

Netwealth Superannuation Master Fund Tax Transparency Report

For the year ended 30 June 2022

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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) for the second year after adopting the Australian Government's Voluntary Tax Transparency Code (TTC). 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 meets the requirements set out in the Australian Board of Taxation's Voluntary Tax Transparency Code (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 2022 with the comparative period 30 June 2021 and should be read in conjunction with the NSMF Annual Financial Report FY2022. All amounts are presented in Australian dollars.

The information in the Report is sourced from NSMF's audited financial statements for the income year ended 30 June 2022 and information lodged with the Australian Taxation Office. The Report is prepared internally, reviewed by our external tax adviser and has been approved by the Board of NSS prior to publication.

Netwealth Superannuation Master Fund's trustee

The trustee of the NSMF is Netwealth Superannuation Services Pty Ltd (NSS) (ABN 80 636 951 310) since 1 July 2021. 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. This aligns with the provisions outlined in The Financial Sector Reform Act of 2020 (Hayne Royal Commission Response).

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. The list 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 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.

The key principles of Netwealth's tax risk management and governance process are to ensure that NSMF:

- complies with all the applicable tax laws.
- adopts reasonable care in relation to the administration of its tax affairs in an ethical and responsible manner.
- adopts a conservative approach in relation to its tax strategy.
- adopts tax positions that are supportable at law based on all available evidence and must not contribute to significant level of risk relative to the outcome.
- maintains an open, honest, and cooperative approach with the tax authority.
- focuses on and actively mitigates tax risks arising from areas flagged by the Commissioner of Taxation as areas of potential concern.

NSS regularly reports 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 Taxation 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. 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 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:

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 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 :

		2022	2021
Tax paid	Amount of tax paid is driven by	\$'000	\$'000
Income tax	Contributions and investment returns	21,541	58,224
Withholding tax (benefits)	Benefit payments to members (borne directly by members)	3,178	2,682
GST tax	Acquisition of goods and services	(14,663)	(11,973)
Total		10,056	48,933

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 FY2022 accounting income (at 15%) to its income tax expense.

Reconciliation of accounting income to income tax expense	2022			2021		
	Income statement (\$'000)	Change in members' benefits (\$'000)	Total (\$'000)	Income statement (\$'000)	Change in members' benefits (\$'000)	Total (\$'000)
Accounting Income	(1,719,776)	5,230,172	3,510,396	2,112,084	4,340,400	6,452,484
Prima Facie Income tax expense (Taxed @ superannuation rate 15%)	(257,966)	784,526	526,560	316,813	651,060	967,873
Adjusted for the following items						
Non-assessable member contributions		(133,090)	(133,090)		(82,325)	(82,325)
Non-assessable transfers in from other Superannuation funds		(574,631)	(574,631)		(512,351)	(512,351)
Non-assessable group life insurance proceeds		(2,340)	(2,340)		(2,611)	(2,611)
Non-deductible expenses	12,271		12,271	9,594		9,594
Capital gains tax concession, tax-exempt capital gains and capital gains tax adjustments	(22,053)		(22,053)	(56,697)		(56,697)
Exempt current pension income	(31,634)		(31,634)	(26,983)		(26,983)
Franking credits and foreign tax offsets	(59,092)		(59,092)	(45,202)		(45,202)
Unrealised income and deferred taxes	180,417		180,417	(107,486)		(107,486)
Other	11,178	463	11,641	5,402	1,486	6,888
Overprovision for income tax relating to prior year	(2,552)		(2,552)			
Income tax expense	(169,431)	74,928	(94,503)	95,441	55,259	150,700
Effective rate of income tax expense (after adjustment for amounts which are non-assessable/not deductible)	9.9%	1.4%	(2.7)%	4.5%	1.3%	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 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 FY2022.

Reconciliation of income tax expense to income tax paid	2022			2021		
	Income Statement (\$'000)	Change in members' benefits (\$'000)	Total (\$'000)	Income Statement (\$'000)	Change in members' benefits (\$'000)	Total (\$'000)
Income tax expense	(169,431)	74,928	(94,503)	95,441	55,259	150,700
(Over)/Underprovision for tax in current year *	(34,351)	(1,668)	(36,019)	7,875	(969)	6,906
Net unrealised investment gains	152,063	-	152,063	(99,382)	-	(99,382)
Income tax paid	(51,719)	73,260	21,541	3,934	54,290	58,224

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