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How expenses are treated when an SMSF has ECPI

Generally, expenses which an SMSF incurs in deriving ECPI cannot be claimed anywhere on the SMSF annual return. This means that these expenses must not be included as part of the deductions claimed in the SMSF annual return.

Expenses incurred in gaining or producing exempt or non-assessable non-exempt income or expenses of a capital, private or domestic nature are not allowable deductions.

Generally, if an expense is incurred which relates to both accumulation and super income stream based income, the expense must be apportioned so that only the proportion of the expense for the production of assessable income is claimed.

Certain specific deductions can be claimed in full, whether they provide exempt or assessable income – for example, tax-related expenses such as the supervisory levy and death and disability premiums.

See also:

- [TR 93/17 \(/law/view/document?DocID=TXR/TR9317A/NAT/ATO/00001&PiT=99991231235958\)](#) *Income tax: income tax deductions available to superannuation funds*

Do not include management and administration expenses in the amount claimed at the ECPI label or investment expenses label.

In addition, you must ensure expenses are apportioned correctly between accumulation and pension-based income to avoid incorrectly claiming the total expense in the SMSF annual return.

Example 8

AXY SMSF earned \$100,000 in interest and paid \$1,000 in bank fees. One hundred percent of the fund's assets were held to provide for current pension liabilities. This would be shown on the SMSF annual return as follows:

Example of SMSF annual return labels

Item	Value and label
Gross interest	\$100,000 (included at item 10 label C)
<i>less</i> ECPI	\$100,000 (included at item 11 label K)
<i>equals</i> Taxable income	\$0 (included at item 11 label O)

The \$1,000 bank fees cannot be claimed as a deduction, because they were incurred in earning the ECPI.

Example 9

AXY SMSF earned \$60,000 in interest and paid \$500 in bank fees. Eighty percent of the fund's assets were held to provide for current pension liabilities. This would be shown on the SMSF annual return as follows:

Example of SMSF annual return labels

Item	Value and label
Gross interest	\$60,000 (included at item 10 label C)
<i>less</i> ECPI	\$48,000 (80% of \$60,000) (included at item 11 label K)
<i>less</i> Interest expenses that can be deducted	\$100 (see note 5) (20% of \$500) (bank fees – included at item 11 label A)
<i>equals</i> Taxable income	\$11,900 (include at item 11 label O)

Note 5: The remaining bank fees of \$400 (80% of \$500) cannot be claimed as a deduction, because they were incurred in earning the ECPI.

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