

Netwealth Superannuation Master Fund Tax Transparency Report

For the year ended 30 June 2023

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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 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 Tax Transparency Code 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 Australian Board of Taxation's Voluntary 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 2023 with the comparative period 30 June 2022 and should be read in conjunction with the NSMF Annual Financial Report FY2023. 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 2023 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:

- Cash,
- term deposits,
- securities listed on the Australian Securities Exchange,
- managed funds including Netwealth operated Global Specialist Series funds,
- managed models,
- international securities, and
- 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 ATO's Tax Risk Management and Governance Review Guide.

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

- complies with applicable tax laws,
- at minimum, reasonable care is adopted in relation to the administration of its tax affairs in compliance with applicable tax laws,
- 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,
- endeavour to cooperate in good faith on a collaborative and proactive basis with tax authorities and other regulators, and
- review, at least annually, focuses on and actively mitigates tax risks flagged by the Commissioner of Taxation or other relevant regulators 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 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 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:

		2023	2022
Tax paid	Amount of tax paid is driven by	\$'000	\$'000
Income tax	Contributions and investment returns	25,720	21,541
Withholding tax (benefits)	Benefit payments to members (borne directly by members)	4,202	3,178
GST	Acquisition of goods and services	(16,160)	(14,663)
Total		13,762	10,056

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.

The 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 FY2023 and FY2022 accounting income (at 15%) to its income tax expense.

Reconciliation of accounting income to income tax expense	2023			2022		
	Income statement (\$'000)	Change in members' benefits (\$'000)	Total (\$'000)	Income statement (\$'000)	Change in members' benefits (\$'000)	Total (\$'000)
Accounting Income	1,732,756	5,337,991	7,070,747	(1,719,777)	5,230,172	3,510,395
Prima Facie Income tax expense (Taxed @ superannuation rate 15%)	259,913	800,699	1,060,612	(257,967)	784,526	526,559
Adjusted for the following items						
Non-assessable member contributions		(189,021)	(189,021)		(133,090)	(133,090)
Non-assessable transfers in from other Superannuation funds		(510,290)	(510,290)		(574,631)	(574,631)
Non-assessable group life insurance proceeds		(2,139)	(2,139)		(2,340)	(2,340)
Non-deductible expenses	14,321		14,321	12,271		12,271
Realised (gains)/losses	(33,303)		(33,303)	12,327		12,327
Exempt current pension income	(53,790)		(53,790)	(54,652)		(54,652)
Franking credits and foreign tax offsets	(39,047)		(39,047)	(59,091)		(59,091)
Unrealised (gains)/losses	(72,870)		(72,870)	180,233		180,233
Other	(113)	(227)	(351)	-	463	463
Overprovision for income tax relating to prior year	(644)		(643)	(2,552)		(2,552)
Income tax expense	74,467	99,022	173,489	(169,431)	74,928	(94,503)
Effective rate of income tax expense (after adjustment for amounts which are non-assessable/not deductible)	4.3%	1.9%	2.5%	9.9%	1.4%	(2.7) %

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 FY2023 and FY2022.

Reconciliation of income tax expense to income tax paid	2023			2022		
	Income Statement (\$'000)	Change in members' benefits (\$'000)	Total (\$'000)	Income Statement (\$'000)	Change in members' benefits (\$'000)	Total (\$'000)
Income tax expense	74,467	99,022	173,489	(169,431)	74,928	(94,503)
Adjustments to provision for tax in current year *	(60,131)	(522)	(60,653)	(34,351)	(1,668)	(36,019)
Deferred tax	(87,116)	-	(87,116)	152,063	-	152,063
Income tax paid	(72,780)	98,500	25,720	(51,719)	73,260	21,541

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