Evaluation of Taxation of Australian Industry Superannuation Funds

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Certificate of Original Authorship

I, Thulaisiharan Sivapalan, declare that this thesis is submitted in fulfilment of the requirements of the award of Doctor of Philosophy, at the UTS Business School at the University of Technology Sydney.

This thesis is wholly my own work unless otherwise referenced or acknowledged. In addition, I certify that all information sources and literature used are indicated in the thesis.

This document has not been submitted for qualifications at any other academic institution.

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Abstract

The objective of this dissertation is to evaluate the incidence of taxation in industry superannuation funds. In the long-term, the Australian Government relies on Superannuation funds to adequately provide working Australians with enough money to fund their retirement, thereby contributing significantly to Australia's three pillar retirement income system (AFTS, 2008). However, concerns have been raised in separate government reviews as to whether funds are managing taxation effectively, and thereby maximising after tax returns to members (Cooper et al., 2010; Productivity Commission, 2016). Conversely, in the short-term, the Government relies on tax payments to contribute to overall government revenues. Industry superannuation funds are economically significant with assets under management in excess of $630 billion, generating pre-tax income of $47 billion annually (APRA, 2019). At present, governments are concerned with declining tax revenues (U.S. Congress, 1999; Levin, 2013) and this may be exacerbated by concerns expressed in the media about the tax practices employed by industry superannuation funds which have been identified in various 'leak documents' (i.e. Luxembourg Leaks, Panama Papers and Paradise Papers). Critically, these issues appear to have competing objectives and therefore provide tension to evaluate taxation of industry superannuation funds. Collectively, this dissertation provides the first empirical evaluation of taxation in industry superannuation funds in an attempt to address these issues. First, attention is directed to whether industry superannuation funds adopt tax aggressive practices to potentially benefit members of the fund. Second, attention is given to whether industry superannuation funds manage the incidence of tax effectively in a complex tax environment. There is little conclusive evidence of tax aggressiveness, and while there is variation across the taxation reported in the financial statements of industry superannuation funds, there is little statistically significant evidence of effective tax management. However, effective tax management has recently become a regulatory requirement, and will likely become observable in the future.

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Abbreviations

AAS	Australian Accounting Standards
AASB	Australian Accounting Standards Board
ABS	Australian Bureau of Statistics
ADI	Authorised Deposit-Taking Institution
AFS	Australian Financial Services
AFSS	Annual Fund-level Superannuation Statistics
APRA	Australian Prudential Regulatory Authority
ASIC	Australian Securities and Investments Commission
ASX	Australian Securities Exchange
ATO	Australian Taxation Office
BEPS	Base Erosion and Profit Shifting
CEO	Chief Executive Officer
CETR	Cash Effective Tax Rate
CGT	Capital Gains Tax
CIO	Chief Investment Officer
Cooper Review	Superannuation System Review
CPM	Centralised Portfolio Management
DB	Defined Benefit
DC	Defined Contribution
DIY	Do It Yourself
EET	Exemption (on contributions), Exemption (of investment income), Tax (on retirement)
ESG	Ethical, Sustainable and Governance
ETR	Effective Tax Rate
GDP	Gross Domestic Product
ISC	Insurance and Superannuation Commission
ITAA36	*Income Tax Assessment Act 1936 (Cth*)
ITAA97	*Income Tax Assessment Act 1997 (Cth)*
OECD	Organisation for Economic Co-operation and Development
OFC	Offshore Financial Centres
OSSA	*Occupational Superannuation Standards Act 1987 (Cth)*
PC Review	Productivity Commission Review

ROA	Return on Assets
RSE	Registerable Superannuation Entity
SAF	Small APRA Fund
SEC	Securities and Exchange Commission
SG Act (1992)	*Superannuation Guarantee Act 1992 (Cth)*
SIS Act (1993)	*Superannuation Industry (Supervision) Act 1993 (Cth)*
SMSF	Self-Managed Superannuation Fund
SRF	Superannuation Reporting Framework
TAIM	Tax Aware Investment Management Framework
TFN	Tax File Number
TTE	Tax (on contributions), Tax (of investment income), Exemption (on retirement)