

Netwealth Superannuation Master Fund

Tax Transparency Report

For the year ended 30 June 2024

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Statement from trustee

Netwealth Superannuation Services Pty Ltd (NSS), the trustee for the Netwealth Superannuation Master Fund (NSMF) is pleased to publish its annual NSMF tax transparency report (Report). The Australian Board of Taxation's Voluntary Tax Transparency Code (TTC) is a set of principles and 'minimum standards' developed by the Board of Taxation to guide medium and large businesses on public disclosures of tax information. Medium or large corporations, including superannuation funds are encouraged to adopt TTC to enhance the public's understanding of their tax contribution and compliance to Australia's tax system.

NSS is committed to high standards of tax governance and has voluntarily adopted the TTC since 2021 to demonstrate we take our compliance obligations seriously and are committed to being transparent on our taxation affairs.

Basis of preparation

This Report meets the requirements set out in the TTC and has been prepared in accordance with the Appendix to the Code issued by the Australian Accounting Standards Board.

The Report is for the income year ended 30 June 2024 with the comparative period 30 June 2023 and should be read in conjunction with the NSMF Annual Financial Report FY2024. All amounts have been rounded to the nearest thousand dollars and are presented in Australian dollars, unless otherwise stated.

The information in the Report is sourced from NSMF's audited financial statements for the income year ended 30 June 2024 and information lodged with the Australian Taxation Office (ATO). The Report is prepared internally, reviewed by our external tax adviser and approved by the Board of NSS prior to publication.

NSMF trustee

NSS (ABN 80 636 951 310) has been the trustee for the NSMF since 1 July 2021. The NSS board and its supporting office (Office of the Trustee) have no other role in Netwealth other than to support the interests of the members of the NSMF. This aligns with the provisions outlined in the *Financial Sector Reform (Hayne Royal Commission Response) Act 2020*.

NSMF'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. The list includes:

- term deposits;
- fixed term annuities;
- an extensive menu of managed funds (including the Netwealth Global Specialist Series funds) and other types of managed investments;
- managed models available through an approved managed account service;
- Australian listed securities (including certain warrants and exchange traded funds);
- international securities listed on overseas exchanges as approved from time to time by the trustee; and
- other investments made available by the trustee from time to time.

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 in accordance with the Group Tax Risk Management and Governance Policy (Tax Policy), an integral component of Netwealth's overall risk management strategy, as part of effective corporate tax governance. The Tax Policy is approved by the Board of Directors (Board) of Netwealth Group Limited (NWL) and NSS. This framework aims to reflect the principles outlined in the ATO's Tax Risk Management and Governance Review Guide.

The underlying principles of our tax strategy are to:

- seek to comply with all relevant tax laws and obligations, resulting in the correct amount of tax being lodged, reported, and paid in a timely manner.
- commit to strong tax governance and maintain reasonable care to identify, assess, control, and manage tax risks by embedding controls in business processes.
- adopt a conservative tax approach making certain all tax positions adopted are at least "more likely than not" and supportable under applicable tax law.
- endeavour to maintain an open and honest approach, engaging in good faith and on a proactive basis with tax authorities and other regulators.
- seek to resolve any ongoing or key tax matters flagged by Commissioner of Taxation and other revenue authorities as areas of potential concern.
- support tax data integrity, compliance, and reporting through document management, defined tax controls and processes, and governance over third-party data sources.
- review, at least biennially, to ensure it remains relevant and complies with current tax legislations.

The NSS Board has responsibility and accountability for taxation matters relating to NSS and NSMF as trustee for NSMF and has delegated responsibility to the NSS Audit Risk and Compliance Committee (ARCC) and Chief Financial Officer to implement the Tax Policy, oversee tax matters, manage tax risks and to keep the Board informed of significant tax matters.

Tax risk appetite and engagement with the 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 determine they are at least 'more likely than not' correct under applicable tax law based on all available evidence.

NSS will make every endeavour to cooperate in good faith on a collaborative and proactive basis with tax authorities and other regulators. Early engagement with the ATO and 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 income 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 it receives from or on behalf of members; income earned within the fund (also known as investment earnings) that the NSMF generates for some members; and some benefits that we pay to members. This has been summarised below:

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 superannuation 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 to 30%. If members do not provide us with their TFN, their contributions are taxed at 47%.

Investment earnings for members

The investment earnings may have different tax outcomes - they may be subject to income tax or may be tax free if they are exempt current pension income (ECPI).

The NSMF applies the segregated method to calculate its ECPI for an income year. In the NSMF, the segregation is done for each member (member level) based on their contributions. At the 'member level', assets that are exclusively used to support the member's retirement-phase income stream are separated from other assets. At the 'fund level', the retirement phase income stream assets of all the members are combined and regarded as segregated current pension assets. However, although ECPI is tax free, any franking credits earned on segregated current pension assets will still give rise to a tax offset and reduce the tax payable.

The investment income from the assets that support the accumulation phase (where the member has not commenced a retirement phase income stream) is generally taxed at 15%. This rate can be reduced by franking credits, foreign income tax offsets and other offsets. Also, the fund can apply a capital gains tax discount for long-term capital assets and pay an effective tax rate of 10% on capital gains.

Benefits paid to members

Benefits paid to members by NSMF are generally not taxed. 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:

		2024	2023
Tax paid	Amount of tax paid is driven by	\$'000	\$'000
Income tax	Contributions and investment returns	86,289	25,720
Withholding tax (benefits)	Benefit payments to members (borne directly by members)	5,152	4,202
GST	Acquisition of goods and services	(18,310)	(16,160)
Total		73,131	13,762

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 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 from other superannuation funds to NSMF are also tax-free.

Australian tax law also allows tax offsets (for example, for foreign tax and franking credits that show tax has already been paid) that reduce 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 FY2024 and FY2023 accounting income (at 15%) to its income tax expense.

	2024			2023		
Reconciliation of accounting income to income tax expense	Income statement (\$'000)	Change in members' benefits (\$'000)	Total (\$'000)	Income statement (\$'000)	Change in members' benefits (\$'000)	Total (\$'000)
Accounting Income	2,370,922	6,673,022	9,043,944	1,732,756	5,337,991	7,070,747
Prima Facie Income tax expense (Taxed @ superannuation rate 15%)	355,638	1,000,953	1,356,591	259,913	800,699	1,060,612
Adjusted for the following items						
Non-assessable member contributions		(209,280)	(209,280)		(189,021)	(189,021)
Non-assessable transfers in from other Superannuation funds		(666,172)	(666,172)		(510,290)	(510,290)
Non-assessable group life insurance proceeds		(3,325)	(3,325)		(2,139)	(2,139)
Non-deductible expenses	18,290		18,290	14,321		14,321
Realised (gains)	(36,368)		(36,368)	(33,303)		(33,303)
Exempt current pension income	(97,183)		(97,183)	(53,790)		(53,790)
Franking credits and foreign tax offsets	(77,999)		(77,999)	(39,047)		(39,047)
Unrealised (gains)	(96,973)		(96,973)	(72,870)		(72,870)
Other	4,451	193	4,644	(113)	(227)	(351)
Overprovision for income tax relating to prior year	(359)	-	(359)	(644)		(643)
Income tax expense	69,497	122,369	191,866	74,467	99,022	173,489
Effective rate of income tax expense (after adjustment for amounts which are non-assessable/not deductible)	2.9%	1.8%	2.1%	4.3%	1.9%	2.5%

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 considered 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 FY2024 and FY2023.

Reconciliation of income tax expense to income tax paid	2024			2023		
	Income Statement (\$'000)	Change in members' benefits (\$'000)	Total (\$'000)	Income Statement (\$'000)	Change in members' benefits (\$'000)	Total (\$'000)
Income tax expense	69,497	122,369	191,866	74,467	99,022	173,489
Adjustments to provision for tax in current year *	(27,197)	(78)	(27,275)	(60,131)	(522)	(60,653)
Deferred tax	(78,302)	-	(78,302)	(87,116)	-	(87,116)
Income tax paid	(36,002)	122,291	86,289	(72,780)	98,500	25,720

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