HESTA tax transparency report

for the year ended
30 June 2021

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, more than 900,000 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 throughout our community; and investing in a better future for all Australians.

$64B Funds under management

Total taxes paid
1,070M

Offices nationally
8

Effective tax rate
9.10%

Contribution tax paid
605M

More than
900,000
members

*For the year ended 30 June 2021

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.

During Financial Year 2021, ending 30 June 2021, HESTA paid approximately $1 billion of taxes on behalf of our members in both Australia and overseas jurisdictions.

The Tax Transparency Code (The Code) is a set of principles and standards developed by the Board of Taxation in 2016, to help guide the public disclosure of various tax Information.

This report is designed to provide insight into HESTA's:

- Tax strategy and governance arrangements; and
- Extensive contribution of taxes paid

This report is published on a voluntary basis and is part of our commitment to improved tax disclosure to our members and other interested parties.

In adopting The Code, we are mindful of the complexities around tax. We have tried to balance The Code's disclosure requirements 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 retirement systems around the world.

In Australia, superannuation is taxed in 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%*.

Member contributions from pre tax dollars are also taxed at 15%.

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%. 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

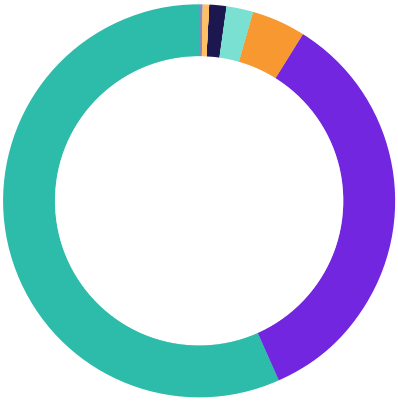
The taxation of withdrawals from super or benefit payments can be complex.

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

**Members that earn in excess of $250,000 may be required to pay an additional 15% tax on their contributions. Additionally, if members do not provide their TFN, their contributions will be taxed at 47% (2021 year). The above information is for illustration purposes only.*

In addition to the above, we also pay foreign income tax, Goods and Services Tax (GST), Fringe Benefits Tax (FBT), withholding tax in relation to employee salaries and payroll tax in each of the 6 states and 2 territories we operate in.

Total amount of Taxes paid in FY2021



Types of tax	Amount paid ($M)	Driven by
FBT	0.30	Employee benefits
Payroll tax	2.90	Employee salaries
Net GST paid	6.00	Acquisition of goods and services
Taxes relating to employee salaries	16.60	Employee salaries
Taxes relating to member benefit payments	23.00	Benefit payments to members
Foreign income tax	47.60	Foreign investment returns
Income tax paid on investment income	369.00	Investment returns
Income tax paid on contributions	605.00	Assessable contributions and transfers in
Total Taxes Paid	**1,070.40**	

*For the year ended 30 June 2021

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 General Manager of Tax reports on the operation and effectiveness of the Tax Framework to the Chief Financial Officer who then flows this information through to the HESTA Board via the Finance Audit and Compliance Committee. We have a good track record of cooperation and transparency with the Australian Taxation Office (ATO) and we are considered a key taxpayer by the ATO. i.e. HESTA is a participant in the ATO's Top 1,000 Tax Performance Program.

Our approach to tax management and governance is outlined in HESTA's internal Tax Management Policy (Policy).

A summary of some of the key strategic objectives for managing tax from this Policy are:

- to achieve an appropriate balance between value sought and risk appetite to maximize long term sustainable returns for our members
- to maintain open and constructive relationships with all relevant authorities
- to be considered a lower risk taxpayer 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.

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 guides how we manage risk across the organisation. Tax risks are identified, evaluated and managed in accordance with this framework, with risk categories approved by the HESTA Board. Examples of these tax risks 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.

We invest both within Australia and globally. 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.

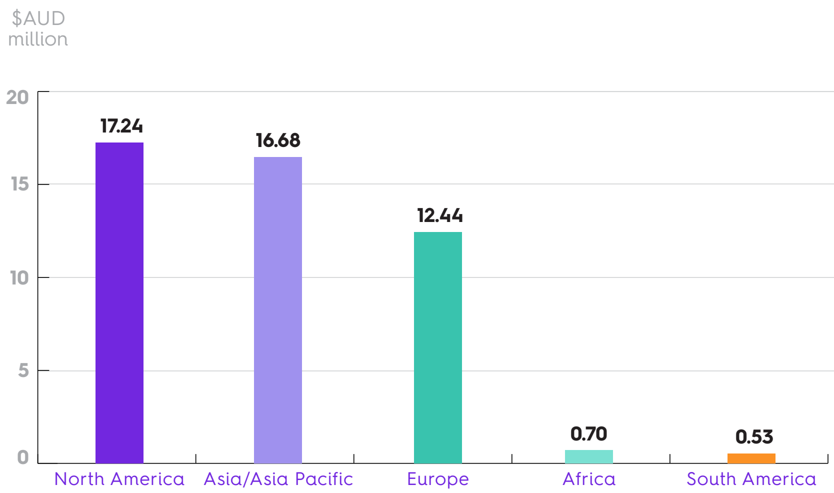
Some of these pooled entities are situated in low or no tax rate jurisdictions for legal or commercial reasons. This will sometimes mean that no tax or low tax is paid in the location where the funds are aggregated. Tax is generally paid where the assets and investment activity are located, as well as when this income is brought back into Australia, with an offset for eligible foreign tax paid.

Overseas taxes

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

A summary of the foreign taxes paid by HESTA during the 2021 year is shown in the chart below:

Foreign Taxes paid by region ($M)



* For the year ended 30 June 2021

Our relationship with the tax authorities

We maintain an honest, open, and transparent relationship with the Australian Taxation Office (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.

HESTA is a participant in the ATO's 'Top 1,000 Tax Performance Program'. The program forms part of the ATO's 'Justified Trust' initiative, and examines the taxpayer's tax governance, its approach to meeting tax compliance and tax accounting obligations, and its management of tax risks arising from not only transactions but also emerging issues affecting the superannuation industry as a whole. The objective of the program is to enhance market transparency within the community and ensuring that the largest Australian businesses (including superannuation funds) are paying the right amount of tax.

Tax reconciliations

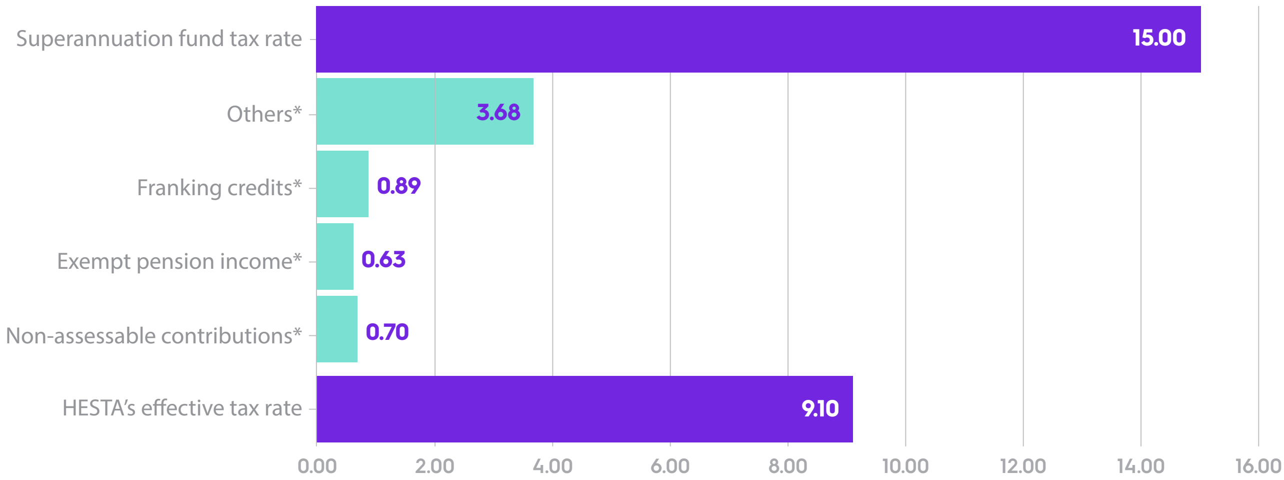
Australian Accounting Standards require an entity to calculate and disclose various tax balances including its tax expense for the period. Below is a reconciliation of the accounting profit before tax to the tax expense to demonstrate the relationship between accounting profit and tax expense and explains, numerically, why tax expense does not equal 15% of accounting profit.

The Australian 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 - 2021 Year

2021 Year Reconciliation of accounting income to income tax expense ($M)	Income statement	Change in members' benefits	Total
Accounting income	10,572	5,655	16,227
Prima facie income tax expense (taxed @ the superannuation rate 15%)	1,586	848	2,434
Adjusted for the tax effect of the following items:			
Non-assessable member contributions		(114)	(114)
Non-assessable transfers in from other superannuation funds		(158)	(158)
Non-assessable group life insurance proceeds		(10)	(10)
Capital gains tax concession, tax-exempt capital gains and capital gains tax adjustments	(443)		(443)
Exempt current pension income	(102)		(102)
Franking credits and foreign tax offsets	(144)		(144)
Over provision for income tax relating to the prior year	10		10
Others	4		4
Income tax expense	**911**	**566**	**1,477**
Effective rate for income tax expense (after adjusting amounts which are non-assessable/non-deductible)	8.62%	10.01%	9.10%

Movement in effective tax rate (%)



*For the year ended 30 June 2021
*Reduces the 15% superannuation fund tax rate to HESTA's effective tax rate of 9.10%

Reconciliation of income tax expense to income tax paid – 2021 Year

The Australian tax law and Australian Accounting Standards contain different rules regarding the timing of when amounts may be assessable income or deductible expenditure. These differences give rise to temporary differences which are recognised in deferred tax expense.

Reconciliation of income tax expense to income tax paid ($M)	Income statement	Change in member benefits	Total
Income tax expense	**911**	**566**	**1,477**
Unrealised gains movement	(543)		(543)
Accrued income and expenses	(2)		(2)
Under/over provision for income tax relating to the prior year	42		42
Income tax paid - 2021 Year	**408**	**566**	**974**

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