

The pursuit of tax aware investment
management (TAIM) to maximise
member outcomes

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Who cares?

Social impact

Australia's retirement income system and tax revenue generation

Commercial impact

Increasing size of funds under management and compulsory contributions

Regulatory impact

Negotiating competing objectives

Research objectives

1 Evaluate empirically whether trustees of industry superannuation funds are effectively managing taxation for the benefit of members

2 Examine whether the various opportunities to effectively manage taxation are associated with the variation in the effective tax rates of industry superannuation funds.

Motivation

Concerns were highlighted in the **Cooper Review**, where tentative estimates suggests costs of tax mismanagement can range from

“5 basis points per annum ...up to some 200 basis points per annum on a more holistic basis”¹

The **Productivity Commission Review** (PC) identified that tax mismanagement is a contributing factor to the erosion of member balances, and it was were highlighted in the Cooper Review, where tentative estimates suggests costs of tax mismanagement can range from

“biggest item to detract from net returns and ultimately member balances”²

¹ Cooper et al., 2010 pg. 87

² Productivity Commission, 2016 pg. 7

Motivation

The PC acknowledge that superannuation taxation is complex, however, cannot draw firm conclusions on whether funds are optimising tax management¹.

“The complexity of superannuation taxation makes it difficult to evaluate these differences and the impact they have on member balances, but each type of fund is likely to have advantages and disadvantages.”²

Mackenzie & McKerchar (2014) provide qualitative evidence that discusses a range of practices that Chief Investment Officers (CIOs) adopt referred to as Tax Aware Investment Management (TAIM):

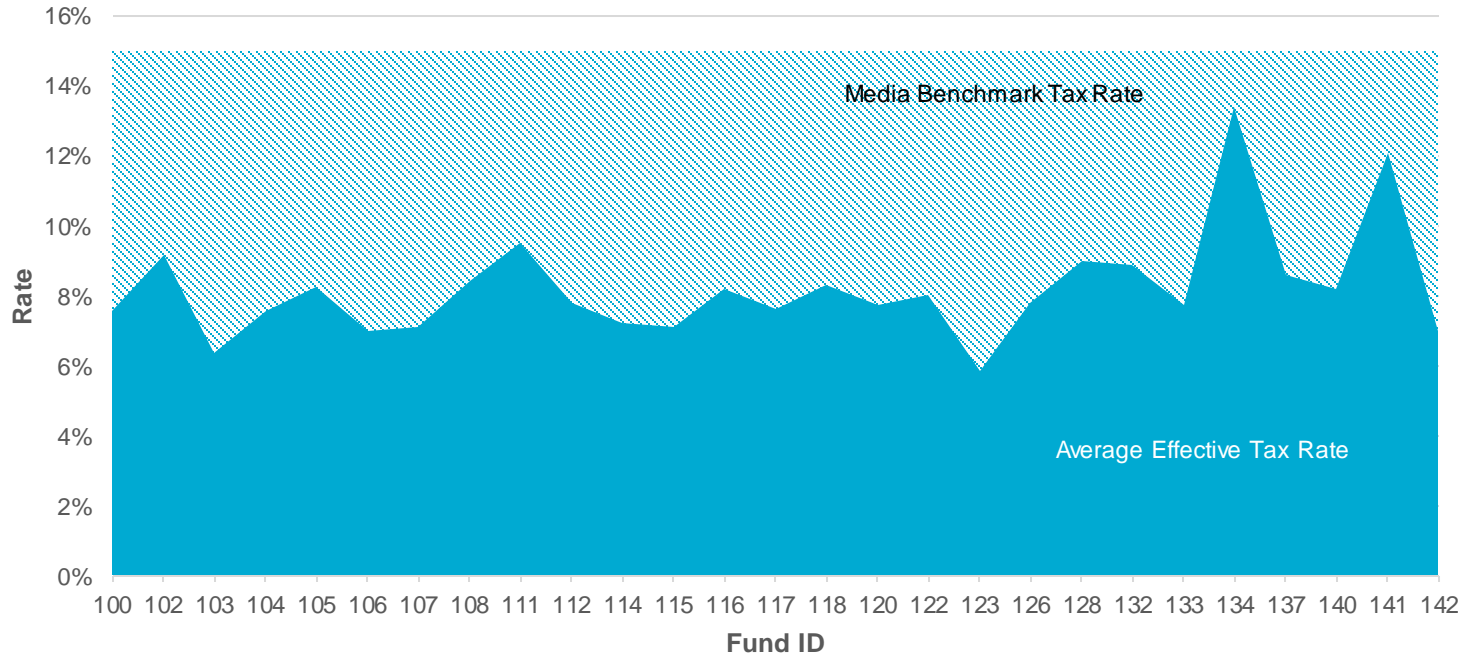
“Active management of taxes of a fund by incorporating tax consequences into the investment process.”³

1 Productivity Commission, 2016

2 Productivity Commission, 2016 pg. 132

3 Mackenzie & McKerchar, 2014 pg. 253

Comparison of media benchmark tax rate (15%) and average ETR

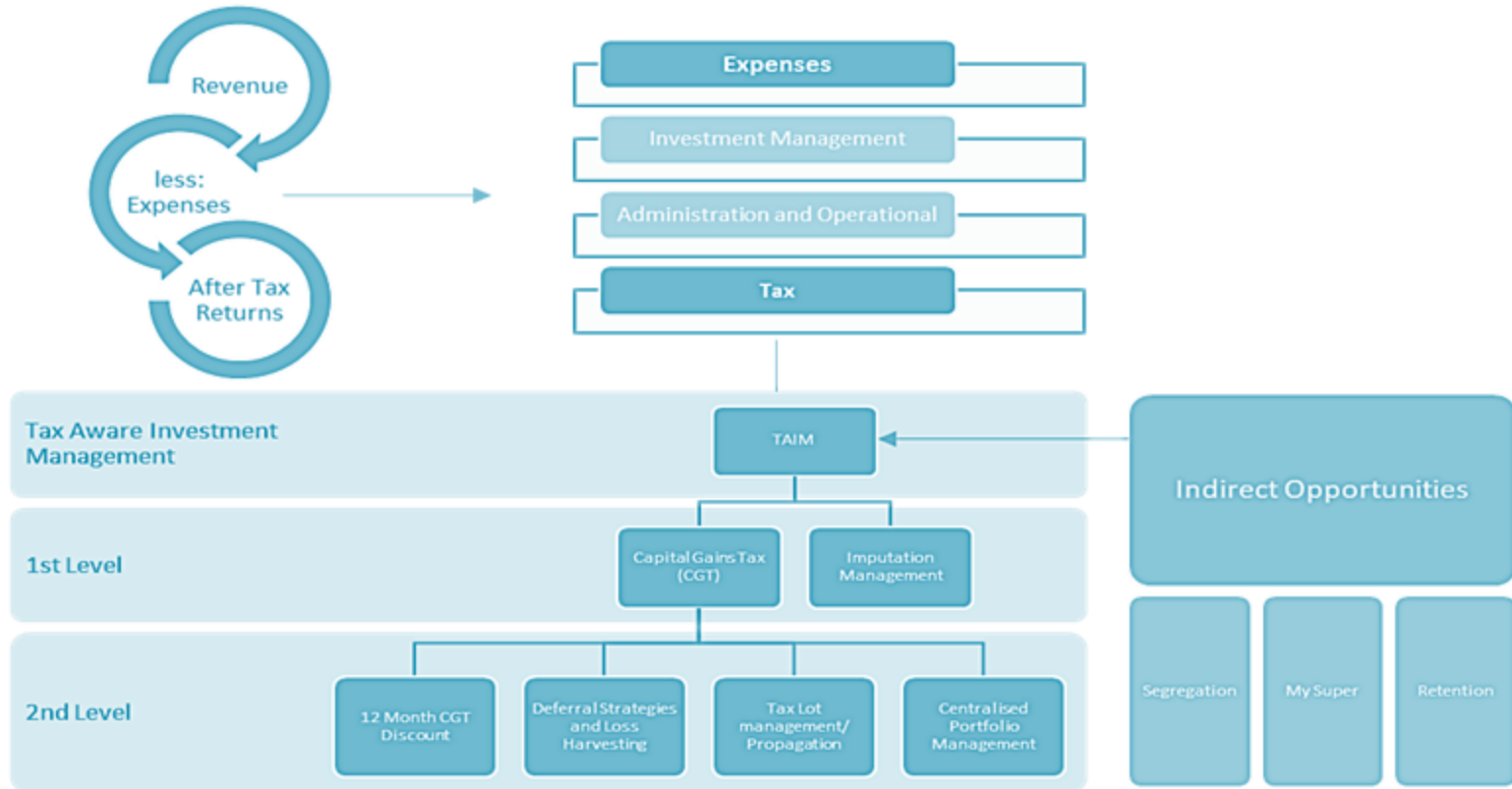


Contributions

Superannuation, TAIM and Practice

- Empirically evaluate the effective management of taxes amongst the funds
- Development of a conceptual framework to further the literature from Mackenzie and McKerchar (2014)
- Assess the impact of legislative amendments to SIS Act.

TAIM – Conceptual Framework



Research Proposition

- 1 RP_1 : Funds employing tax propagation manage tax more effectively than funds not employing tax propagation and have a lower incidence of taxation.
- 2 RP_2 : Funds with a higher proportion of My Super accounts are able to manage tax more effectively than funds with a lower proportion of My Super accounts
- 3 RP_3 : Large superannuation funds are more effective in tax management than small funds, with this being reflected in lower ETRs.

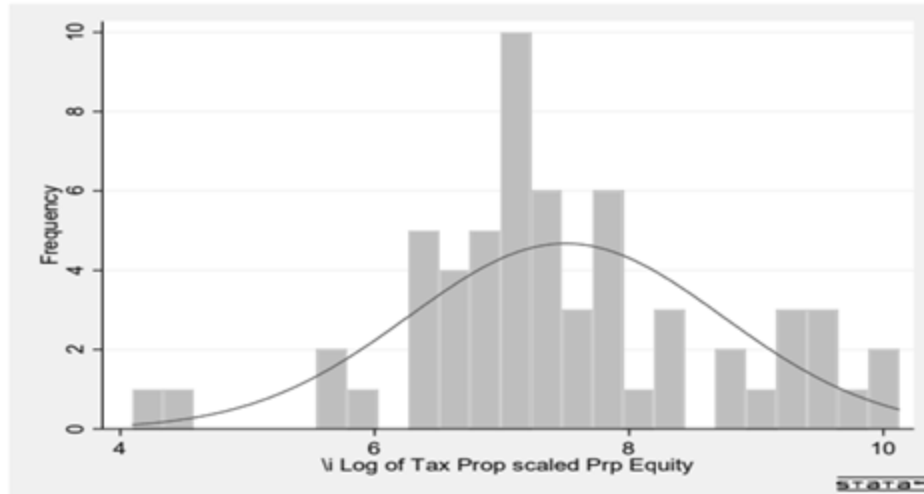
Data & research design

- Industry Superannuation funds – **41 Funds** in the population during the period of this study **2014 - 2016**. (26 Individual funds in the sample)
- **APRA fund level** superannuation statistics.
- **Audited Unabridged Financial Statements** – hand collected
- Corporate Governance variables from **Annual Reports** to members or from disclosures on websites of the funds.
- The unbalanced final sample to test hypotheses is **60 fund years**.

Descriptive Statistics

Descriptive All						
	Obs	Mean	Std Dev	Min	Median	Max
ETR	60	0.085	0.017	0.045	0.088	0.149
CETR	60	0.032	0.042	-0.030	0.024	0.228
Size	60	15.309	1.409	13.039	14.907	18.367
TaxProp	58	0.259	0.442	0.000	0.000	1.000
MySuper	60	0.723	0.182	0.230	0.785	0.980
ROA	60	0.087	0.023	0.032	0.091	0.119
Ind	60	0.138	0.188	0.000	0.100	1.000
Chair	60	0.550	0.502	0.000	1.000	1.000
Accruals	60	0.084	0.025	-0.003	0.086	0.131
Long	60	0.556	0.501	0.000	1.000	1.000
Foreign	60	0.223	0.126	0.000	0.242	0.477
Retirement	60	0.073	0.058	0.000	0.054	0.250
Held	60	0.411	0.264	0.010	0.385	1.000

PRELIMINARY FINDINGS - TAX PROP (HI)



(75%) Partition		(n)	Mean	min	max	SD	p50
No tax Prop	1	45	6.938958	4.094345	8.072131	0.805074	7.11113
Tax Prop	2	15	9.187435	8.205739	10.1242	0.574223	9.223586
Total		60	7.501077	4.094345	10.1242	1.235154	7.291456

QUESTIONS & FEEDBACK

