Self Managed Super

Summer Edition Newsletter 2017

Changes to SMSF reporting

The ATO have released a new report called the 'Transfer Balance Account Report'. Super funds (including SMSFs) will need to lodge the report, enabling the ATO to monitor each retiree's transfer balance account. SMSFs will generally need to lodge the report from 1 July 2018.

STOP PRESS–The ATO has just announced that, from 1 July 2018, the new reporting rules will only apply to SMSFs that have members with total account balances of $1m+.

Background – transfer balance cap

From 1 July 2017, the 'transfer balance cap' (initially set at $1.6 million) limits the amount of super that can support a 'retirement phase' pension (e.g., an account-based pension). In turn, this limits the amount of fund earnings that are exempt from tax.

The cap applies per individual on a 'global' basis, meaning that all 'retirement phase' pension accounts (whether they are held in an SMSF, industry fund etc.) are added together in working out whether an individual exceeds their cap.

INFO–Transition to retirement income stream balances do not count towards the cap unless, generally, the member meets a full condition of release, such as retiring or attaining age 65 (other requirements apply).

The transfer balance account

Individuals who commence a 'retirement phase' pension (including those who started a pension before 1 July 2017) will have what is known as a 'transfer balance account'.

This account tracks the net movement of super into retirement phase at a given point in time. If the balance of an individual's 'transfer balance account' exceeds their cap (currently $1.6 million), the excess generally needs to be moved back to accumulation or cashed out of the fund.

The transfer balance account operates on a similar basis to a bank account, as follows:

- **Credits** – super transferred from accumulation phase to 'retirement phase' (such as on commencing a pension) is credited to the transfer balance account; and
- **Debits** – amounts commuted out of 'retirement phase' (either back to accumulation phase or out of the fund) are debited to the transfer balance account. Minimum pension payments are not, however, debited to the transfer balance account.

Note, investment earnings or losses do not impact on the balance of the transfer balance account.

HIGHLIGHTS

SMSF REPORTING CHANGES

The super reforms have resulted in new reporting obligations being imposed on SMSFs

LATEST RETIREMENT INSIGHTS

A recent report provides fascinating insights into the impact of lower returns on retirement savings

TRUSTEE Q & A

Recent changes to the 'preservation age' and sharing the 'transfer balance cap' between a couple

ATO to keep track of account balances

The ATO has designed a 'Transfer Balance Account Report' to enable it to capture the data it needs to track each individual's transfer balance account.

The most common movements occurring from 1 July 2017 that must be reported to the ATO via this new report are:

- existing pensions on foot as at 1 July 2017;
- commencement of a 'retirement phase' pension (typically, an account-based pension); and
- lump sums paid from a 'retirement phase' pension.

Other, less common, events that will be reported to the ATO via the report include: certain personal injury contributions; and payments under a limited recourse borrowing arrangement.

However, events that do not need to be reported to the ATO because they do not impact on the transfer balance account include:

- pension payments;

"Generally, SMSFs do not have to start reporting to the ATO until 1 July 2018 (exceptions apply)."

Super reporting – new rules cont'd

- investment earnings and losses; and
- pensions that cease due to the balance being exhausted.

Special reporting requirements exist for circumstances such as: family law splits; fraud, dishonesty or bankruptcy events or certain personal injury contributions made before 1 July 2017.

Timeframe for reporting to the ATO

Generally, SMSFs will not need to lodge a report with the ATO until 1 July 2018 (exceptions apply). However, the ATO suggests that SMSFs report the following events as soon as possible if they occur before 1 July 2018:

- a member ceasing all or part of a pension from 1 July 2017 due to exceeding the transfer balance cap;
- members who cease a 'retirement phase' pension and transfer across to a new fund to restart the pension; and
- personal injury contributions made to the SMSF from 1 July 2017.

The report is now available on the ATO's website – Google 'QC 53364'.

INFO–SMSF members in 'retirement phase' need to self-monitor during the 2018 income year to ensure they do not exceed their transfer balance cap.

EXAMPLE–Alison commences a pension on 1 July 2017 with $1 million. She needs to advise the ATO of this event via the report from 1 July 2018. However, Alison will not need to report any pension payments made because they are not debited to her transfer balance account.

Retirement report released

A report titled 'SMSF Retirement Insights' has been jointly released by Accurium and the SMSF Association. The report provides insights into the financial health of SMSFs heading into retirement phase. Key points made in the current edition of the report include:

- the long-term outlook for investment returns is lower, meaning that many SMSF members need to save more to fund their desired lifestyle;
- the outlook of lower investment returns means that a 65 year-old couple needs to increase superannuation savings from $702,000 to $824,000 to afford a comfortable retirement; and
- the proportion of 65 year-old couples that can afford a comfortable lifestyle (defined as $60,063 per annum) has fallen from 70% to 66%.

The report also observed that the desired annual spending level (median figure) in retirement for SMSF retirees was $80,000 for a couple and $52,000 for a single person.

In considering whether trustees have the wealth to match their aspirations, the report concluded that just over half of SMSF retirees cannot be reasonably confident of achieving their retirement goals. However, one-quarter of SMSF trustees can be confident of achieving their retirement goals.

The report can be accessed from www.accurium.com.au.

ATO UPDATE

The ATO has advised that scam callers are contacting people to say they have a tax debt which must be paid immediately. Also, the ATO has advised that scammers are emailing people and telling them to claim their refund online.

In either of these situations, it is best to hang up straight away (don't provide any personal details) and phone us to discuss if needed. Google 'QC 53447' to locate this ATO fact sheet.

The ATO has reminded SMSF trustees that they need to advise it within 28 days of any changes to the following: fund name, fund address, contact person, fund membership, fund trustees or directors of the corporate trustee.

In addition, trustees may also need to advise the ATO of changes to the SMSF's bank account details and Electronic Service Address. Google 'QC 53388' to locate this fact sheet.

The ATO continues to update its 'FAQs' to incorporate the latest questions on the super reforms. Google 'QC 51875' to locate this fact sheet.

Finally, the ATO has reminded individuals that specific requirements need to be met before a large fund will rollover super to an SMSF. Google 'QC 22209' to read more on these requirements.

SMSF trustee Q & A

Question

My birthday is 2 August 1961 – what is my current preservation age?

Answer

Your preservation age is 57.

INFO–Preservation age is a key concept behind when you can access superannuation benefits.

Contributions to super must be 'preserved' in an SMSF until a condition of release is met. Superannuation savings can be accessed upon reaching preservation age, as follows:

- **retired** – individuals who have 'retired' under the super laws can access a lump sum and/or an account-based pension; or
- **still working** – individuals who are not 'retired' can draw a transition to retirement income stream.

Hence, 'preservation age' is crucial in determining the point in time at which superannuation savings can be accessed, and the form in which they can be drawn.

Preservation age is gradually increasing to age 60, as highlighted in the table below:

Date of birth	Preservation age
Before 1 July 1960	55
1 July 1960 to 30 June 1961	56
1 July 1961 to 30 June 1962	57
1 July 1962 to 30 June 1963	58
1 July 1963 to 30 June 1964	59
From 1 July 1964	60

Hence, an individual born on 30 June 1961 has a preservation age of 56. However, if you were born between 1 July 1961 and 30 June 1962, your preservation age is 57.

Question

Can the transfer balance cap be shared between a couple?

Answer

No, the transfer balance cap of $1.6 million applies to **each** member.

As noted above, the transfer balance cap restricts the amount of capital that can be transferred into 'retirement phase' (e.g., to support an account-based pension).

It is not possible for a member of a couple to transfer any unused part of their cap to their spouse.

For example, one member of a couple cannot have $3 million in 'retirement phase', whilst the other has $200,000. Instead, the member with $3 million will be limited having $1.6 million in retirement phase, with the remaining amount to be returned to accumulation phase or withdrawn from super.

Key dates and reminders

1 October 2017

SMSF trustees with a member in retirement phase are permitted to lodge a 'Transfer Balance Account Report' from this time.

31 December 2017

Last opportunity to correct transfer balance cap breaches of < $100,000 in existence as at 1 July 2017 without penalty.

1 July 2018

General commencement date for the transfer balance account reporting regime (SMSFs).

Update on progress of First Home Saver and Downsizer measures

Two housing-related superannuation measures were recently announced in the 2017-18 Federal Budget:

- **First Home Saver Super Scheme** – from 1 July 2018, the scheme proposes to allow qualifying individuals to withdraw voluntary super contributions made after 1 July 2017 for a first home deposit.
- **Downsizer contributions** – proposes that individuals aged 65+ be permitted to contribute the proceeds from the sale of their home to super (up to $300,000 from 1 July 2018).

At the time of writing, the measures are not yet law.

Contact Us:

1 Somerville Street
Bendigo VIC 3550
Ph: (03) 5443 8888
www.mgr.com.au
invest@360pw.com.au
www.360pw.com.au