Australian Government
Australian Taxation Office

SMSFs in the post Superannuation reform environment

Kasey Macfarlane, Assistant Commissioner, Superannuation

Speech to the 12th Annual SMSF Conference, Television Education Network

Palazzo Versace, Gold Coast, 31st August and 1st September 2017

1 Introduction

There is little doubt that we are in the midst of an important phase of Australia's superannuation system in which self-managed super funds (SMSFs) play a significant role.

Our most recent statistics reveal that there are close to 600,000 SMSFs with other 1.1 million members. The estimated total value of assets held by SMSFs is approaching $675 billion.

Moreover, the number of SMSFs continues to grow. The number of members grew by 5.5 per cent in 2016, with close to 30,000 new SMSFs established in this period.

Many Australians want to, and are, taking control of their retirement.

The ATO, as the regulator of SMSFs, remains steadfast in its desire to build confidence and trust in the sector. Regulations and policy update, shift and refresh, and our position must evolve to meet the associated challenges. But our overarching philosophy remains – with strong, consistent governance, we create the necessary framework to maintain the integrity of the system, encourage willing participation and ensure compliance.

The past year has been a period of significant change as SMSFs and other super providers and their members have been preparing for the government's super reforms that came into operation on 1 July 2017. During this time we have focused on engaging with the SMSF sector to provide practical guidance and support for SMSFs and their members, working from our preferred position that prevention is better than intervention.

Now that we are post 1 July and the super changes are in place, we will continue to work with the SMSF sector to provide support and guidance as the consequences of the changes materialise and practical matters of compliance become apparent.

2 The super changes post 1 July 2017

There are of course many different elements to the changes that came into effect on 1 July 2017. However, two key concepts are pivotal to many of the changes. These are the 'transfer balance cap' and the 'total super balance'.

2.1 Transfer balance cap

The starting point for SMSFs when discussing the impact of the 2016 super changes invariably starts with the transfer balance cap (TBC). On the surface, the change seems simple enough: you can't have more than $1.6 million in the tax-free super retirement phase. However, there are tightly-bound relationships between many of the changes. For example, pulling one lever can affect another element of your SMSF. This is particularly true of the TBC.

It's worth spending some time now to break down the TBC and consider its application in practical terms. The TBC generally only calculates the movement of capital to and from retirement phase, most commonly by starting or commuting an income stream. Pension payments and accrued growth and losses of existing assets don't count towards the cap in any way.

For example:

- Case 1: if someone started an account-based pension valued at $1.6 million on 1 July 2017 and makes minimal draw-downs and good investment decisions so that asset values supporting the income stream grow to $1.8 million by 30 June 2018, they will not have exceeded the TBC
- Case 2: conversely, if a person started an account-based pension valued at $1.6 million, makes heavy draw-downs and suffers significant losses, and assets supporting the income stream fall to $1.2 million by 30 June 2018, they can't start another account-based retirement-phase income stream without exceeding the TBC.

In short, the $1.6 million limit is set when the pension begins and is not influenced by value fluctuations or pension payment drawdowns.

With capped defined-benefit income streams, a 'special value' is applied to determine the TBC.

That value is the annual retirement payment multiplied by 16. Therefore, someone drawing a $100,000 capped defined benefit pension would have a TBC of $1.6 million. This calculation was required due to the inability to remove excess amounts from retirement phase.

Should an SMSF member have an account-based pension and defined benefit pension, they would need to commute any excess from the account-based pension to comply with the $1.6 million TBC.

Importantly, transitional relief is available until 31 December for those who exceed the TBC by less than $100,000.

Individuals who exceed the TBC are subject to excess transfer balance tax for each day they exceed the cap. Excess transfer balance tax is payable on the notional earnings associated with the excess and those notional earnings compound daily. Therefore, the longer a person remains in excess of the TBC the greater amount of excess transfer balance tax they will be required to pay.

2.2 Total super balance

There has been some confusion between the TBC and total super balance (TSB); perhaps because they share the same $1.6 million figure. However, the TBC and TSB are different.

A member's TSB is basically the sum of the values of their retirement-phase interests and accumulation-phase interests as at 30 June each year. In other words, unlike the TBC, fluctuations in asset values and pension drawdowns will impact an individual's TSB.

Unlike an individual's transfer balance that is determined by the netting of all credits and debits to their transfer balance account at any point in time, TSB is determined on 30 June each year.

Why is this important?

If an SMSF member has a TSB greater than the TBC on the 30 June, set at $1.6 million for the 2017-18 financial year, they can't make non-concessional contributions in the following financial year without exceeding the non-concessional contributions cap. This is the case even if the individual has triggered the three-year bring forward in an earlier financial year.

The TSB is also relevant for SMSFs when calculating exempt current pension income (ECPI). From 1 July, SMSFs can't apply the segregated assets method to determine tax-exempt income if any member of the fund has a super balance exceeding $1.6 million and that member is in retirement phase.

2.3 Asset valuation

A cap on the value that an individual can transfer into the tax-free retirement phase and the consequences that flow if a member's TSB exceeds the limit brings asset valuations sharply into focus. The importance of asset valuations based on objective and supportable data cannot be underestimated.

The ATO's published valuation guidelines for SMSFs still apply in the context of the super changes.

As stated in the guidelines, an SMSF trustee must be able to demonstrate that the value attributed to a particular fund asset has been arrived at using a fair and reasonable process which:

- takes into account all relevant factors and considerations likely to affect the value of the asset
- has been undertaken in good faith
- uses rational and reasonable processes
- can be explained to a third party.

Clearly, allocating a value to listed shares and other listed securities, as well as cash is straight forward. But what about other classes of assets?

2.4 Real property

Relevant objective evidence of the market value of real property may include:

- *a valuation undertaken by an independent professional valuer*
- *the purchase price in a contract of sale* for a property that has been recently acquired by a fund, say in the last six months
- *kerb-side estimation of value by a real estate agent*. Often in these circumstances an estate agent will provide a range within which they consider the property's value sits. Ordinarily, provided the valuation attributed to the property by the SMSF trustee falls within that range then it's acceptable to the ATO. However, as a point of caution, we would expect the same value to be attributed to the property for all purposes. For example, we would be concerned if a value at the top end of the range was used for transitional CGT-relief purposes and a value at the bottom of the range was used for TBC purposes
- *comparable and recent sales results* for similar properties. Comparable sales data for recent sale of similar properties may be used as objective evidence to support the value attributed to real property held by a fund
- *rates notices*. The value of a property as stated on a recent rates notice may also provide further objective evidence of a property's value. However, as a word of caution, it's important to understand the basis of a rates notice valuation before you rely on it. For example, is it a value on an improved or unimproved basis? Similarly, rates valuations are often an estimate of a property's value in terms of its 'best use' and may not always be reflective of the market value of a property for super regulatory and income tax purposes. Therefore, it may be prudent not to rely solely upon a rates notice valuation; albeit a rates notice might provide useful additional supporting evidence as to the reasonableness of a value attributed to real property held by an SMSF
- *property valuation website data*. Once again before relying on these types of services, it is important to understand the basis underlying the data provided through the relevant services. Often these services provide a statistical average of value and don't necessarily reflect an accurate estimate of a property's market value. Therefore, once again, whilst they may provide useful additional supporting evidence, it would be prudent not to rely solely on information about values provided by these services.

2.5 Investments in unlisted entities

Often it's suggested that the value of investments in unlisted entities can't be valued because there is no market for this type of investment. The reality is that these investments must have a value and if they don't then there is a real question as to why an SMSF would have invested in them in the first place and what was the purpose in doing so?

The starting point is to obtain the financial statements of the relevant entity and to review the accountant's and auditor's report. Relevant factors to consider are whether or not relevant assets in the entity's financial statements are recorded at market value. If not, the trustee will need to obtain objective evidence of the market value of the underlying assets as objective evidence of the value attributed to its unlisted investment.

Any recent sales of the unlisted shares or unlisted units between unrelated parties is also another form of objective evidence that might be used to support the valuation of an SMSF's unlisted investments.

2.6 Investments in other assets

Approaches that can be used to determine or evidence the market value of other SMSF investments such as art and collectables include:

- for artworks, an appraisal from the gallery from which the item was purchased is appropriate. If it the item was purchased recently then the purchase price is also likely to be a reasonable and reliable reflection of the item's market value
- in the case of items such as wine and other collectables, it may be necessary to obtain an appraisal or independent valuation. The insurance value specified in an insurance contract can also be useful to evidence the value of such items.

The ATO's valuation guidelines for SMSFs do state that it's not necessary to obtain an external valuation of assets every year.

However, trustees do need to determine the value of their fund's assets every financial year. If a trustee is using a past valuation for these purposes they still need to objectively demonstrate why that past valuation remains appropriate and to provide evidence that supports the contention that the asset's value hasn't significantly changed. This is particularly critical in instances where members are approaching, or are very close to, relevant caps.

We will closely monitor changes in behaviours in relation to asset valuations in response to the recent super changes. Needless to say, sudden and significant reductions in SMSF asset valuations will attract our attention and scrutiny, as will the use of different valuations for TBC and TSB purposes compared to capital gains tax purposes.

2.7 The use of reserves by SMSFs

From time to time it's been suggested that the recent super changes, particularly those relating to TBC and TSB, are likely to see an increased use of reserves in SMSFs.

While the establishment of a reserve is not specifically prohibited, the ATO considers that there are very limited circumstances when it is appropriate for a reserve to be established and maintained in an SMSF. The use of reserves beyond these circumstances may suggest that they are being used as part of broader strategies to circumvent the new limits and restrictions. Any unexplained increases in the creation of new reserves or in the balances of existing reserves maintained by SMSFs is likely to attract close scrutiny from the ATO.

We will be issuing some further guidance on when it may be appropriate for an SMSF to establish and maintain a reserve.

SMSF trustees who are considering using reserves to circumvent the TBC or the TSB measures should be very wary and seek independent professional advice or seek advice from the ATO before doing so.

The use of reserves that appear to be an attempt to circumvent the TCB or TSB measures will attract our close scrutiny.

3 Transitional CGT relief

SMSF trustees have access to temporary CGT relief for relevant assets held throughout the period 9 November 2016 to 30 June 2017 if one or more of the fund's members needed to take action to prepare for the changes:

- under the new TBC rules that began on 1 July 2017, a member needed to reduce amounts supporting retirement-phase super income streams before that date to ensure they didn't exceed the cap, and they did this by transferring amounts back to the accumulation phase or withdrawing amounts from super, or
- under the changes that removed the tax-exempt status of assets that support a TRIS, from 1 July 2017 the SMSF lost the exemption for earnings from assets supporting a TRIS and the earnings are now taxable. This is because the TRIS is no longer considered to be a super income stream in retirement phase.

Depending on a fund's circumstances, a number of things must be taken into account to determine eligibility for CGT relief and how it applies. Whilst there is not time to explore all the issues today, some key practical considerations are worth highlighting:

Firstly, in order to avail themselves of the transitional CGT relief that applies if they are eligible, SMSF trustees must elect to do so. They are required to do this in the CGT schedule accompanying the fund's 2017 SMSF annual return (SAR). The election is irrevocable and must be made no later than the due date of the fund's 2017 SAR.

At times, there has been some misconception that if an SMSF trustee didn't make this election before 30 June 2017 then it's too late. This isn't the case. Provided the election is made by the due date of the fund's 2017 SAR, trustees still have time to determine whether or not they wish to avail themselves of this relief. However, of course, applicable re-set cost bases and the value of any deferred gains need to be determined in accordance with applicable asset values at the time that relief applies. Depending on whether or not the SMSF is using the unsegregated or segregated method this may be as at 30 June 2017 or at an earlier date when relevant assets were commuted back to accumulation phase.

It's important to note that it's the trustee's responsibility to maintain appropriate records outlining relevant values and the re-set cost bases of applicable assets, as well as the individual amounts of any deferred gains. The ATO will not be keeping these records and will not require trustees to provide this more detailed information in the SAR.

4 Transition-to-retirement income streams

Recent legislative changes in relation to when a transition-to-retirement income stream (TRIS) will move into the retirement phase mean that it's important for trustees to be aware of when a member's TRIS is and isn't in the retirement phase. This is vital in terms of whether or not the SMSF is eligible for EPCI in relation to earnings from assets supporting a member's TRIS and also has implications for the individual member's transfer balance.

Before 1 July 2017, all TRISs were eligible for ECPI on the earnings from assets that support the income stream. From 1 July 2017, there are changes to ECPI eligibility for TRIS assets.

The new concept of 'retirement phase' is used to identify income streams that count towards the TBC, and are eligible for ECPI. A TRIS will only be in the retirement phase if certain circumstances are met. This affects all TRISs, regardless of when they were first started.

If a TRIS is in retirement phase:

- the earnings from the assets supporting the TRIS will be eligible for ECPI
- it will be counted towards the member's TBC.

If a TRIS is not in the retirement phase:

- the earnings from the assets supporting the TRIS will not be eligible for ECPI, and will be taxed at 15%
- it will not count towards the member's TBC.

A TRIS will count towards a member's TSB whether it's in retirement phase or not. For TSB, a retirement-phase TRIS counts towards the member's retirement phase value. A TRIS that is not in the retirement phase counts towards the member's accumulation-phase value.

When is a TRIS in the retirement phase?

A TRIS will move into the retirement phase when the member meets one of the following conditions of release:

- age 65
- retirement
- permanent incapacity, or
- terminal illness.

A TRIS will move automatically to the retirement phase as soon as the member turns 65. For the other conditions of release listed above, the member needs to notify their super provider for the TRIS to move to the retirement phase.

An SMSF member doesn't need to commute and restart a TRIS for it to move into the retirement phase. The other limitations (10% maximum annual payment and commutation restrictions) also fall away once the member meets one of the conditions of release listed above.

It's important to note that if an SMSF member was in receipt of a TRIS before 30 June 2017 and they turned 65 before 1 July 2017, then that TRIS will automatically be in the retirement phase and count towards the member's transfer balance. Similarly, at any time after 1 July 2017 if an SMSF member in receipt of a TRIS turns 65 then the value of the

TRIS will count towards their TBC from the time they turn 65. It's important SMSF members are aware of this so they can take steps to ensure they don't exceed the TBC as the result of a TRIS moving into the retirement phase.

5 Limited-recourse borrowing arrangement repayment credits

A recent legislative amendment to the TBC provisions means that certain loan repayments made by an SMSF under a limited recourse borrowing arrangement (LRBA) will give rise to a transfer balance account credit for an individual member or members of the fund. That is, certain LRBA loan repayments will count towards and increase an individual member's or members' transfer balance.

Under these changes, a transfer balance credit will arise for an individual SMSF member or members when:

- an LRBA repayment by an SMSF increases the value of a member's interest supporting a retirement-income stream
- the LRBA was entered into on or after 1 July 2017 (this does not apply to LRBAs entered into before 1 July or refinanced after that)
- LRBA repayments are sourced from assets not in retirement phase.

A member's retirement-phase interest won't increase when repayments are made from retirement-phase interests.

One last point, where an LRBA repayment increases more than one members' retirement-phase interest, apportionment is required on a fair and reasonable basis to calculate the transfer balance credit.

5.1 Segregated and unsegregated assets

An issue that has some attention recently is the issue of segregated and unsegregated assets and actuarial certificate requirements.

The ATO's view is that when an SMSF is in 100% pension phase the fund's assets are being held 'solely' to meet super income stream benefits. Therefore, all of the fund's assets are classified as segregated current pension assets. This view has raised some concerns about situations where an SMSF is in 100% pension phase for only part of the year and its assets are unsegregated for the remainder of the year.

The ATO's position is that for any portion of the income year where an SMSF's assets are held solely to meet superannuation income stream liability benefits (ie any period the SMSF is in 100% pension phase) the SMSF trustee is required to calculate its exempt current pension income (ECPI) for that portion of the income year using the segregated method. An actuarial certification is not required to support the SMSF trustee's calculation of ECPI for this period when all of the fund's assets are classified as segregated current pension assets.

For any portion of an income year that an SMSF is not in 100% pension phase, for example its members have a mix of pension phase and accumulation interests for part of the year, and the SMSF's assets are not segregated the SMSF trustee will be required to obtain an actuarial certificate if they wish to claim ECPI in relation to income received by the fund during that part of the income year.

The actuary will calculate the proportion of the fund's assets that are supporting superannuation income stream liabilities during that part of the year when the fund's assets are not segregated. The SMSF trustee is then required to apply the proportion determined by the actuary to the income received by the fund during the relevant period as a component of the fund's ECPI for the income year.

Concerns have been raised with us that the ATO's position and approach to this issue is not consistent with current industry practices. In particular, we understand that in the aforementioned circumstances it is not unusual for a SMSF trustee to obtain an actuarial certificate on the basis that their fund's assets are unsegregated for the entire year and the relevant actuarial certificate is then applied by the SMSF's trustee to the fund's income for the entire year. This practice is not consistent with the ATO's view of how the law operates in these circumstances.

We do appreciate there may be some industry practices that have developed that may not be in accordance with the ATO view of the law. The ATO cannot advise SMSF trustees or industry to continue to act in accordance with any practices that are not consistent with the operation of the law. However, we have made an administrative concession with respect to our compliance approach for the 2016-17 year and prior. From a practical compliance perspective we will not be seeking to apply compliance resources to review applicable past ECPI calculations for the 2016-17 and prior years. That is, in applicable circumstances, SMSF trustees will not face compliance action for prior years' ECPI calculations based upon an industry practice that is not consistent with the ATO's view of the law.

The ATO will shortly be publishing information on our website to confirm our position in relation to this issue and to confirm our administrative concession from a compliance perspective for the 2016-17 income year and prior.

6 Events-based reporting

Under current arrangements, SMSF account balances, including those in pension phase, are reported annually through the SMSF annual return. Similarly, APRA-regulated funds report annually through member contribution statements.

This type of static reporting won't meet the demands emanating from the super changes. Simply, these reporting arrangements, for both SMSFs and APRA funds, can't provide the currency needed for individuals or the ATO to manage the TBC across all super interests.

Our new reporting model is designed to meet this challenge, and future challenges that may arise from further policy changes. We're collaborating with industry on future reporting changes, but certain information is needed through the transfer balance account report (TBAR).

6.1 Transfer balance account report

All super funds have to report transfer balance cap debits and credits by event. This will be done via TBAR.

Events that affect transfer balance cap debits and credits include:

- starting an income stream
- other pensions received through death benefits
- commutation of an income stream
- certain repayments from LRBA borrowings.

Super providers will be required to report these events via the TBAR, either through bulk data exchange, online, or via a paper form. Generally, these events must be reported within 10 business days after the month in which they occurred. However, SMSFs will be allowed some administrative and transitional concessions with respect to this monthly reporting cycle for TBC events.

We have just issued a position paper about SMSF events-based reporting on our website. The paper explains how SMSF events-based reporting will operate for SMSFs from 1 July 2018 and seeks specific feedback about **how often** SMSF events will be required to report transfer balance account events.

Specifically, feedback is sought about two alternative reporting cycles outlined in the position paper. Those two options are as follows:

Option 1:

- From 1 July 2018, SMSFs will be required to report events occurring in relation to their members' transfer balance account 10 business days after the end of the month in which the relevant event occurs, except for:
  - income-stream commencement: an administrative concession will allow SMSFs to report the start of a retirement-phase income stream (pension) 28 days after the end of the relevant quarter
  - LRBAs: an administrative concession will allow SMSFs to report relevant repayment events 28 days after the end of the relevant quarter
  - commutation authorities: SMSFs must abide by legislated TBC reporting timeframes as specified within commutation authorities.

Option 2:

- From 1 July 2018, SMSFs will have 28 days after the end of the relevant quarter to report all TBC events **except for**:
  - the commutation of an income stream because we have issued a member of an SMSF with an excess transfer – balance (ETB) determination, which must be reported 10 business days after the end of the month in which the commutation occurred; otherwise we may issue the member with a commutation authority that will require them to remove the excess, even if they have already done so
  - compliance or non-compliance with a commutation authority we have issued to an SMSF: SMSFs must abide by – legislated TBC reporting timeframes as specified within commutation authorities.

- Following an appropriate transition period, SMSFs will be required to move to reporting all TBC events 10 business days after the end of the month in which they occurred, other than compliance or non-compliance with a commutation authority which will still need to occur within the specified time frame.
- We consider that an appropriate transition period for SMSFs to move from quarterly to monthly reporting of all TBC events may be two years until the end of 30 June 2020, but we are seeking feedback on this point.

6.2 Key timings

TBAR will be operational from 1 October 2017, and APRA funds will start submitting reports via this method no later than 10 business days after 30 November. SMSFs, in contrast, have been given a transitional period, of 1 July 2018, before being required to report transfer balance account events for members through the TBAR.

But TBAR reporting will be available for SMSFs from November so those who wish to move across can do so. Once the decision has been made to report via TBAR, a member's debits and credits history in relation to their transfer balance account must be reported to the ATO.

6.3 What are SMSFs required to report?

The events that are required to be reported by SMSFs on a more regular basis under our SMSF events based reporting model are limited to the transfer balance cap and events that impact an individual's transfer balance account. That is, transfer balance account debits and credits.

SMSFs will not be required to report investment earnings, gains and losses on a more regular basis. They will not be required to report member account balance information on a more regular basis; nor will they be required to report contributions or pension payments on a more regular basis.

The most common events that will be required to be reported are:

- the values of any retirement phase income streams that the SMSF members is entitled to, including reversionary income streams
- the value of any commutation of a retirement phase income stream by a SMSF member
- any structured settlement payments that a SMSF member receives and contributes to their fund.
- certain limited recourse borrowing arrangement repayments that give rise to a transfer balance credit as a result of recently enacted legislation.

It is important to note that reporting is only required if there is an event that impacts an individual member's transfer balance. That is, it is not the case that every SMSF will need to report the ATO every month or every quarter whatever the case may be.

Moreover, SMSFs with relatively straight-forward affairs are likely to have only one or two events per member to report over the life of the fund. For example, when a SMSF member commences an income stream followed by any subsequent commutation of that income stream.

Those SMSFs that do not have any members in retirement phase will not have anything additional to report from 1 July 2018 until such time as one of its members starts to receive a retirement phase income stream or pension.

6.4 Why is more regular reporting of transfer balance cap events required?

There are taxation consequences for individual members if they exceed the cap.

Excess transfer balance tax is payable on the notional earnings associated with any excess and the notional earnings continue to compound daily until the member takes action to remove the excess or the ATO issues an excess transfer balance tax determination.

Therefore without visibility of an individual's position in relation to the transfer balance cap the individual is at risk of a continually accruing and increasing taxation liability.

Unless a member knows that they have exceeded the cap then they are not in a position to take action to remove the excess.

Similarly if the ATO does not have visibility and is not aware an individual has exceeded the cap then we can't issue an excess transfer balance cap determination.

In other words, the individual's excess transfer balance cap liability will continue to increase and when it eventually becomes apparent that the individual has an excess they will be liable for a greater amount of tax that what would otherwise been the case if there had been earlier visibility of that excess.

Moreover, without the additional visibility provided by events based reporting the ATO will not be able to provide reliable services to warn people when they may be approaching the cap and / or at risk of exceeding the cap.

These types of services are likely to be important where individuals have multiple superannuation interests, for example, a retirement phase interest in an SMSF as well as an APRA regulated fund. This is because the transfer balance cap is a limit that applies across all of an individual's superannuation interests.

6.4.1 Why are those SMSF members who are not receiving an income stream greater than or close to $1.6 million required to report more regularly?

The ATO needs to be in a position to administer the transfer balance cap as we are required to do, and to maintain the integrity of the transfer balance cap measure. As the administrator and the regulator, we need to be in a position to know when we need to issue an excess transfer balance determination to individuals who have exceeded the cap.

If we don't have visibility of every individual's position in relation to the cap then we don't know whether they have exceeded it or not and therefore can't administer the measure appropriately.

It is also the case that not all SMSF members will know the value of their pensions or retirement-phase income streams. For example, in some cases, current reporting arrangements mean that some SMSF trustees only visit their tax agent or accountant annually to have their financial accounts and SMSF annual return prepared. Often this does not occur until some ten months after the end of the financial year and it is not until then that relevant amounts and values are determined.

6.4.2 What are the consequences if SMSFs don't report members transfer balance account events as required and on time?

The transfer balance account report (TBAR) is an approved form for the purposes of the Taxation Administration Act 1953 and late lodgment penalties do apply.

However, the ATO will be taking a judicious approach in the 2018-19 year and won't be seeking to impose late lodgment penalties unnecessarily – rather we will be focussed on supporting and assisting SMSFs with reporting and moving to this model of more regular reporting.

The greatest risk of not reporting on time is that individual members may inadvertently and unknowingly exceed the cap and be faced with an unexpected and increased tax liability.

It's also worthwhile mentioning that contrary to some recent media reports, the ATO does not have any plans to deny an SMSF exempt current pension income (ECPI) on the basis that they have not reported transfer balance cap events on time.

6.4.3 Opportunities

Events-based reporting has the potential to bring SMSFs into alignment with APRA-regulated funds and the digital-first approach. Improving client experience has been a key driver as we push the envelope to streamline processes and make engagement with us faster, easier and better.

As we look further ahead, long-term opportunities exist for SMSFs to use SuperStream and Single Touch Payroll in their interactions with us.

The benefits of our digital transformation have been outlined to large funds, and SMSF reporting would be enhanced with access to the same integration. Our goal is to provide individuals with greater visibility of their contributions history across multiple funds, show unused cap amounts, allow people to make informed decisions about their super by providing the most current information available and detect potential compliance risks early so we can proactively engage members.

We believe SMSFs, and the wider super sector, deserves and needs this type of service. We also acknowledge how important retirement income is for individuals.

As regulators and administrators of SMSFs, we're determined to help trustees and their advisers navigate this period of change. Yes, it has been a long process. Yes, some of the changes have been difficult. Yes, the super sector's continuing to evolve. But with change comes opportunity. By meeting change and challenge head on, we're confident we will come up with a stronger, more robust and more resilient framework for the super community.

7 Super changes

Since last November, when the superannuation changes became law, the ATO made a commitment to work with our stakeholders. We did so by engaging industry through committees, webinars, key messaging and detailed guidelines on how the law would be applied.

The law companion guidelines and practical compliance guidelines published on our website remain valuable tools for tax and super practitioners as the super changes are now put into practice.

As we build and expand on our digital-first approach, we'll add new tools and calculators, provide more guidance and help SMSFs through the process of change.

In the next 12 months, as funds lodge their annual returns and independent audits are completed, we'll get an even clearer picture of how well we've adapted to the new super environment.

8 Conclusion

SMSFs are a considerable part of the super system, both in terms of the number of trustees and members and the assets they hold. Ensuring the integrity of the system while maintaining confidence in it is not something we take lightly.

We also understand that people start SMSFs because they want to manage their retirement, so our aim is to support as well as regulate.

The intent of this paper and presentation is to give you a clearer picture of where we're going and conveyed the optimism we have in the future and sustainability of SMSFs. We've taken significant steps to modernise how you relate and report to us. Much of the work outlined here has been the result of collaboration between the SMSF sector and the ATO. As always, we're on this journey together.

Last modified: 18 Oct 2017 QC 53540

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