MGR ADVISORY GROUP
YOUR BUSINESS ADVISERS FOR LIFE

360 PRIVATE WEALTH

Self Managed Super

Winter Edition Newsletter 2018

SMSF reporting – an update

Significant super reforms took effect from 1 July 2017, including the $1.6 million transfer balance cap and the new concept of ‘total superannuation balance’.

Following these reforms, the ATO introduced new reporting requirements for SMSFs with a member in the retirement phase. ***These reporting changes generally commenced from 1 July 2018 and are separate to the requirement to lodge an annual tax return.***

Background – transfer balance account reporting

The $1.6 million transfer balance cap limits the amount of super that can support a ‘retirement phase’ income stream. Account-based pensions count towards the cap, whereas transition to retirement income streams do not unless they are in the retirement phase (e.g., the member attains 65).

The ATO has released a ‘Transfer Balance Account Report’ (TBAR) for trustees to report movements in each member’s transfer balance account and to help track a member’s total superannuation balance. Note, SMSFs with all members in accumulation phase are not required to lodge a TBAR because no member has a ‘transfer balance account’.

The following table summarises whether certain events need to be reported by an SMSF in a TBAR:

Item	Description
Continuing income streams in the retirement phase as at 30 June 2017 of $1+	✓
Accumulation accounts	×
Commencement of an account-based pension from 1 July 2017 of $1+	✓
Transition to retirement income stream that is not in retirement phase	×
Payment of a commutation lump sum of any amount from an account-based pension	✓
Pension payments made from an account-based pension	×
Investment earnings and losses	×
Pension balances that cease due to an income stream being exhausted	×

Reporting pre-existing income streams to the ATO

SMSFs that paid a retirement phase income stream beyond 30 June 2017 had to lodge a TBAR for affected members by 1 July 2018. This was compulsory, including for members well under the $1.6 million transfer balance cap.

HIGHLIGHTS

SMSF REPORTING CHANGES

The new ATO reporting regime is now live for SMSFs paying a pension in the retirement phase.

SMSF SHARE TRADING INSIGHTS

A recent report provides interesting insights into the share trading activities of SMSFs.

TRUSTEE Q & A

Death benefits and their treatment under the transfer balance cap.

This initial TBAR provided the ATO with starting balances for members who were receiving an income stream when the $1.6 million transfer balance cap regime began on 1 July 2017.

EXAMPLE–Bill is an SMSF member who was receiving an account-based pension of $500,000 as at 30 June 2017. As the income stream continued past 1 July 2017, the SMSF had to lodge a TBAR for Bill by 1 July 2018.

Ongoing reporting of income streams to the ATO

From 1 July 2018, SMSFs with at least one member in the retirement phase must lodge a TBAR to report events (see the list above) that affect any member’s transfer balance. Note, a TBAR only needs to be lodged if the event is reportable (e.g., a commutation lump sum).

Recognising that members with lower superannuation balances are less likely to exceed their transfer balance cap, SMSFs with member balances all below $1 million only need to report annually. On the other hand, SMSFs with at least one member balance of $1m+ must report events to the ATO on a quarterly basis.

"Maria's SMSF must lodge a TBAR with the ATO by 28 October 2018 to report the pension commencing... "

SMSF reporting – an update cont'd

The ongoing TBAR reporting requirements for SMSFs paying a pension in the retirement phase are generally as follows:

- **SMSF has at least one member with a total superannuation balance of at least $1m** – the SMSF must lodge the TBAR within 28 days of the end of the quarter in which the event occurs. The first quarterly TBAR is due on 28 October 2018.
- **All members of an SMSF have total superannuation balances below $1m** – the SMSF must report to the ATO by the time of lodging their 2018 SMSF Annual Return (e.g., 15 May 2019).

Any events that occurred in the 2018 income year should be reported in the first TBAR (e.g., 28 October 2018).

The ATO advises that trustees should determine whether a fund member exceeds the total superannuation balance threshold of $1m as follows:

- If the member had an income stream on foot at this time or the member commenced a retirement phase pension during the 2018 income year – **30 June 2017**; and
- If the member begins an income stream during the 2019 or subsequent income years – **30 June of the prior income year**.

EXAMPLE–Maria has a total super balance of $1.2 million as of 30 June 2018. Her SMSF begins to pay her an account-based pension on 1 July 2018. Maria's SMSF must lodge a TBAR by 28 October 2018 to report the pension commencing.

Share trading report – SMSFs

A recent SMSF trading trends report, published by a major bank, highlighted some fascinating share trading trends for SMSFs. Share trades observed by the bank for the period 1 July 2017 to 31 December 2017 formed the basis of the report:

- SMSFs devoted more capital to shares outside of the ASX20, but the average trade size decreased in value;
- The two sectors benefiting from an inflow of SMSF capital were the Food & Beverage sector, followed by the Software & Services sector;
- Regarding individual shares, Artemis Resources and Bubs Australia experienced large surges in trade value;
- Direct international share investments rose by 27%, with Apple and Alphabet Class C (Google) being the two most popular global stocks by trade value;
- SMSFs moved away from exotic ETFs (exchange-traded funds), such as commodity and currency funds, into cash and property-based ETFs; and
- The overall proportion of SMSF funds invested in long-term deposits fell, while cash and fixed income ETFs grew.

The report concluded that SMSFs searched outside of the top 20 ASX stocks for higher returns, and that the strong performance of international markets encouraged SMSFs to invest directly in familiar global brands.

ATO UPDATE

The ATO recently issued a media release to warn super members about promoters who encourage people to access their super illegally. The ATO advises that these promoters are targeting people with small to medium super balances. Google 'QC 56211' to read more.

Following a recent ASIC review, the ATO has raised concerns about 'one-stop shops' recommending an SMSF be established to invest in property. A 'one-stop shop' is a group of real estate agents, developers, mortgage brokers and advisers who work together to promote the establishment of an SMSF to buy property (usually geared). Google 'QC 56132' to read more about the ATO's concerns.

The ATO has released draft guidance on the 'First Home Super Saver Scheme'. The guidance provides the ATO's initial view on issues such as: which contributions are eligible for the scheme and how to withdraw eligible contributions under the scheme. Google 'LCR 2018/D5' to access the draft guidance.

Draft guidance on the 'downsizer' contribution rules has also been published by the ATO. The guidance outlines when a contribution qualifies as a 'downsizer contribution' and how the measure interacts with other tax and super concepts. Google 'LCR 2018/D4' to access the draft guidance.

SMSF trustee Q & A

Question

My husband and I started account-based pensions (ABP's) some years ago. His account balance is $1m, while mine is $700,000. My husband's ABP is reversionary, and he passed away in August 2018. How does this affect my transfer balance cap?

Answer

The market value of your husband's ABP at the time of his death is credited to your transfer balance account. This credit will be applied 12 months after his death.

Let's assume that your transfer balance is $700,000. Your late husband's ABP automatically reverted to you upon his death. As a result, the market value of the income stream at his death ($1m) is credited to your transfer balance account in 12 months' time.

Based on your existing transfer balance of $700,000, the credit of $1m for the reversionary ABP will cause you to exceed your $1.6m transfer balance cap (i.e., $1m + $700,000 = $1.7m). Your options to deal with this excess of $100,000 include:

Option 1: Cash out $100,000 from the reversionary ABP

As noted above, retaining both income streams will cause an excess transfer balance of $100,000 to arise. Unfortunately, from 1 July 2017, you cannot commute $100,000 of your husband's reversionary ABP back to the accumulation phase – you must pay it as a death pension or cash it out of the fund.

Hence, one option to deal with the excess is to pay yourself $100,000 from the reversionary ABP as a death benefit lump sum. You could then retain your ABP of $700,000 and the remaining death benefit ABP of $900,000 without exceeding your $1.6m cap. Note, the lump sum of $100,000 would be tax-free to you.

Option 2: Commute $100,000 of your existing income stream back to the accumulation phase

As your existing ABP of $700,000 is not a death benefit, a lump sum commuted from this income stream can be retained in accumulation. Hence, another option is for you to commute $100,000 of your existing ABP back to accumulation.

Removing $100,000 from your ABP results in a debit to your transfer balance account and reduces your transfer balance to $1.6m (i.e., $1.7m – $100,000). Although this option allows you to keep more money in super, earnings on your accumulation account are subject to 15% tax.

INFO–The best outcome ultimately depends on your personal situation.

Key dates and reminders

1 July 2018

- General commencement date of the TBAR reporting regime for SMSFs.
- Commencement of the First Home Super Saver Scheme and 'Downsizer' measures.
- Commencement of the catch-up concessional contributions regime. Unused contributions are available from the 2020 income year for members with total superannuation balances < $500,000.

28 October 2018

- First quarterly TBAR due for affected SMSFs with a reportable event (see 'SMSF reporting' article).

Legislation update

The following changes announced by the Government affect SMSFs but are not yet law:

- **Non-commercial expenses** – the range of non-commercial transactions taxed to an SMSF at the top marginal tax rate were due to be expanded from 1 July 2018; and
- **Borrowing arrangements** – integrity rules targeting new limited recourse borrowing arrangements were scheduled to begin on 1 July 2018. The Government intends for the changes to address concerns about SMSF members entering into borrowing arrangements to decrease their total super balance (thereby increasing access to some super concessions).

Contact Us:

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