a trustee of a superannuation fund from holding a role and/or performing any other duty other than as trustee of the superannuation fund. This was intended to remove the potential conflict where a superannuation trustee board may be working in multiple capacities. Accordingly, on 1 July 2021, the trustee for the NSMF was replaced by NSS. Furthermore, two new independent directors were appointed to the NSS board. The NSS board, along with an Office of the Trustee established to assist the board has no other role in Netwealth other than to support the interests of the members of the NSMF.

## Netwealth Superannuation Master Fund's investment operation

The NSMF is a 'self-directed' or 'member directed' retail fund, meaning it is at the member's discretion, in conjunction with their financial adviser where applicable, to determine how the funds in their account are invested. There are restrictions on assets that members can invest in. Specifically, members can only invest in the approved list of assets as determined by the trustee through the Netwealth online platform. This includes:

- cash
- term deposits
- securities listed on the Australian Securities Exchange
- managed funds including Netwealth operated Global Specialist Series funds
- managed models
- international securities
- other investments approved by the trustee

As a result of the member-directed nature of the fund, the investment strategy is an amalgam of the investment strategies of all its members and their respective advisers. This means neither NSS nor the broader Netwealth Group control any aspect of the member's investment strategy.

## Approach to tax risk management and governance

The trustee's approach to the taxation affairs of the NSMF is outlined in the Netwealth's Group Tax Risk Management and Governance Framework (TRMG), an integral component of Netwealth's overall risk management strategy, as part of effective corporate tax governance. The TRMG Framework is a robust internal tax governance policy and framework which is approved by the Board of Directors (Board) of Netwealth Group Limited (NWL) and its subsidiaries. The design of this framework aligns with the Australian Taxation Office (ATO)'s Tax Risk Management and Governance Review Guide.

Netwealth's tax risk management and governance process seeks to ensure that NSMF:

- fully complies with applicable tax laws
- adopts reasonable care in relation to the administration of its tax affairs, in compliance with applicable tax laws and in an ethical and responsible manner
- adopts tax positions that are supportable at law and on the evidence available to Netwealth and must not contribute to significant level of risk relative to the outcome
- cooperates in good faith on a collaborative and proactive basis with the tax authority and other regulators
- focuses on and actively mitigates tax risks arising from areas flagged by the Commissioner of Taxation as areas of potential concern

NSS periodically updates the taxation affairs of NSMF to the NSS Audit Risk and Compliance Committee (ARCC), as delegated by the Board.

## Tax risk appetite and engagement with the Australian Tax Office (ATO)

NSS adopts a conservative approach in relation to its tax strategy and does not sanction or support aggressive tax planning or the adoption of aggressive tax positions. Tax positions adopted are reviewed to ensure they are at least 'more likely than not' correct under applicable tax law based on all available evidence.

NSS will make every endeavour to co-operate in good faith on a collaborative and proactive basis with tax authorities and other regulators. Where relevant, early engagement with the ATO and/or external tax advisers are undertaken to fully comply with its tax obligations and operate in a low-risk tax environment.

## Superannuation funds and taxation

Superannuation is a long-term retirement savings system with a special tax regime that applies to Australian superannuation funds. The tax that Australian superannuation funds pay largely depends on the type of income generated and the retirement savings phase of members.

Like all superannuation funds, NSMF is required to pay tax on contributions that we receive from or on behalf of members; income earned within the fund (also known as investment earnings) that we generate for some members; and some benefits that we pay to members. This has been summarised below:

### 1. Contributions

Contributions made by employers on behalf of members are generally taxable at 15%. Member contributions from pre-tax dollars are also taxed at 15%. Generally, no contribution tax applies to after-tax contributions or rollovers from other super funds. Members that earn over \$250,000 (including their before tax super contributions) may be required to pay an additional 15% tax on their contributions which exceed this threshold. This may bring their overall contribution tax rate closer to 30%. If members don't provide us with their TFN, their contributions are taxed at 47%.

### 2. Investment earnings for members

Investment earnings will either be subject to income tax or will be effectively tax free if the earnings are classified as exempt current pension income (ECPI).

The NSMF applies the segregated method to quantify its ECPI for an income year. In the NSMF the segregation is done on a member-by-member basis (member level) given the member direct nature of the fund. At the member level, assets that are exclusively used to support that member's retirement-phase income stream are 'ring fenced' from any other assets. At the 'fund level', all members ring fenced assets that support the retirement phase income streams are aggregated and classified as segregated current pension assets. Investment income arising on these segregated current pension assets will be ECPI and will be tax free. Notwithstanding the tax-free nature of ECPI any franking credits arising on segregated current pension assets will still give rise to a tax offset and reduction of tax payable.

Income arising on assets supporting member balances that have not commenced a retirement phase income stream (accumulation phase) will generally be taxable at 15%. Practically, this tax rate is reduced by franking credits, foreign income tax offsets and other offsets. Furthermore, investment

gains made on long-term capital assets are taxed at an effective rate of 10% as a result of the general capital gains tax discount.

### 3. Benefits paid to members

Benefits paid to members are generally not taxed in NSMF. However, we may be required to withhold tax when paying a benefit. The amount of tax withheld depends on the type of benefit, the components of the benefits, and the age and circumstance of the recipient.

### Tax payments

The table below summarises the taxes that NSMF paid for FY2021.

<b>Tax paid</b>	<b>Amount of tax paid is driven by</b>	<b>\$'000</b>
Income tax	Contributions and investment returns	58,361
Withholding tax (benefits)	Benefit payments to members (borne directly by members)	2,682
GST tax	Acquisition of goods and services	(11,973)
<b>Total</b>		<b>49,071</b>

## FY2021 Tax reconciliations

Income tax expense is calculated using accounting principles and is included in NSMF's financial statements, published on Netwealth's website. The accounting standards for superannuation funds require that income from investing activities be shown separately to member related activities.

As a superannuation fund, NSMF's taxable income is taxed at 15%, however some income that is included as income for accounting purposes is not included in income for tax purposes. For example, investment earnings that support member assets in pension phase are exempt from tax, and long-term capital gains are allowed a one-third capital gains tax discount (an effective tax rate of 10%). Most transfers of member balances into NSMF from other superannuation funds are also not taxable.

The Australian tax law also allows tax offsets (for example, for foreign tax and franking credits that reflect that tax has already been paid) which apply to offset our tax payable. This means that our income tax expense is lower than 15% of our accounting income. The table below reconciles the differences between NSMF's FY2021 accounting income (at 15%) to its income tax expense.

Reconciliation of accounting income to income tax expense	Income statement (\$'000)	Change in members' benefits (\$'000)	Total (\$'000)
Accounting Income	2,112,084	4,340,400	6,452,484
Prima Facie Income tax expense (Taxed @ the superannuation rate 15%)	316,813	651,060	967,873
Adjusted for the following items			
Non-assessable member contributions		(82,325)	(82,325)
Non-assessable transfers in from other Superannuation funds		(512,351)	(512,351)
Non-assessable group life insurance proceeds		(2,611)	(2,611)
Tax deductible group life insurance premiums	(5,287)	5,287	0
Non-deductible expenses	9,594		9,594
Capital gains tax concession, tax-exempt capital gains and capital gains tax adjustments	(56,697)		(56,697)
Exempt current pension income	(26,983)		(26,983)
Franking credits and foreign tax offsets	(45,202)		(45,202)
Unrealised income and deferred taxes	(107,486)		(107,486)
Others	5,402	1,486	6,888
<b>Income tax expense</b>	<b>90,154</b>	<b>60,546</b>	<b>150,700</b>
Effective rate of income tax expense (after adjustment for amounts which are non-assessable/not deductible)	4.3%	1.4%	2.3%

The actual income tax that NSMF pays each year is different to the amount of income tax expense shown in NSMF's financial statements each year.

This is largely due to the income tax expense including a provision for tax on items which are assessable or deductible for tax purposes in a different year. For example, unrealised market value movements on investments are recognised for accounting income each year but are only taken into account for tax purposes when we sell those investments.

The below table shows the difference between the amount of income tax expense in our financial statements, compared to the income tax that we paid for FY2021.

Reconciliation of income tax expense to income tax paid	Income Statement (\$'000)	Change in members' benefits (\$'000)	Total (\$'000)
Income tax expense	90,154	60,546	150,700
Under-provision for tax in current year *	11,474	(980)	10,494
Net unrealised investment gains	(102,833)	0	(102,833)
<b>Income tax paid</b>	<b>(1,205)</b>	<b>59,566</b>	<b>58,361</b>

\*Largely relates to trust distributions income where the tax components were provided to NSMF after completion of the financial statements.