

TAX TALKS

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

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83 | Disregarded Small Fund Assets

The concept of disregarded segregated small fund assets is a new concept that came in through the back door of the super reform. Don't be surprised if you had never heard of this one before. We were in the same boat until not long ago.

Disregarded Small Fund Assets

A fund has disregarded small fund assets in the following financial year when any member is in retirement phase and has a total superannuation balance (TSB) that exceeds \$1.6m at 30 June. Here is what we learned from our talk with Melanie Dunn of Accurium.

Timing

You assess each year anew on 30 June whether the member's TSB exceeds \$1.6m. This includes all your clients' superannuation balances, SMSF, retail and industry funds as well as defined benefit interests. If the member's TSB exceeds \$1.6m, the fund will have disregarded small fund assets for the following financial year.

The concept applies from 1 July 2017 onwards so is already relevant for the 2018 SMSF annual returns.

Consequences

Having disregarded small fund assets means three things. With disregarded small fund assets, the fund...

#1 Can not use the segregated method for ECPI, neither elected nor deemed segregation, when solely in retirement phase. The fund must use the unsegregated method over the entire year to claim ECPI. But the fund can still segregate for investment purposes.

2 Will disregard capital gains and losses under Section 118-12 ITAA97 when solely in retirement phase. Whereas without disregarded small assets it would disregard these under s118-320 ITAA97 when solely in retirement phase.

3 Will need an actuarial certificate even when solely in retirement phase.

Whether the tax outcome is better or worse with or without disregarded small fund assets, depends on the timing of income. But either way the trustee has no choice. If the fund has disregarded small fund assets, the fund must use the unsegregated method over the entire year to claim ECPI.

Question

When you order an actuarial certificate, the actuary will ask you the following question, “Can you use the segregated method for this Fund in this financial year?” The question is not whether the fund did use segregation. It is asking whether the fund is eligible to use segregation.

So if the fund has disregarded small fund assets, answer this question with No.

These are just some of our notes. You will find the actual interview with Melanie Dunn at the start of this page. Melanie explains all this much better than we ever could.

MORE

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