TAX TALKS

Australia's Tax News Podcast - The Podcast for Australian Tax Professionals

The following information is only of a general nature and should not be taken as professional advice.

11 | SMSF Events Based Reporting

Are you ready for events based reporting? From 1 July 2018 all SMSFs in Australia need to report certain events to the ATO. Hence the term events based reporting.

Events based reporting is to allow the ATO to monitor the transfer balance accounts of funds in retirement phase. To monitor compliance with the transfer balance cap. Events based reporting will have wide-reaching implications for the SMSF industry.

SMSF Events Based Reporting

To listen while you drive, walk or work, just access the episode through a podcast app on your mobile phone.

On 9 November 2017 the ATO finalised its position on events based reporting. It seems that the ATO listened to the SMSF industry’s concerns. A more uniform reporting deadline for all events will make it easier to implement these changes. And only applying the quarterly reporting regime to members in retirement phase with total superannuation account accounts (TBA) of $1m or more is also a substantial concession by the ATO.

The 30 June 2017 pension balances are the starting point for the ATOs events based reporting regime. From 1 July 2018 SMSFs will need to report all events impacting a member’s transfer balance cap – quarterly if the total superannuation account is $1m or more. Funds would have to report

- Commencement of a new SMSF pension
- Full or partial commutations of a SMSF pensions (i.e. lump sum withdrawals)
- Structured settlement contributions (payouts relating to personal injury)
- Principal repayments on a limited-recourse borrowing arrangement

It is important to note that the Transfer Balance Account only applies to SMSF members who are drawing a pension from their fund. SMSFs where all members *only* have accumulation accounts will not have additional reporting requirements.

How often does the ATO require events based reporting?

All events based reporting is due 28 days past quarter end unless the balance of a total superannuation account is less than $1m. For balances below this threshold the reporting is on an annual basis. But remember that events based reporting only applies to members in retirement phase.

Who will this impact?

The ATO believe the impact of events based reporting for SMSFs will be minimal. Their rationale is that an SMSF will likely only need to report twice per member lifetime: When a member starts a pension and when the pension stops upon their death (assuming assets are greater than zero at the time of death).

This is an overly simplistic view. Based on ATO statistics relating to the 2015 financial year, close to half (48%) of SMSFs pay a pension. SMSFs will have significantly more than two events per member lifetime. It is common for SMSF members to commence drawing a pension, then contribute additional monies from which a second pension is created. Similarly, from 1 July 2017 when a SMSF member draws a pension over and above their minimum drawdown requirement, they can elect to take the additional amounts as partial commutations. A partial commutation is debited back against a person’s Transfer Balance Account, opening up future credits.

Clawing back amounts over and above the minimum drawdown requirement can future-proof an SMSF. It enables the creation of new pension(s) from future non-concessional contributions or frees up ‘space’ to receive the value of a death benefit pension from a spouse.

To implement the above strategy however, the SMSF will need to report these additional commutation events periodically soon after they occur. So contrary to the ATO public announcements, for many the new reporting regime will not be a case of ‘report and forget’.

Class Super reports that 40% of pension members take at least $5,000 above their minimum pension. Assuming 48% of SMSFs are paying pensions, then this means close to 1-in-5 SMSFs will potentially have events based reporting requirements on this aspect alone – not to mention all the ‘standard’ pension starts and stops that happen each year. However, the now implemented threshold of $1m will mitigate this issue to some extent.

Practical implications

The biggest implication is that a once-per-year meeting to complete the SMSF’s tax return is no longer enough for SMSF in retirement phase with members holding superannuation account balances of $1m or more. Trustees will need service providers that can monitor their SMSF transactions, identify relevant events and submit the required information to the ATO on time. The overwhelming majority of accountants are not yet ready to meet these requirements. Events based reporting will force trustees to review how they are operating their SMSF. To track pension accounts and identify reportable events throughout the year, all transactions need to be visible fairly quickly. An electronic data feed usually achieves this. Most SMSFs use bank accounts that provide daily transactional data. However many non-major banks and credit unions do not yet do this. So SMSF trustees might need to switch to bank accounts that provide this data via a bank feed.

Paying by cheque is an issue in this automated process. Paying pensions by cheque makes it impossible to allocate the payment via an allocation rule. In this day and age an SMSF should have no need for a cheque book – and instead pay everything electronically.

Events based reporting will force a more frequent dialogue between trustees and their accountants and advisers. We can no longer complete the SMSF accounts and then worry about the required paperwork ‘after the event’ .

A continuing issue is that an unregistered accountant can’t even discuss the commencement or commutation of a pension. Let alone discuss any other SMSF strategy.

Once in place, all SMSFs in pension mode will need to do events based reporting. The ATO can impose penalties for failure to lodge. These are equivalent to penalties for late lodgement of annual returns or activity statements. These amounts currently are $210 per 28 days up to a maximum of $1050 for each event.

Summary

Events based reporting for SMSFs seems onerous. Whether we like it or not, the ATO seems determined to make more frequent SMSF reporting a reality SMSF trustees have to make the decision on whether they want to continue to comply with these new realities. And employ professionals to help them. Or whether an SMSF is no longer for them. They might be better off moving their retirement savings back into the industry or retail superannuation world.

Either way advice is essential whenever there is change. And there is currently a lot of change in the SMSF world!

MORE

Why Not To Offshore SMSF Work

SMSF Estate Planning Post July 2017

Events Based Reporting Turnaround

Disclaimer: *Tax Talks does not provide financial or tax advice. This applies to these show notes as well as the actual podcast interview. All information on Tax Talks is provided for entertainment purposes only and might no longer be up to date. You should seek professional accredited tax and financial advice when considering whether the information is suitable to your or your client's personal circumstances.*
