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Consultation: Updating and Simplifying the Voluntary Tax Transparency Code

Thank you for the opportunity to make a written submission to provide feedback regarding the draft redesigned Voluntary Tax Transparency Code (**VTTC**).

Insignia Financial Limited (**IFL**) is a leading Australian wealth manager and an Australian Stock Exchange 200 company. Our integrated wealth management business comprises of:

- one of the largest superannuation fund and pension providers in Australia (across both master trust and wrap products),
- an asset management business across multi-asset and single asset classes, and
- an employed financial advice business (being Bridges and Shadforth).

IFL has over 175 years of experience with \$311 billion in funds under management and administration¹. We have a strong commitment to governance and transparency which includes accountability and ethical conduct, and is a key pillar to our sustainability strategy. An element of this strategy is our adoption of the Board of Taxation (**BoT**) VTTC. In this regard we aim to enhance the community's understanding of IFL's compliance with Australian tax laws and approach to tax strategy and governance in a straightforward and concise format.

Our key concerns relate to the structure and design of the draft redesigned VTTC, in particular, the additional complexity and the absence of guidance as to how the code applies to corporate groups which contain trustees and responsible entities of superannuation funds and trusts respectively. We have set out below details of these concerns and our recommendations.

Structure, design and usability

(Questions 1, 2, 3, 4 and 5)

The draft redesigned VTTC appears to focus solely on reporting for corporate entities and groups and does not specifically address other entity types such as superannuation funds and trusts (collectively "**funds**"), which we understand are also encouraged to report under the VTTC. This is evident in references in the draft redesigned VTTC to "businesses",

¹ As at 30 June 2024

inclusion of the example template format for a company only and the nature of specific reporting requirements (e.g. the requirement to reconcile to the ATO Corporate Tax Transparency Disclosures).

Consolidated reporting

The draft redesigned VTTC guidance may be difficult to apply to wealth management groups such as IFL which also contain trustees of superannuation funds and responsible entities of managed investment schemes (over 400 in number).

IFL is the head company of a tax consolidated group including companies which are the trustees of superannuation funds and responsible entities of managed investment schemes. As the beneficiaries of the assets of the superannuation funds and managed investments schemes are members/investors, the correct reflex for IFL in applying the VTTC to the funds is to disclose that taxes are collected on behalf of others rather than taxes paid by the relevant entity. This provides the complete picture of IFL's total tax contribution.

Accordingly, under the current VTTC, IFL consolidates the following tax transparency disclosures as part of its annual Environmental, Social and Governance reporting (referred to as the Sustainability Report):

- Corporate tax transparency disclosures including total tax contribution
- Fund tax transparency disclosures including total tax collected (on behalf of others)
- Our approach to tax governance covering all IFL entities, including funds.

As noted above the most appropriate application of the VTTC for IFL is to include the tax transparency disclosures of the corporate group, the superannuation funds where IFL acts as trustee, and trusts where IFL acts as responsible entity. Therefore, the VTTC data is reported on a consolidated basis (including 5 superannuation funds and over 400 trusts) rather than by individual entity given the management of the taxes (including fund level taxes) falls under the umbrella of the IFL tax consolidated group. It would not be feasible to prepare individual VTTC reports for each of the material entities which an IFL tax consolidated group member is trustee or responsible entity for due to the compliance costs. This would also result in duplication of reporting given the tax risk management and governance elements would be the same.

The approach to reporting taxes as being collected on behalf of others by IFL contrasts to the approach taken by other stand-alone superannuation funds, which typically disclose taxes as taxes paid by the fund. Accordingly, the inconsistency may detract from comparability to IFL managed superannuation funds and trusts and is likely to be confusing to the reader.

It would be helpful if the draft redesigned VTTC could clarify its operation regarding the circumstances of IFL and similar organisations to ensure readers have some awareness of the different outcomes that arise depending on the business and legal entity structure.

Reporting elements

Public Country-by-Country (**CbC**) requirements will apply to the IFL tax consolidated group and funds where IFL group members are the trustee or responsible entity i.e. some funds

are separately subject to Public CbC reporting. Depending on market movements of investments, certain funds may come in and out of the Public CbC regime in any given year.

The BoT attempts to align the Public CbC requirements to the draft redesigned VTTC in order to prevent duplication. Although IFL's legal structure means the VTTC applies on a consolidated basis (refer comments above) we believe that certain disclosures listed below (applying to all entities) are not appropriate for funds which may or may not be subject to Public CbC reporting, for the following reasons:

- Effective tax rate.

The effective tax rate will vary for superannuation funds depending on a number of factors unrelated to variances between accounting and tax results, such as amount and nature of contributions (concessional versus non-concessional), the proportion of members in pension phase versus accumulation, and the nature of investments including capital gains (discount versus non-discount). An explanation can be made in the disclosures but this creates additional complexity that members of the general public are unlikely to understand.

Trusts do not typically pay income tax unless there are trustee taxes applicable (e.g. under specific provisions of the Attribution Managed Investment Trust rules).

- Reconciliation of accounting profit to income tax expense to income tax paid or payable.

Funds will prepare accounting to tax reconciliations as part of their financial statements, however, they are not required to disclose a reconciliation in their tax returns lodged with the Australian Taxation Office (**ATO**). Such calculations are complex (due to the treatment of investment income, contributions and insurance etc.) and would confuse the public rather than promote transparency.

- Reconciliation to ATO Corporate Tax Transparency Disclosures.

These disclosures do not apply to funds.

Reconciliation to ATO Corporate Tax Transparency Disclosures

Whilst we understand it may be desirable to have a reference point to independently validated tax data from the ATO, inclusion of the reconciliation to the ATO Corporate Tax Transparency Disclosures as a mandatory element presents a number of challenges that may outweigh the benefits, including:

- Amendments or other changes outside the control of taxpayers may occur between the time VTTC reports are issued and the release of the ATO tax transparency data, e.g. payment of indemnities in relation to business acquisitions which may trigger the requirement to revisit tax cost base calculations and associated tax deductions. This would create the need for further reconciliation and narrative in the following VTTC report adding additional complexity and content.

- Publishing tax paid calculations and data in respect of multiple tax years in a single report adds complexity and may cause confusion. Depending on when the VTTC report is published the reconciliation year could be for two years prior to the current reporting period.
- Given the lag in being able to perform the reconciliation, additional communication will be required to Boards and other approvers. Specifically accounting and tax results in respect of a prior period will need to be revisited, creating challenges to tax teams in managing the process and mobilising resources.
- As noted above, IFL currently discloses its tax transparency reporting in its annual Sustainability Report with references to certain components contained in IFL's Financial Statements. IFL would prefer not to include prior year information in its current year tax transparency report as this would create confusion for the reader. Historically IFL has preferred to publish its VTTC disclosures in these annual reports to align with the accounting disclosures and bring rigour and efficiency to the review process. The draft redesigned VTTC would therefore present some challenges to IFL as to where it would publish its VTTC disclosures.

We understand it is not one of the objectives of the VTTC for the disclosures to be independently validated and the design is intended to provide flexibility aimed at encouraging participation whilst balancing the compliance burden. The requirement to reconcile to the ATO's Corporate Tax Transparency Disclosures is contrary to the primary intent of the VTTC, particularly having regard to the extent of mandatory transparency measures introduced since the commencement of the VTTC.

Recommendations

The draft redesigned VTTC should consider the unique circumstances of wealth management groups, superannuation funds and trusts and the challenges of the reconciliation to the ATO tax transparency data for all entities, and consequently:

- Provide commentary to explain that different legal structures may result in varying presentation of the taxes paid data and recognise the application to wealth management groups
- Acknowledge that taxes paid by funds relate to those collected on behalf of others (i.e. investors or members)
- Dispense with the requirement for funds to provide an effective tax rate and reconciliation of accounting profit to income tax expense to income tax paid or payable
- Dispense with the reconciliation to the ATO Corporate Tax Transparency Disclosures for all entities. If there is a desire for more robust VTTC taxes paid and collected data, a simple methodology for calculation and disclosure of this could be part of the mandatory elements.

Simplifying the VTTC

(Questions 11, 12, and 13)

Optional elements and detailed template

The draft VTTC recommends a number of optional elements under each core requirement with fairly extensive content shown in the template in connection with the optional elements. Providing this optionality and example creates increased compliance costs with marginal benefits to users, may create unintended reader confusion without further narrative and complexity, and could create an inappropriate perception that entities that do not adopt the optional disclosures are not being transparent or have something to hide. For example, taxpayers may be reluctant to disclose assurance ratings that are not high due to the negative connotations this may create for readers that do not have an understanding of the ATO's ratings. In particular, high assurance may not be obtained as the ATO has not applied the resources to be able to provide high assurance rather than it being any reflection on the position or behaviour of the taxpayer. Trying to explain this in the VTTC would be challenging and could even be perceived as defensive.

This may also be a disincentive for more taxpayers to adopt the VTTC when resources may not be available to be able to deliver the type of report shown in the example, even where there is a desire to do so.

Introduction of Global Reporting Initiative 207: Tax 2019

The draft redesigned VTTC aligns the requirements in Global Reporting Initiative 207: Tax 2019 (GRI-207) with the approach to tax governance and risk management and requires businesses to provide a statement that they report on 'approach to tax' consistent with the GRI-207 requirements in their public CbC report, as a mandatory element.

The optional elements based on GRI-207 are also quite extensive and would require a significant amount of work to address them.

For entities that are not subject to GRI-207, this introduces a new requirement which the organisation would generally not be familiar with. In addition, such a requirement would be inconsistent with ATO guidance.

Recommendations

We recommend that the draft VTTC only provide a template for core elements and dispenses with the template for optionality that creates a benchmark for disclosure (despite it being optional). Alternatively, we recommend the optional content in the template be reduced to key points and the presentation be simplified.

Measures and disclosures in relation to tax governance, even if optional, should be linked to requirements applicable to all Australian taxpayers, such as the ATO's Tax Risk Management and Governance Review Guide or other Australian governance regulatory requirements.

Timing and transitional issues

(Questions 14, 15 and 16)

As noted above, Insignia provides its tax transparency report at the same time as its annual report (around October following the end of the income year). In this way the tax information

in respect of say, the year ended 30 June 2024, is aligned with the 30 June 2024 annual report. Under the draft VTTC, tax data may be reported a year after the end of the relevant income year to align with the due date of the public CbC report. Accordingly, the change in timing could confuse readers in the transitional year.

Recommendation

To avoid confusion, if it proceeds in its current form, the draft VTTC should acknowledge that for the first year the redesigned code comes into effect, reporting for that year may not be required where entities have already reported on that year's information in the prior year. For those entities affected, it is recommended that the transitional tax transparency report acknowledge the amended VTTC, explain the new requirements, and that the relevant tax information for that year may be published at a later date.

Yours sincerely



Kate Finch

Public Officer