



The Smarter SMSF Podcast – Transcript

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- Speaker 1: Welcome to the Smarter SMSF podcast, the show where we discuss the latest insights, ideas and strategies with self managed super funds all designed to help make smarter decisions and equip you to be at the top of your game. Now here's your host, Aaron Dunn.
- Aaron Dunn: Hi everyone, Aaron Dunn here and welcome to this week's edition of the Smarter SMSF podcast. I'm joined today by Jeevan Tohki, Product Manager at BGL. Thank you for joining us today Jeevan.
- Jeevan Tohki: Hi everyone, and thanks for having us.
- Aaron Dunn: Pleasure. So today we're going to be talking about the upcoming changes to the 2018 SMSF Annual Return and we've seen a raft of measures of course from the 1st of July 2017 that now impact the way in which we need to report this information in the SMSF Annual Return. And today, with Jeevan we'll be talking about some of the changes that impact transition-to-retirement income streams, member's total super balances, LRBAs, CGT relief and much much more. So Jeevan, what I might get you to share with everyone today is, in the first instance the fact that we now have transition-to-retirement income streams that are in the retirement phase, but also in the accumulation phase or part of the accumulation phase value, what are some of the changes that we've now seen inside the SMSF Annual Return as a result of this difference in the legislation?
- Jeevan Tohki: Yes, so the biggest changes we've seeing, they are in sections F and G (of the SMSF Annual Return) which are known as also the Member information sections as well. So in there, traditionally you'd say the members balance of what's a combined accumulation and pension balance at the end of the financial year. This is now being split into two different balances. So, obviously dividing that between accumulation phase value and retirement phase value and obviously it's something we probably should have seen in retrospect in 2017 Annual Return. However, obviously we now seeing this split across.
- Aaron Dunn: Yeah, we really didn't see that difference in the ATO's view or government's view, the introduction of the retirement phase concept, right until the end of the year (2017). So in theory, it would have been great to have had that information. But yeah, we now have in essence this TRIS count, don't we? Where we've got to outline how many income streams we have, that are not income streams in retirement phase, but of course, form part of the accumulation phase value.
- Jeevan Tohki: That's correct, so in the Annual Return there, you'll see I suppose two labels, So one's grouped on the label S, the other labelled under label X (Member Information) that you'll see. And I guess what they're looking for is wanting to know what portion balances in accumulation phase and out of that accumulation phase value what's the number of TRIS accounts which make up that accumulation phase, so obviously probably more likely using for stats purposes than for anything else there at the tax office. However, we will obviously automatically pre fill that in our (Simple Fund 360) software.

Aaron Dunn: Yeah. And that's one of the big differences we've got with pensions now is that we do have these additional concept of a TRIS in the retirement phase and the requirements of moving a TRIS to the retirement phase rather than converting it to an account based pension. We can kind of do both things, but there's an entirely different format or process that needs to evolve in this. So it is important at a practitioner level, when you're talking to your clients to understand the nuances between, a TRIS that forms part of the accumulation phase because it is subject to tax at 15%, and when that individual satisfies whatever the condition is, and does the appropriate notifications around that (to move to the retirement phase), and that they then ensure that not only it's documented correctly, we have all of our transfer balance account reporting as well. But we now have to incorporate that into the SMSF Annual Return too.

Jeevan Tohki: That's correct.

Aaron Dunn: Yeah. So, the next one is around the changes to a members total superannuation balance. And right now, with the transfer balance account reporting, we're seeing a lot of late mail come out of the ATO, for certain income streams, capped defined benefits income streams and the fact that we actually have to report the accumulation phase values, but we're now seeing some pretty important changes in the member information here, in terms of determining that members TSB as we move forward.

Jeevan Tohki: That's correct. So one thing we've seen at BGL last month, I guess, in our help desk is a number of increased calls since we released the TBAR functionality. So it's good to say that the, I guess the professionals out there getting ahead of that and are getting it lodged well and truly before 1st of July - From then, the next financial year the TSB calculation is being calculated as part of this data that is contained within the Annual Return. So it's important that that information obviously is correct, as you mentioned prior that balance will be split down to accumulation phase and retirement phase there in the actual SMSF Annual Return.

Aaron Dunn: Yeah. One of the other things I wanted to ask you on this topic is, interesting when we spoke about this SMSF day events and again within our online course (<https://smartersmsf.com/smsfday>) that just the way in which the definition of a members total superannuation balance is made up and the accumulation phase value in particular, when we think about it, it talks about this concept of a member needing to determine what the (net) realisable value is of that benefit, which of course takes into account the tax effect (of the benefit to be withdrawn) - do you get any insights within BGL from the data you see as to the amount of members that are, or information from practitioners that are using tax effect accounting here to now look at this in the context of a members total superannuation balance?

Jeevan Tohki: It's probably something we haven't looked into, I guess in terms of again across our sort of help desk, I haven't seen an increasing number of calls and people asking how to turn on tax-effect accounting or anything like that. But it'd be probably an important step for certain people get across. What we've

obviously seen across the industry is late lodgement in terms of, say, the 30th June 2017 period, where traditionally that was done prior to 15 May (each year). The ATO has extended that deadline in which we're seeing practitioners fully utilising. So I think for a lot of practices, they may be starting to look at it now where they haven't had the time with the previous super reform changes to actually think about it, and forward plan.

Aaron Dunn: Yeah, and in a lot of incidents we asked, "Well, what are they all been doing?" Because we've had nothing in our plate to get through, have we? Yeah, I think that that is a really important point for people to be aware of here that you know, when we think about the accumulation phase value and the retirement phase value, it is not just the amount that we would ordinarily be looking at. With SMSFs as non-reporting entities we do need to value assets to the market value (per SIS Regs) - it's been a SIS requirement since 2012-13 income year.

Aaron Dunn: This concept when we look at it year on year, actually now determines so many things if we think about the ability to make non-concessional contributions, the ability to apply segregation. So, in my view there just needs to be a lot closer attention paid to the accounting methodology that gets used inside software. So I'd be really interested to sort of see how that progresses statistically, I guess and whether at BGL, you might get to get some further information around that. The other one is the topic of LRBAs. This has continued to be something right at the very forefront of the Government's radar if we think about the recommendations back a few years ago from the FSI Inquiry or Murray review, but again, there appears to be some additional requirements now included inside the SMSF Annual Return. So can I get you to maybe elaborate on those?

Jeevan Tohki: Yeah. So in the assets and liabilities section, there under question 15 (Regulatory Information) say where LRBA inputs are required, traditionally again it used to be the ATO was just asking simply for the LRBA balance as far as now what they're doing with the LRBA is asking where the funding has come from - so has it come from a licensed financial institution such as a bank, has it come from a member or related party, and has a personal guarantee being used to that, for example?

Aaron Dunn: Yeah. And again, if we look at one of the more recent pieces of legislation still currently in bill format (before Parliament), but the fact that any LRBA, post one July 2018, if it's a related party LRBA, for example, then that is going to get included inside the total superannuation balance, so you can start to see and I presume we'll see more change again as we move forward in respect to this particular topic, because it's not only that, but the condition of release being satisfied as far as well. That there's more and more data really starting to stack up against limited recalls buying arrangements within SMSF. So making sure practitioners are completing these information accordingly would be critically important.

Jeevan Tohki: Correct, I guess your topic latest, you know, government review on top of that, yeah you probably say banks I guess less likely to give funding in all cases as well.

Aaron Dunn: Yeah, and certainly they've tightened their belt when we think about what's been going on in more recent times. Now, the other one that as practitioners we've spent most of the past 12 months and potentially even the six months before trying to get our head around, was the concepts of CGT relief, and many people are still feverishly working away with certain clients that qualify or some even that I've seen that may not have launched it and have now decided that they should have - so going back and looking at all that prior to the 30th of June. In terms of the changes in the capital gains tax schedule, can you elaborate a little bit more on what we've seen here in respect to the CGT relief?

Jeevan Tohki: Yeah, so the changes are minimal, but very important... So, back in the previous financial year (FY2017) with CGT relief, the trustee had the choice of when disposing an asset to treat the asset like a disposal - having the treatment of realising it in that current financial year, which was 2017, or they had the choice of deferring the gain to a later financial year.

Jeevan Tohki: Now, what takes place say from the 2018 financial year onwards, if you dispose of the asset, which had a deferred notional gain, that information around that deferred notional gain which has been realised, needs to be input into the CGT schedule. The other additional change or requirement is, if you do have a notional gain, which has been realised during the financial year, it is a mandatory requirement to produce the CGT schedule where previously it was only mandatory if you had a total capital gain or capital loss position which equals \$10,000 or more.

Aaron Dunn: So from a software point of view, when we think about how the deferred gain comes about, we had a proportionate fund, they decided not to apply to gain in that '17 year. But they chose to defer it until that subsequent time... generally speaking practitioners, of course, from a record keeping requirement needed to maintain that information, that's been a legislative requirement of them because the ATO wasn't having really any responsibility to maintain that themselves. There was an entire number (deferred notional capital gain) that had to get reported but nothing at a fund by fund level. So, what does the practitioner expect to come out of (software such as) Simple Fund 360 to be able to populate that information? We're seeing the maintaining of that deferred gain inside Simple Fund 360 so that when that's disposed off, it would obviously then produce the appropriate schedule?

Jeevan Tohki: That's correct. So I suppose, what the practitioner will expect is when they complete our year end process - that the field will be automatically calculated and populated. When looking at the particular investments, what they expect to see is what the actual cost base has been and what's the correct gain or loss that has been calculated or not. There's also been some changes to the calculation of net capital gains for the entire fund as well (for ECPI purposes). Obviously you've got the changes extending from the ATO's interpretation of

deemed vs. unsegregated income for the financial year but we'll keep that at that level for now.

Jeevan Tohki: You've also got a change I guess regarding these deferred gains, you've got to change in the way the net capital gain position has been calculated. Obviously if a (CGT) discount was applied, if it was applicable in the '17 prior year - a discount cannot be applied to that portion of the gain, only to the portions since 1st July, '17 (where held for >12 mths). Losses can be applied, however, where the fund is unsegregated, the actuarial percentage can't be applied against that portion of the gain as well. So obviously it makes things very complicated. And then you have the practitioners that need to obviously reconcile that. So the good news for those, is they can literally click a button in our software, and it will do the necessary changes for them and the calculations.

Aaron Dunn: Okay, so I was going to say there we would see, of course, like you said, the fact that we need to maintain that. We're not in this first year really going to see any discounts and stuff because the proportion method was going to require us to revalue to 30th June. So we wouldn't actually have a period of 12 months (for CGT discount). So things could potentially get a little bit more complex in that calculation as we move into the future because of the fact that we'd have our 12 month discount period having been obtained at that point, and I think, by and large, I mean, I don't know whether you've sort of had conversations with your clients, but a lot of our members that we've spoken to around this in many instances in particular with very high exempt percentages have washed it out in the '17 year.

Aaron Dunn: The only exception to that is where there's been some very substantial capital losses because we didn't want to utilise those in that particular year. So the maintaining of the data for the purposes of subsequent disposal becomes critically important. You know, how have you seen it, have you been speaking to some of your clients in terms of how they've tackled this approach for CGT relief?

Jeevan Tohki: Yeah. Most the accounting businesses, we've been speaking to have been doing exactly the same thing. So most of them, I suppose, cleared it out there in the '17 year where possible, because it did have the highest I guess, tax effect for most ones. How do you say, it can really come down to a tax planning point of view or that I guess it was applicable or not, but in most cases, we saw it being applied in the '17 financial year.

Aaron Dunn: Yeah. All right. Well, I think predominantly that was about it. There's a couple of other minor changes in terms of some early stage venture capital partnership relief and we've also seen from the tax return perspective this cessation of the temporary budget repair levy. So, anything else that you wanted to add around the tax return release this year?

Jeevan Tohki: Well, I suppose from the BGL perspective, our tax return is available now for Simple Fund 360 users and a large of them is governed by the ATO but that won't open up until 1st July, so everything in terms of Simple Fund 360

software is ready to go. And anyone using our desktop software, we'll have it sometime in July.

Aaron Dunn: Very good, excellent. Well, thank you for your time today. Been greatly appreciated like I said there's a whole range of changes post one July '17 that were certainly going to play out an impact this year's SMSF Annual Returns so always appreciative of your time Jeevan.

Jeevan Tohki: Okay, thank you very much.

Aaron Dunn: Yeah, and very much looking forward to being a part of the road show that is BGL Regtech in August or late July and August as well.

Jeevan Tohki: So that's obviously coming around the country. And if anyone's interested and wants more information, I think at www.bglregtech.com

Aaron Dunn: Yeah, .com I think it is. Yeah, excellent. Alright thanks very much Jeevan for your time and for everyone listening today and I look forward to you joining me with next week's podcast. Take care and good bye for now.

Speaker 1: Thanks for joining us today on the Smarter SMSF podcast that was a smart move. If you want to find out more about today's topic you can add a comment either at our website smartersmsf.com via our Facebook page or using our Twitter handle @smartersmsf.