HESTA tax transparency report

for the year ended
30 June 2018

committed to clarity

HESTA
An Industry SuperFund

About us

Since 30 July 1987 we have had the privilege of serving the evolving needs of Australia's health and community services sector. Your story is our story: a journey of more than 30 years, with 860,000 unsung heroes — more than half of the people in your sector nationally — who entrust us with their financial future. From the beginning we have poured our efforts into achieving the best possible outcome for every member. At HESTA we are driving meaningful change for our members' futures across three key platforms: directly supporting your industry; advocating for members and for women throughout our community; and investing in a better future for all Australians.

$46B Funds under management

Total taxes paid **$565M**

Offices nationally **8**

Effective tax rate **6.81%**

Contribution tax paid **$477M**

860,000 Number of members

As at 30 June 2018

About this report

Our members expect that we will always meet our regulatory obligations. We take our compliance with tax obligations seriously which is why we are committed to being transparent with our members and the community regarding our tax affairs.

This report is published on a voluntary basis and is a testament to our commitment to improved tax disclosure. We have decided to participate so as to provide insights into our tax strategy and governance arrangements, tax planning arrangements and our extensive contribution of taxes paid.

In adopting this Voluntary Tax Transparency Code (The Code), we are mindful of the complexities around tax. We have tried to balance the requirements of the disclosures within the Code along with keeping this report simple and easy for the reader to understand.

Superannuation funds and taxation

Australian superannuation funds are taxed in a unique manner compared to other similar systems around the world. In Australia, superannuation is taxed at three different stages:

- contributions received from members
- investment earnings generated for members in the accumulation phase
- a limited number of benefits paid to members or their beneficiaries.

Globally most other OECD countries only tax benefits. In Australia, we typically pay tax on the below:

Contributions

Most employer contributions on behalf of members are taxed at 15 per cent*.

Member contributions from pre-tax dollars are also taxed at 15 per cent.

Generally no contributions tax applies to after-tax contributions or rollovers from other super funds.

Investment earnings

Income earned within the fund (also known as investment earnings) is generally taxed at 15 per cent. Practically this tax rate is reduced by franking credits, foreign tax offsets and capital gains tax discounts.

Investment earnings of members in the pension phase are generally not subject to any tax. However these members still benefit from franking credits.

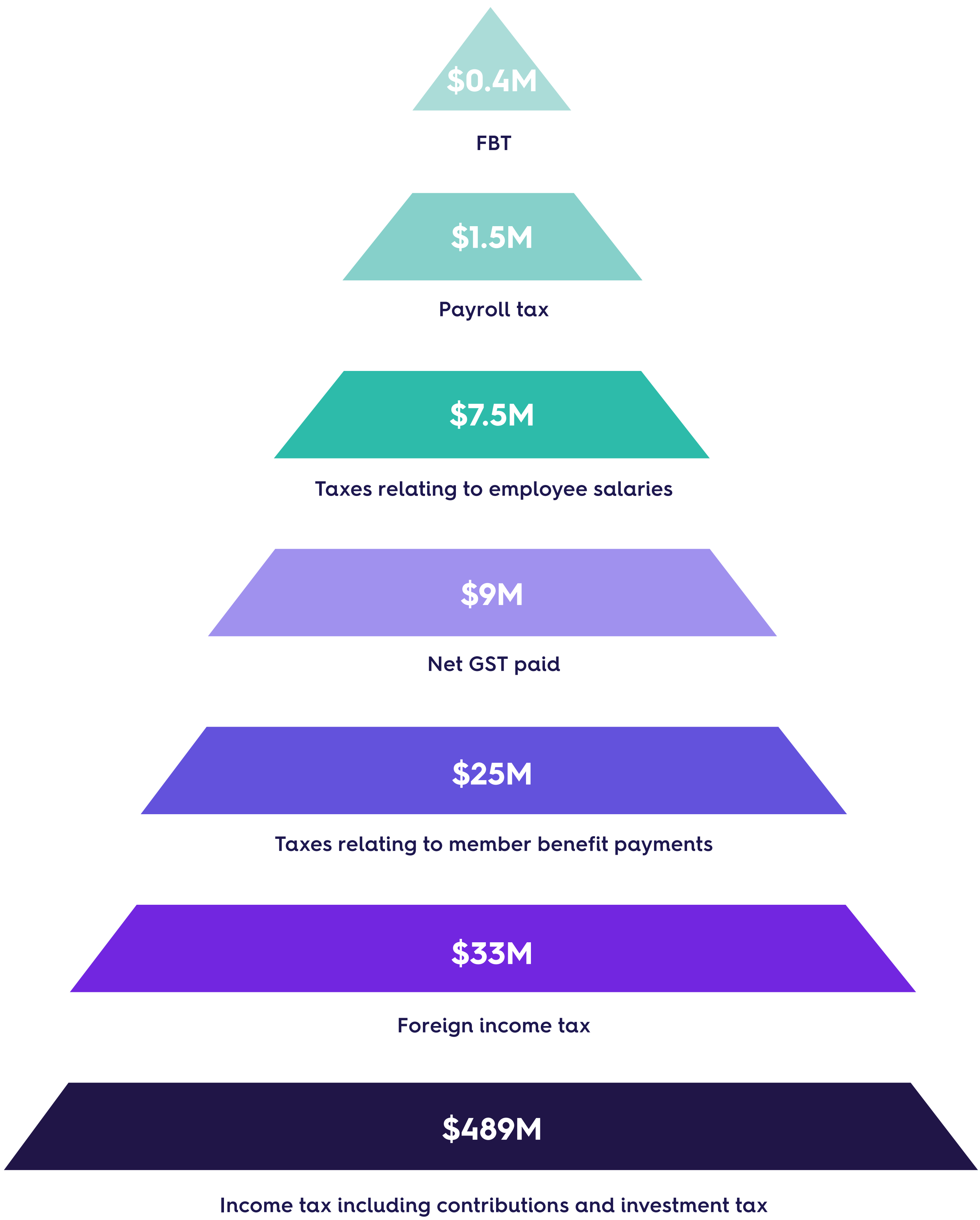
Withdrawals

Generally withdrawals from super or benefit payments are not taxable.

There may be instances where some payments attract tax – this will depend on numerous factors such as the recipient's age, the type of benefit received, and the components of the benefit.

*Members that earn in excess of $250,000 may be required to pay an additional 15 per cent tax on their contributions. Additionally if members do not provide their TFN, their contributions will be taxed at 47% (2018FY). The above information is for illustration purposes only.

In addition to the above, we also pay Goods and Services Tax (GST), Fringe Benefits Tax (FBT), withholding tax in relation to employee salaries and payroll tax.



Tax strategy and governance

We are committed to strong corporate governance policies and practices which are fundamental to our success. Our approach to tax is based on integrity and transparency which is embedded in the key overarching principles that govern our Tax Risk Framework.

We actively consider our social and fiduciary obligations to pay the right amount of tax, in the right jurisdiction, at the right time and the need to be transparent in the management and conduct of our tax affairs.

Our Taxation Manager reports on the operation and effectiveness of the Tax Risk Framework to the Executive Finance and Corporate Services who then flows this information through to the HESTA Board via the Audit and Risk Committee (ARC). We have a good track record of cooperation and transparency with the Australian Taxation Office (ATO) and we are considered a key tax payer by the ATO.

Our approach to tax management and governance is outlined in our internal Tax Management Policy. A summary of some of the key strategic objectives for managing tax from this policy are:

- to maintain open and constructive relationships with all relevant authorities
- to be considered a lower risk tax payer by tax authorities, with the recognition that the risk rating will be affected by the overall complexity and size of the fund
- to comply with all applicable laws and regulations relating to tax, including meeting tax compliance obligations in a timely manner
- to maintain high standards of tax risk management and governance, and
- to not participate in tax evasion or facilitate the evasion of tax by a third party in any way.

Tax risk management

At HESTA we believe that the identification and management of risk is central to achieving our strategic objectives and our purpose of making a real difference to the financial future of every member.

Our risk management framework and internal controls aim to identify, evaluate and manage risks in accordance with our risk appetite. Aspects of tax risk are incorporated within the Fund's identified material risks which include Financial, Governance, Investments, Operational, Legal and Compliance. Examples of tax risks within the financial risk include the risk of not maintaining accurate and timely financial data for tax and failure to budget appropriately for tax.

Our attitude to tax planning

We manage our tax affairs on a 'no surprises' basis. We are committed to paying our fair share of taxes in all jurisdictions in which we operate. We assess the tax implications of all transactions before committing to them and we ensure that adequate controls and processes are in place to meet all our ongoing tax and compliance obligations that arise.

We invest both within Australia and globally. We diversify our investments between different asset classes. To gain access to these global opportunities and maximise the long-term sustainable returns for our members, we also invest into collective investment entities (global pooled entities) which aggregate funds from different investors.

Some of these pooled entities are situated in low or no tax rate jurisdictions for legal or commercial reasons. This will sometimes mean that no tax or low tax is paid in the location where the funds have been aggregated. From a tax perspective these locations generally mean that co-investors aren't subject to tax twice on the same income. However, tax is still generally paid where the assets and investment activity is located as well as when this income is brought back into Australia, with an offset for eligible foreign tax paid.

At HESTA, we do not seek to engage in any artificial tax arrangements and we will always pay our fair share of tax in the appropriate jurisdiction. We consistently seek to apply the tax law in the manner intended and explicitly reject any proposals or structures where there is a suggestion of tax evasion or tax mischief.

Our relationship with the tax authorities

We maintain an honest, open and transparent relationship with the ATO and with tax authorities in all relevant jurisdictions.

By engaging early with the ATO and other revenue authorities we aim to minimise the risk of disputes which might attract additional taxes, penalties and costs. As a key taxpayer we cooperate with the ATO and proactively engage with them where necessary. We seek to build and develop our relationship with the ATO that is constructive and based on mutual respect.

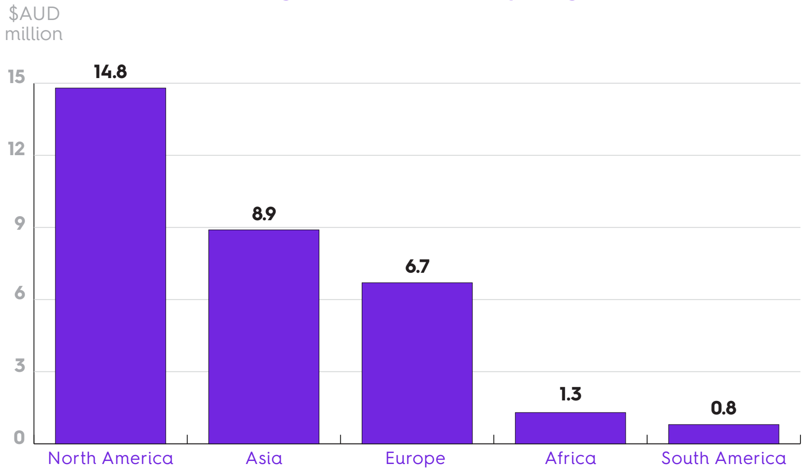
Where appropriate we engage in consultation with the ATO on tax matters either directly or as a collective with other Industry superannuation funds or representative bodies. We do this with a focus to either improve existing processes or comment on proposed changes that are open for consultation.

Overseas taxes

Due to the global nature of our investments, we pay our share of foreign taxes in the jurisdictions where we invest.

A summary of the foreign taxes paid by us is shown in the chart below:

Foreign taxes paid by region



As at 30 June 2018

Tax reconciliations

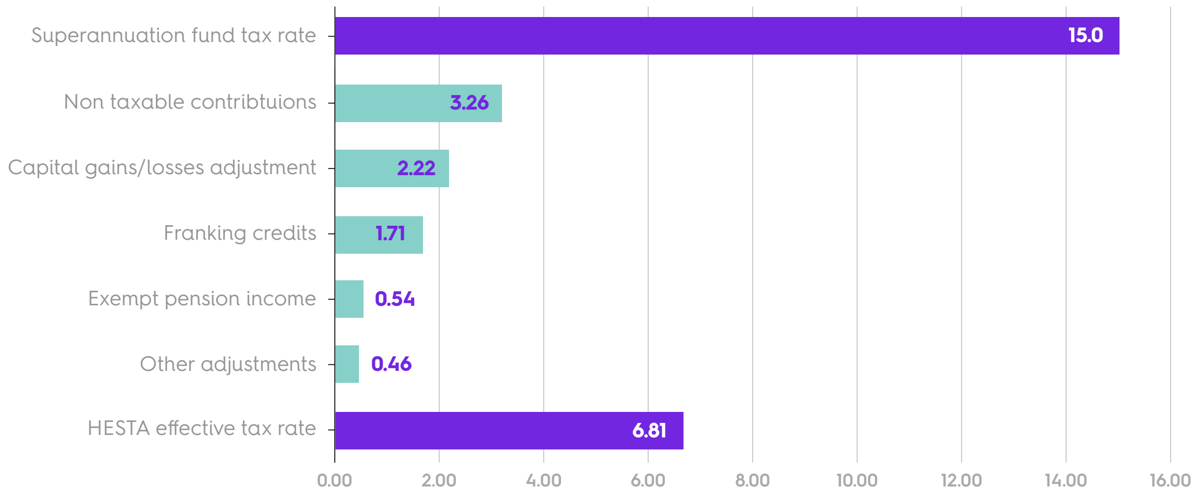
Reconciliation of accounting income to income tax expense – FY2018

Australian Accounting Standards require an entity to calculate and disclose various tax balances in its financial statements including its tax expense for the period. Below is a reconciliation of accounting profit before tax to tax expense to show the relationship between accounting profit and tax expense and explain, numerically, why tax expense does not equal 15 per cent of accounting profit.

The accounting standards for superannuation funds also require income from investing activities to be shown separately from member related activities, as outlined in the table below:

Reconciliation of accounting income to income tax expense ($M)	Income statement ($M)	Change in member benefits ($M)	Total ($M)
Accounting income	4,448	4,983	9,431
Income tax expense at the tax rate of 15%	667	747	1,414
Adjusted for the following items			
Non-assessable member contributions		(76)	(76)
Non-assessable transfers from other funds		(219)	(219)
Non-assessable group life insurance proceeds		(12)	(12)
Anti-detriment tax deduction on death benefits		(4)	(4)
Other		(2)	(2)
Capital gains tax concession and tax exempt capitals gains	(209)		(209)
Exempt current pension income	(51)		(51)
Franking credits and foreign tax offsets	(161)		(161)
Over provision for income tax relating to the prior year	(37)		(37)
Income tax expense	**209**	**434**	**643**
Effective rate of income tax expense (after adjusting amounts which are not taxable/not deductible)	4.7%	8.70%	6.81%

Movement in effective tax rate



Reconciliation of income tax expense to income tax paid – FY2018

The tax law and accounting standards contain different rules regarding the timing of when amounts may be accessible or deductible. These give rise to temporary differences which are recognised in deferred tax expense.

Reconciliation of tax expense to tax paid	Income statement ($M)	Change in member benefits ($M)	Total ($M)
Income tax expense - 2018	**209**	**434**	**643**
Over provision for tax	(49)		(49)
Unrealised gains	(140)		(140)
Accrued income and expenses	(2)		(2)
Prior period adjustments	37		37
Income tax paid - 2018	**55**	**434**	**489**

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