Tax Transparency Report

30 June 2023

STATE SUPER
SAS Trustee Corporation

About this report

This report discloses the taxes paid by State Super for the financial year ended 30 June 2023. It includes details about the types and amounts of taxes paid and summarises the principles that guide State Super's tax governance.

The report was prepared in line with the voluntary Tax Transparency Code.

Introduction to the Code

The Tax Transparency Code (the Code) is a set of principles and minimum standards that were developed by the Board of Taxation to guide medium and large businesses, including superannuation funds, on the public disclosure of tax information.

Adopting the Code is currently voluntary and is intended to complement Australia's existing tax transparency measures.

The Code is designed to encourage greater transparency by the corporate sector, including large APRA regulated superannuation funds, and to enhance the community's understanding of how businesses comply with Australia's tax laws.

Role of the ATO

The Code is administered by the Australian Taxation Office (ATO).

Notwithstanding that the Code is voluntary, the Government and the ATO expect that all responsible large and medium businesses operating in Australia, including superannuation funds, adopt the Code.

In delivering its findings to large APRA regulated superannuation funds as part of its "Justified Trust" reviews, the ATO states that:

> *"The TTC is an important tool to assist our joint efforts in increasing tax transparency and community confidence that the largest taxpayers are paying the right amount of tax."*

Registration with the Board of Taxation

To adopt the Code, a corporation, including a superannuation fund, must register with the Board of Taxation.

Adoption of the Code is voluntary and intended to encourage greater transparency and to enhance the community's understanding of the corporate sector's compliance with Australia's tax laws.

Although superannuation funds are not companies, they are significant taxpayers. As such, superannuation funds have also been encouraged to voluntarily adopt the Code.

State Super has adopted a corporate governance framework and the State Super Board upholds the highest standards of tax governance. In this light, State Super has chosen to support the principles of the Code through voluntary adoption of the Code and to publish a Tax Transparency Report every three years.

State Super first registered for the year ended 30 June 2020.

Information to disclose

The minimum standard of information required under the Code depends on business size.

As State Super is a large superannuation fund, it must adopt both Part A and Part B.

The minimum standards are described in the table below:

Code disclosure	Minimum standard of information
Part A	A reconciliation of accounting profit to tax expense and to income tax paid or income tax payable Identification of material temporary and non-temporary differences Accounting effective company tax rates for Australian and global

	operations (under AASB guidance)
Part B	Approach to tax strategy and governance Tax contribution summary for corporate taxes paid Information about international related-party dealings

This report adopts the minimum disclosure standards recommended by the Board of Taxation.

This report has not been audited and does not form part of State Super's financial statements.

Summary of terms

Unless otherwise stated, throughout this report:

- references to 'State Super', 'the Fund' 'we', 'us', and 'our' refer to State Super and its controlled entities (where applicable)
- references to a 'year' or 'financial year' are to the 12 months ended 30 June 2023
- all dollar figures are Australian dollars (AUD)

About State Super

State Super is one of Australia's largest superannuation schemes with over 80,000 members and approximately $38 billion in assets (as at 30 June 2023).

State Super is the Trustee of the State Authorities Superannuation Scheme (SASS), State Superannuation Scheme (SSS), Police Superannuation Scheme (PSS) and State Authorities Non-contributory Superannuation Scheme (SANCS). The assets of all four schemes have been combined into the STC Pooled Fund. The STC Pooled Fund is a single taxpayer and lodges one income tax return for the STC Pooled Fund.

Tax Transparency Report

30 June 2023

PART A

Part A	• A reconciliation of accounting profit to tax expense and to income tax paid or income tax payable • Identification of material temporary and non-temporary differences • Accounting effective company tax rates for Australian and global operations (under AASB guidance)

Accounting Standard AASB, 1056

As a “superannuation entity”, State Super applies Accounting Standard AASB 1056.

As is relevant here, this standard requires State Super to prepare the following:

- a statement of changes in member benefits for the period; and
- an income statement for the period.

Statement of Changes to Member Benefits

The Statement of Changes in Member Benefits shows the tax on contributions.

The income tax expense disclosed in the Statement of Changes to Member Benefits on contributions is $235 million. This may be reconciled as follows:

Income year ended 30 June 2023	**Amount ($m)**
Total contributions	
Including employer contributions, member contributions, rollovers and co-contributions	1,732
Prima facie income tax expense/(benefit)on contributions (at the superannuation tax rate of 15%)	260
Adjusted for tax effect of the following items:	
Non-assessable member contributions	(6)
Non-assessable rollovers from tax-free and taxable sources	0
Deductible insurance premiums	(18)
Income tax expense/(benefit)	**235**

Income Statement

The Income Statement shows the tax on investment income.

The income tax expense disclosed in the Income Statement was an income tax benefit of $74 million.

The table below reconciles the differences between the accounting income at 15% and the income tax expense reported in our financial statements.

Income year ended 30 June 2023	**Amount ($m)**
Accounting income/(loss)	(1,525)
Prima facie income tax expense/(benefit)(at the superannuation tax rate of 15%)	**(229)**
Adjusted for tax effect of the following items:	
Non assessable investment income	(229)
Exempt pension related investment income	(297)
Tax credits	(77)
Net change in defined benefit member liabilities	758
(over) provision of tax beneft in prior years	
Income tax expense/(benefit)	**(74)**

Reconciliation of income tax expense to income tax paid

The actual income tax we pay annually differs from the income tax expense shown in our annual financial statements.

This is mainly driven by how accounting standards and income tax law require us to recognise some items of income and expenses in different years.

The table below shows the difference between the amount of income tax expense in our financial statements and the income tax we paid for the 2023 financial year.

Income year ended 30th June 2023	**Amount ($m)**
Income tax expense/(benefit) as per the financial statements	(74)
Adjusted for tax effect of the following items:	
Tax on assessable contributions	252
Deductible insurance premiums	(18)
(Increase)/decrease in unrealised investment income	
Over provision of income tax relating to the current income year	(4)
Over provision of income tax relating to the prior income year	
Income tax paid as per the income tax return	**156**

Part A – Identification of material temporary and non-temporary differences

State Super is a complying superannuation fund and is subject to the provisions of Division 295 of the Income Tax Assessment Act 1997.

The material differences between the accounting treatment of an item and the tax treatment may be summarised as follows:

Material items	**Explanation**
Rollover of tax-free and elements taxed in the fund	Rollover of components that consist of tax free and / or elements taxed in the fund are not subject to tax in the transferee fund.
Imputation credits	Complying superannuation funds are entitled to refundable tax offsets for franking credits attached to franked dividends.
Exempt current pension income ("ECPI")	Unsegregated complying superannuation funds are entitled to reduce their assessable investment income based on an actuarially determined percentage representing the proportion of assets that support pension members. Based on the legislative formula for the calculation of ECPI, State Super has an ECPI of 100%, meaning that it is effectively not subject to tax on its investment income.

Part A – Accounting effective company tax rates for Australian and global operations (under AASB guidance)

Effective income tax rate

Superannuation funds are subject to tax on their taxable income at the flat rate of 15%.

The effective tax rate will differ to the 15% due to the following differences between the accounting treatment and the tax treatment of the following items:

- Non-assessable member contributions;
- Non-assessable investment income relating to pension members;
- Deductions for insurance premiums;
- CGT discounting;
- Refundable franking credits; and
- Non-deductible benefits paid to members.

The effective tax rate for State Super for the year ended 30 June 2023 was 4.85%. We note that the effective tax rate is calculated as the income tax expense/(benefit) dividend by the accounting income/(loss). Due to the net accounting loss and net income tax benefit, the effective tax rate formula results in a positive amount for the year ended 30 June 2023.

State Super's effective tax rate is largely driven by the impact of its 100% ECPI. The impact of this is that State Super is essentially not subject to tax on its investment income.

State Super's tax payable is therefore driven by the level of contributions to the fund less deductible expenses and insurance contributions and the impact of refundable franking credits. The overall impact of these factors is a net tax benefit for the year.

Tax on superannuation contributions

The table below shows income tax expense on taxable contributions and the associated effective tax rate.

Income year ended 30 June 2023	Amount ($m)
Gross superannuation contributions received, including rollovers and government co-contributions	1,732
Total tax expense/(benefit) based on Statement of Member Benefits (as per financial statements)	235
Effective tax rate (after adjustments for amounts that are not tax deductible/non-assessable)	13.59%

End of Part A

PART B

Part B	• Approach to tax strategy and governance • Tax contribution summary for corporate taxes paid • Information about international related-party dealings

Part B – Approach to tax strategy and governance

ATO Guidance on tax risk management and governance

The ATO has released guidance to taxpayers in relation to their expectations of how trustees of complying superannuation funds manage tax risk management and governance.

This guidance includes:

- The ATO "Tax risk management and governance review guide" (ATO Guide) (last updated 25 August 2022); and
- The ATO "Governance over third-party data review guide" (ATO Supplementary Guide) (last updated 25 August 2022).

Tax Risk

Per State Super's Tax Risk Management Policy ("*TRMP*"), "tax risk" is the risk that:

- State Super may be paying or accounting for an incorrect amount of tax; or
- The tax positions that State Super adopts are out of step with the tax risk appetite that the board has authorised or believe is prudent.

The Board is responsible for ensuring implementation of effective risk management and formally approves the TRMP.

The RACC (which is a committee of the Board) is responsible for providing independent assurance to the Board on the tax risk, control and compliance framework and approach.

State Super Tax Governance Framework

In response to ATO guidance, State Super has a documented tax governance framework in its Tax Policy and Tax Risk Management Framework documents.

State Super Tax Risk Management Policy

State Super has a documented Tax Risk Management Policy (latest version approved by the Board on 23 June 2022).

The Tax Risk Management Framework sets out the process to identify tax risks and the responsibilities and criteria for assessing and escalating tax risk.

State Super Tax Management Principles

The key principles set out in the Tax Risk Management Policy include:

- Compliance with tax legislation, ATO requests and tax related obligations in a timely manner;
- Maintaining a tax risk profile in relation to tax matters and tax authorities that is consistent with State Super's risk appetite;
- Management of third-party service providers to ensure oversight and responsibility of tax matters rests with State Super;
- Management or State Super's reputational risk in respect of tax positions adopted; and
- Only "reasonably arguable" tax positions are implemented.

Engagement with tax authorities

State Super manages its tax obligations with the relevant authorities, including the ATO in an open and compliant manner.

State Super continues to be committed to paying all tax liabilities and meeting all tax related obligations, including withholding tax obligations, in a timely manner.

Tax Transparency Report

30 June 2023

State Super is a participant of the ATO's Top 1,000 Tax Performance Program. This program forms part of the ATO's 'Justified Trust' initiative, which seeks to obtain greater confidence that Australia's largest taxpayers (including superannuation funds) are paying the right amount of tax.

Reliance on third party tax information

As is typical for a superannuation fund, State Super is reliant on third party data to meet its various tax obligations.

State Super relies on its custodian, investment managers and administrator and understands that accurate and timely third-party information is important in determining the correct amounts of contribution income, investment income and gains, deductions and tax offsets are reported to the appropriate authorities.

The State Super TRMP sets out controls and processes designed to reduce the risks associated with reliance on third party data.

Tax contribution summary for corporate taxes paid

Summary of taxes paid

The below table outlines taxes paid or payable for the 2023 financial year by State Super in Australia.

Tax type	Amount ($m)
Income tax	155.5
GST	5.4
FBT	0.0
Payroll tax	0.5
Total	**161.4**

The below table includes taxes paid by State Super in foreign countries and Australia for the 2023 financial year.

Region	Amount ($m)
Australia	161.4
International	37.1
Total	**198.5**

Summary of taxes withheld

The below table outlines taxes withheld for the 2023 financial year by State Super in Australia.

Tax type	Amount ($m)
PAYG Withholding Tax – Benefits	0.0
PAYG Withholding Tax – Salaries	2.7
Total	**2.7**

International related party dealings

State Super's international related party dealings are limited to investment in international assets including equities and fixed interest securities on behalf of our members.

End.