Actuarial certificates for ECPI through Class

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ECPI and actuarial certificates through Class

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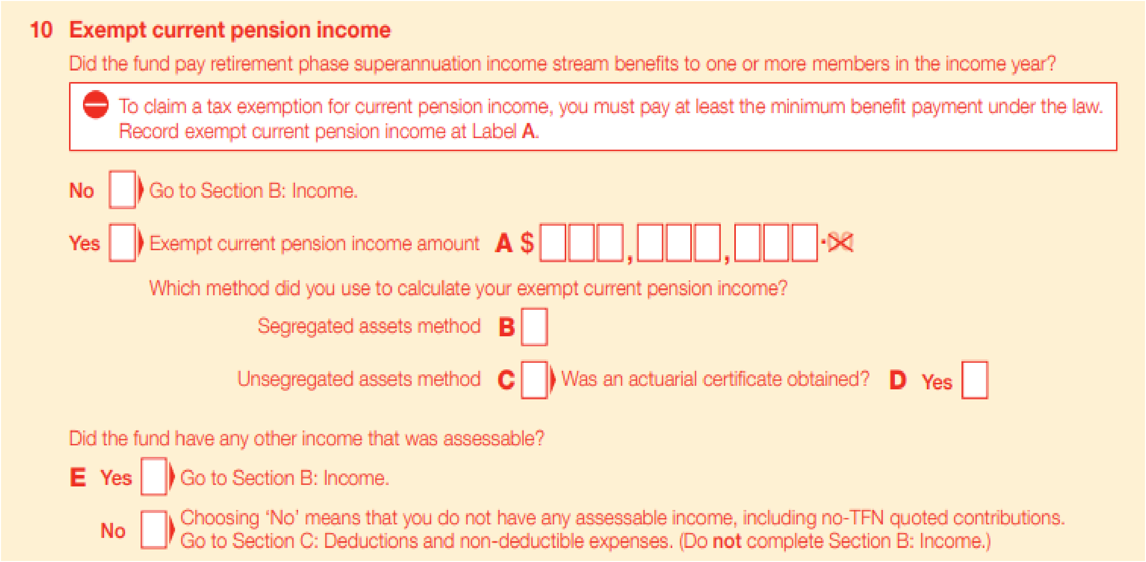
It all depends on ECPI…

- Exempt current pension income = ECPI
- How a fund claims ECPI impacts capital gains and losses, expense deductibility and tax losses and depends on the type of fund
- Today we are going to consider the rules for claiming ECPI for different types of fund
  - A fund which has periods where it is solely in retirement phase but at other times also has a non-retirement phase account – ***NEW RULES***

What is ECPI

- ECPI = exempt current pension income
  - Reduces a fund's assessable income
  - Eligible if have a retirement phase income stream and minimum pension standards met
  - ECPI applies to assessable income including net capital gains, excluding non-arm's length income and assessable contributions
  - ECPI is calculated annually
- Claimed in the SMSF annual return at
  - Section A item 10
  - Section B Item Y



10 Exempt current pension income

Did the fund pay retirement phase superannuation income stream benefits to one or more members in the income year?

To claim a tax exemption for current pension income, you must pay at least the minimum benefit payment under the law. Record exempt current pension income at Label **A**.

No Go to Section B: Income.

Yes Exempt current pension income amount **A** $, , .

Which method did you use to calculate your exempt current pension income?

Segregated assets method **B**

Unsegregated assets method **C** Was an actuarial certificate obtained? **D** **Yes**

Did the fund have any other income that was assessable?

E **Yes** Go to Section B: Income.

No Choosing 'No' means that you do not have any assessable income, including no-TFN quoted contributions. Go to Section C: Deductions and non-deductible expenses. (Do **not** complete Section B: Income.)

Proportionate method for ECPI

- Section 295.390 of ITAA 1997
  - Trustee requires an actuarial certificate if want to claim ECPI (is optional)
  - Actuarial certificate is for a full income year and states the exempt income proportion
  - Expenses deductible to the extent incurred in producing assessable income
- Common methods for apportioning general expenses:
  - Actuarial method of (1 – exempt income proportion)
  - TR 93/17 method of assessable income / total income
- ECPI = exempt income proportion x assessable income
  - Assessable income excludes non-arm's length income and assessable contributions and includes net capital gains

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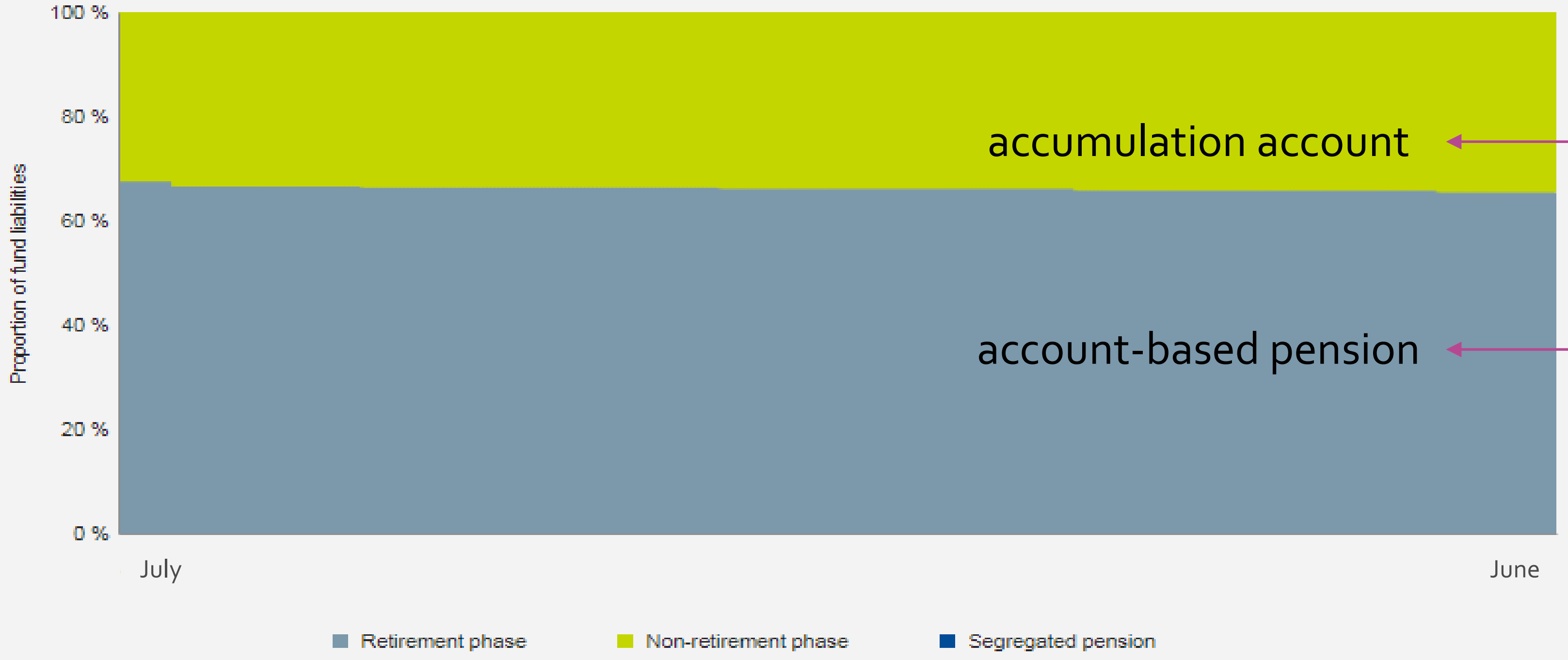
INPUT | SEGREGATION | REVIEW | PAYMENT | COMPLETION

Illustration of fund liabilities

?



Smarties super fund

Doreen has an accumulation balance and is still contributing

Max is retired and has an account-based pension

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INPUT > SEGREGATION > REVIEW > PAYMENT > COMPLETION

Please **review your draft exempt income proportion** below and select continue to finalise and order your actuarial certificate.

Once you have ordered the certificate our team will review the data and either produce the report or contact you for further information.

Report overview

Fund name	Smarties Super Fund	
Fund ABN	13009492219	
Financial year	2020/21	
Draft tax exempt income proportion	66.157%	
Applies to income earned in the following (unsegregated) periods	From 1 July	To 30 June

Operating statement

Assets available 1 July	**$1,243,645**

Plus

Calculating ECPI for Smarties Super Fund

- Actuarial exempt income proportion = 66.157%
- Assessable income including net capital gain and excluding assessable contributions
  - $25,455 in assessable income excluding assessable contributions
  - $40,000 net capital gain due to sale of fund assets
  - Total = 40,000 + 25,455 = $65,455
- **ECPI** = 0.66157 x 65,455 = 43,303.06

10 Exempt current pension income

Did the fund pay retirement phase superannuation income stream benefits to one or more members in the income year?

To claim a tax exemption for current pension income, you must pay at least the minimum benefit payment under the law. Record exempt current pension income at Label A.

No [ ] Go to Section B: Income.

Yes [X] Exempt current pension income amount **A** $ 43,303 .~~xx~~

Which method did you use to calculate your exempt current pension income?

Segregated assets method **B** [ ]

Unsegregated assets method **C** [X] Was an actuarial certificate obtained? **D** Yes [X]

Did the fund have any other income that was assessable?

E Yes [X] Go to Section B: Income.

No [ ] Choosing 'No' means that you do not have any assessable income, including no-TFN quoted contributions. Go to Section C: Deductions and non-deductible expenses. (Do **not** complete Section B: Income.)

If you are entitled to claim any tax offsets, you can list these at Section D: Income tax calculation statement.

Maximising proportionate method ECPI

$$\text{Exempt income proportion} = \frac{\text{average value of retirement phase liabilities}}{\text{average value of superannuation liabilities}}$$

- This uses a daily weighted average so *when* a transaction occurs is important
- More in retirement phase on average:
  - Pension payments and lump sums later in a year
  - Pension commencements earlier in a year
- Less in non-retirement phase on average:
  - Accumulation withdrawals earlier in a year
  - Contributions later in a year

Segregated method for ECPI

- Segregated pension assets are assets solely supporting retirement phase liabilities
- Section 295.385 of ITAA 1997
  - Income on segregated pension assets is ECPI (100% exempt)
  - Capital gains and losses are disregarded and not included in assessable income
  - General expenses are not deductible as incurred on assets producing exempt income
  - Disregarded small fund assets are not segregated current pension assets for ECPI under 295.385(7)

A fund solely in retirement phase for a whole year (unless has defined benefit pensions) will use this method

Disregarded small fund assets (DSFA)

- Annual assessment each 30 June
  - Also applies in first year of the SMSF
- SMSF will have disregarded small fund assets for a financial year if all of the following apply:
  - At prior 30 June a member was in retirement phase and had over $1.6m total super balance
  - The SMSF has a member in retirement phase at any time in the year
  - The SMSF is not solely in retirement phase over the whole year
- If have disregarded small fund assets must claim ECPI using the proportionate method and obtain an actuarial certificate

ECPI: new rules

There may be a choice from 2021-22 income year

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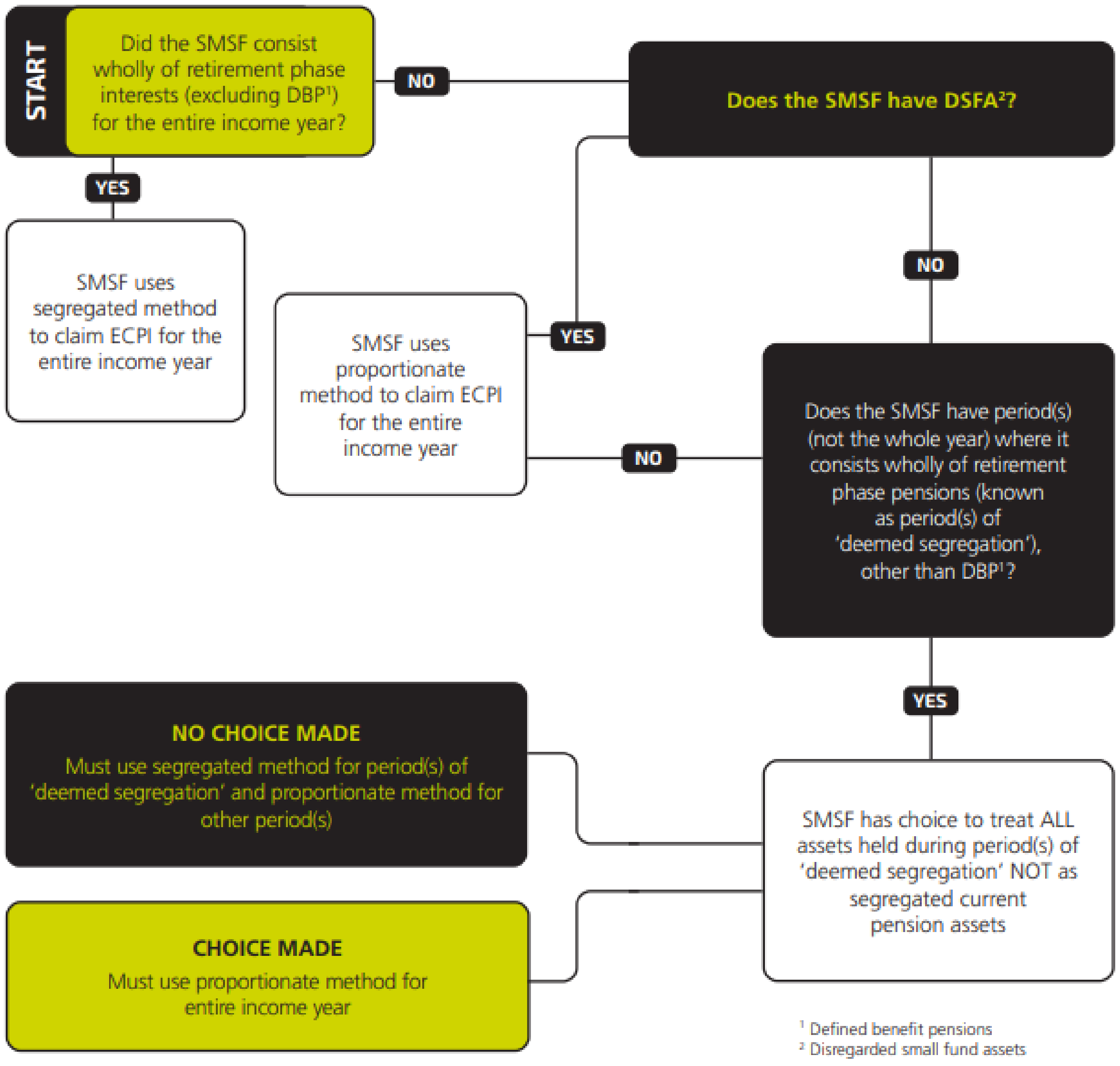
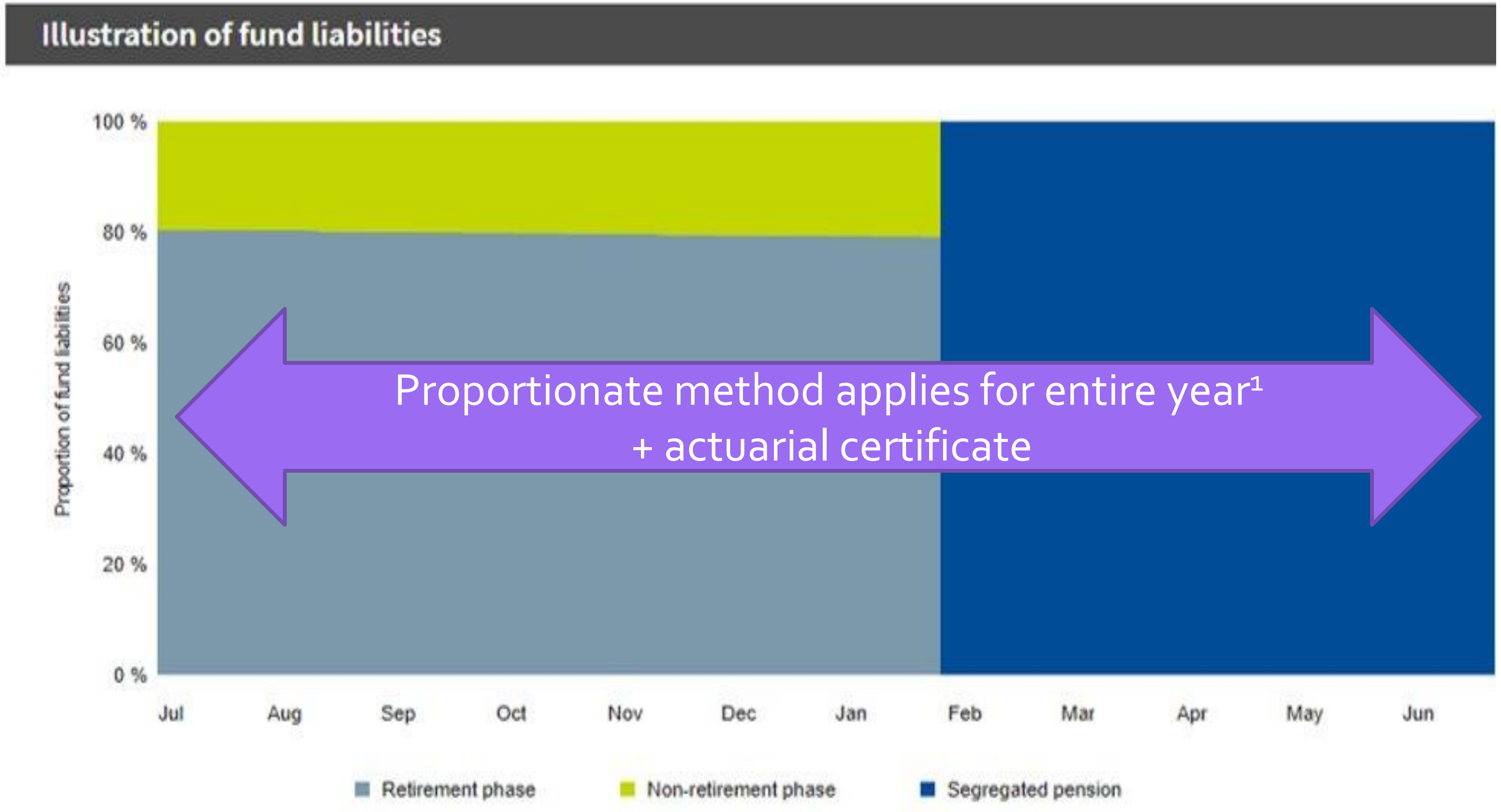
The new ECPI choice rules

- Choice applies from 2021-22 income year
- Download flowcharts from https://www.accurium.com.au/actuarial-certificates/ and scroll down to 'Helpful resources'
  - Does an SMSF have a choice of how to calculate and claim ECPI?
  - Is an actuarial certificate required?
  - Does your fund have disregarded small fund assets?



ECPI prior to 2017-18

A brief history….



For income years prior to 2017-18

Segregated method used:

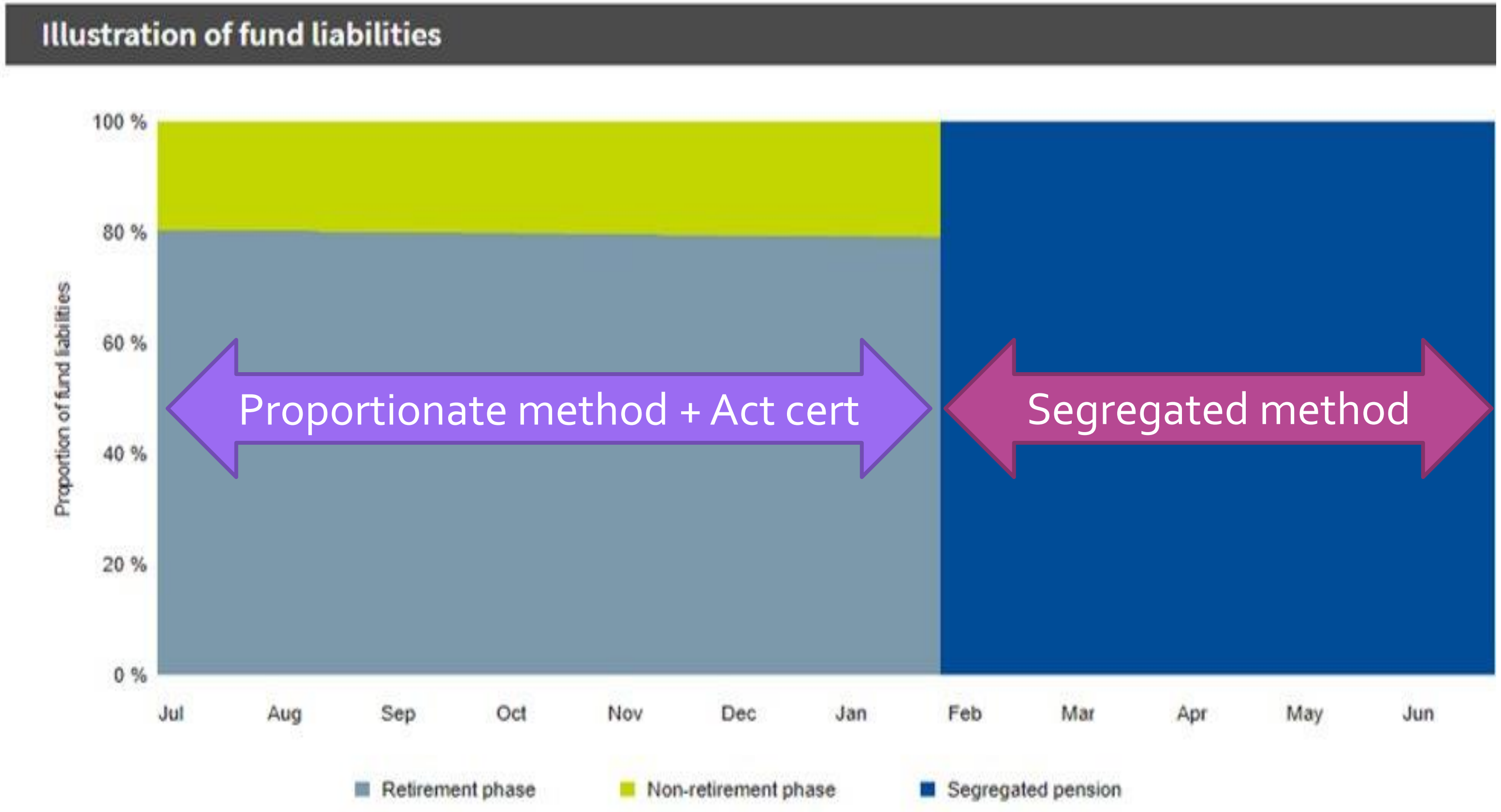
- Elected segregation; or
- SMSF was solely supporting pensions (not DBs) for the entire income year.

Otherwise used proportionate method.

1. Unless trustee(s) have segregated fund assets between pension and accumulation interests.

ECPI from 2017-18 to 2020-21

A brief history…. SMSF did not have DSFA[1]



For income years 2017-18 to 2020-21

Segregated method used:

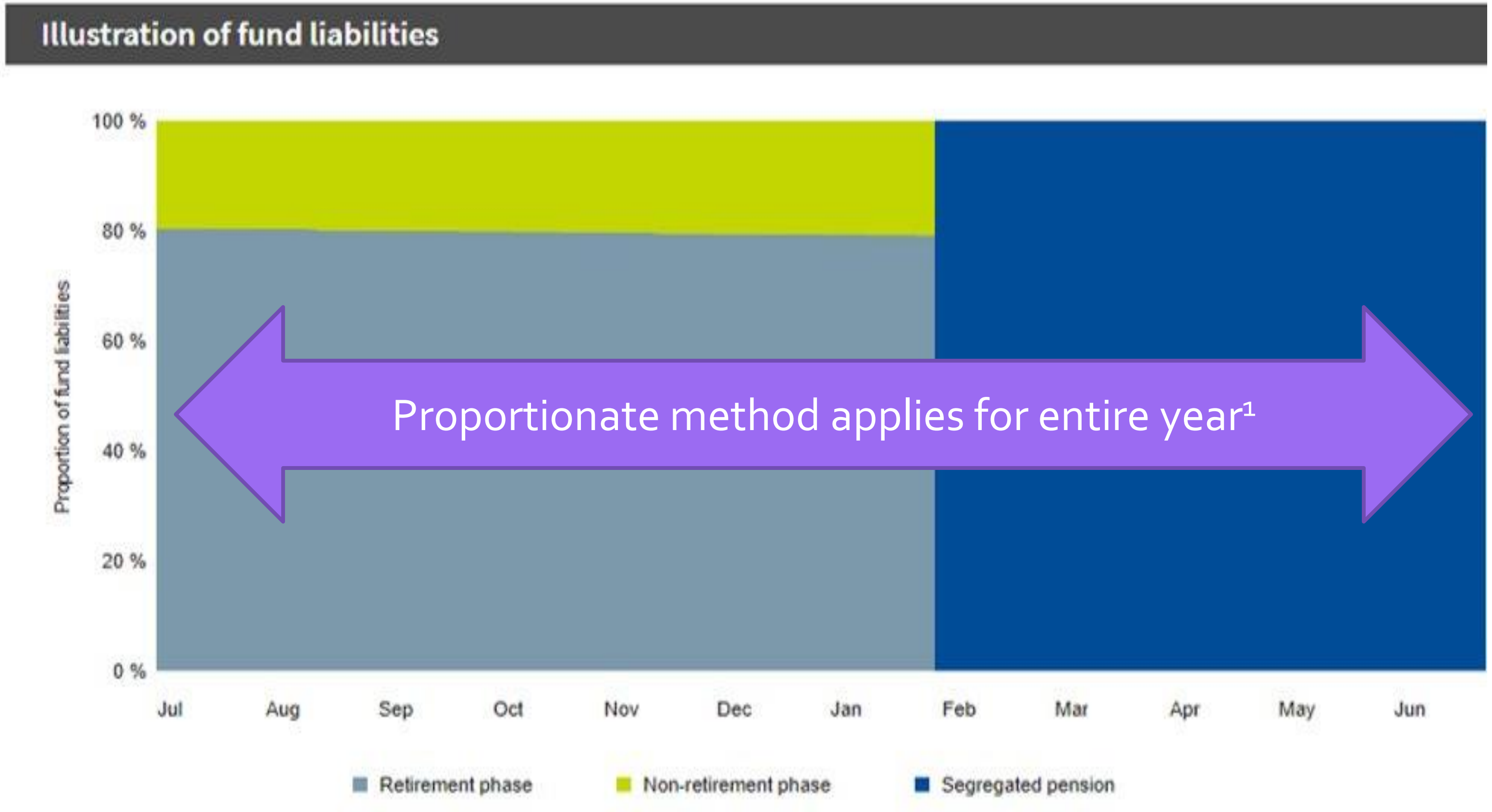
- Did not have DSFA[1]; or
- Elected segregation; or
- SMSF had periods solely supporting retirement phase interests.

Otherwise used proportionate method.

1. Disregarded small fund assets.

ECPI from 2017-18 to 2020-21

A brief history…. SMSF did have DSFA[1]



For income years 2017-18 to 2020-21

Segregated method used:

- Did not have DSFA[1]; or
- Elected segregation; or
- SMSF had periods solely supporting retirement phase interests.

Otherwise used proportionate method.

1. Disregarded small fund assets.

The new ECPI choice rules from 1 July 2021

When there will be choice

1

The ECPI claim will be for the 2021-22 or a later income year

2

The SMSF does not have DSFA[1].

If have DSFA → must use proportionate method for entire year

3

There is a period in the year where SMSF assets are solely supporting retirement phase pensions, but not for the whole income year.

→ 'deemed segregation'

4

None of the retirement phase pensions in the SMSF are defined benefit pensions.

DID YOU KNOW?

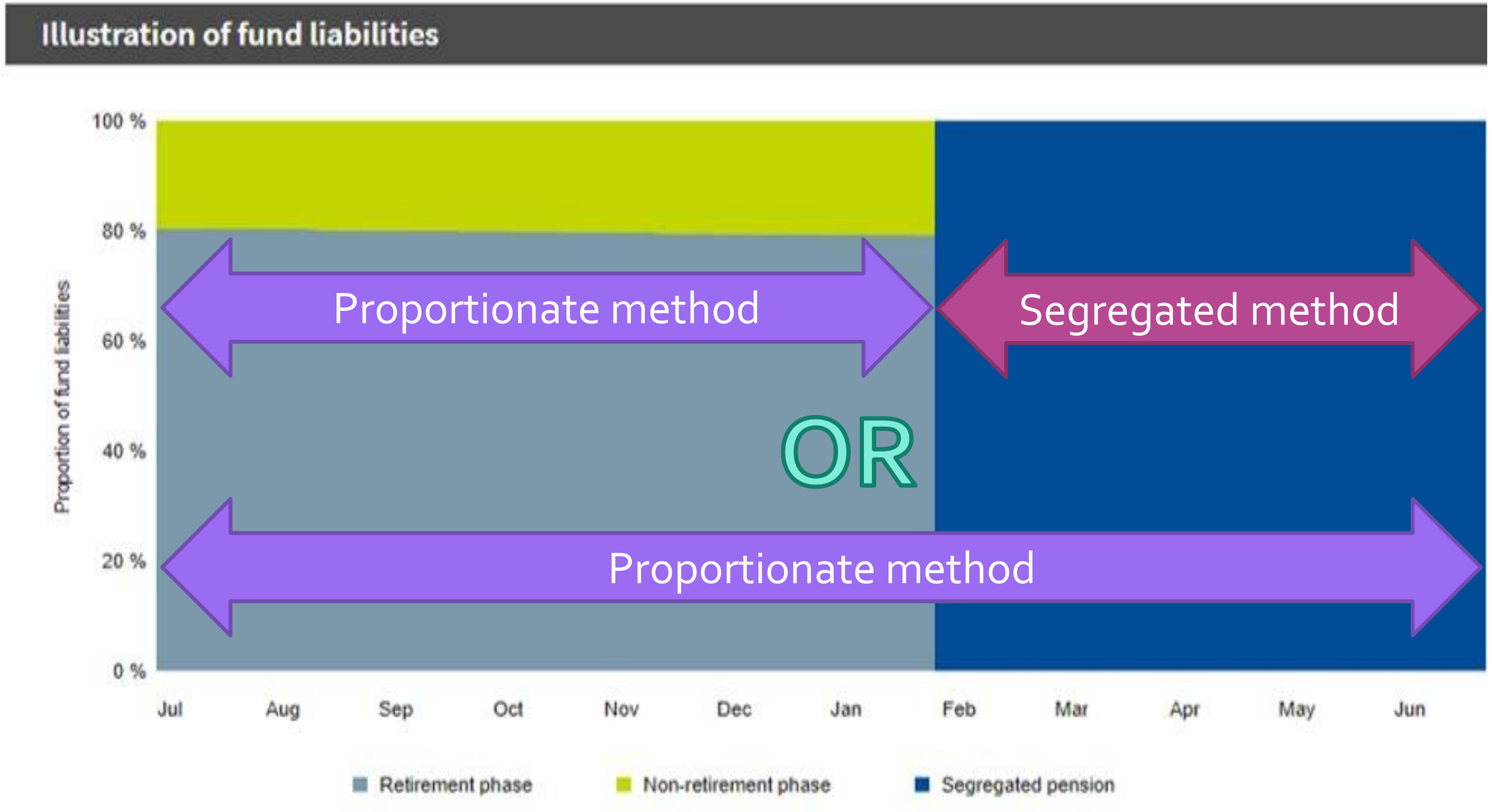
ONLY **3%** OF SMSFS ARE AFFECTED BY THIS ISSUE ?

Most of these funds have only one deemed period, with only 0.3% of all SMSFs having more than one deemed period

1. Disregarded small fund assets

Claiming ECPI for income year 2021-22 onwards

The new ECPI choice rules - SMSF does not have DSFA[1]



Applies to elected segregation as well.

The choice aims to assist trustees with periods of 'deemed segregation'.

An actuarial certificate is required to claim ECPI under either option.

1. Disregarded small fund assets.

The ECPI choice decision

Rearview approach

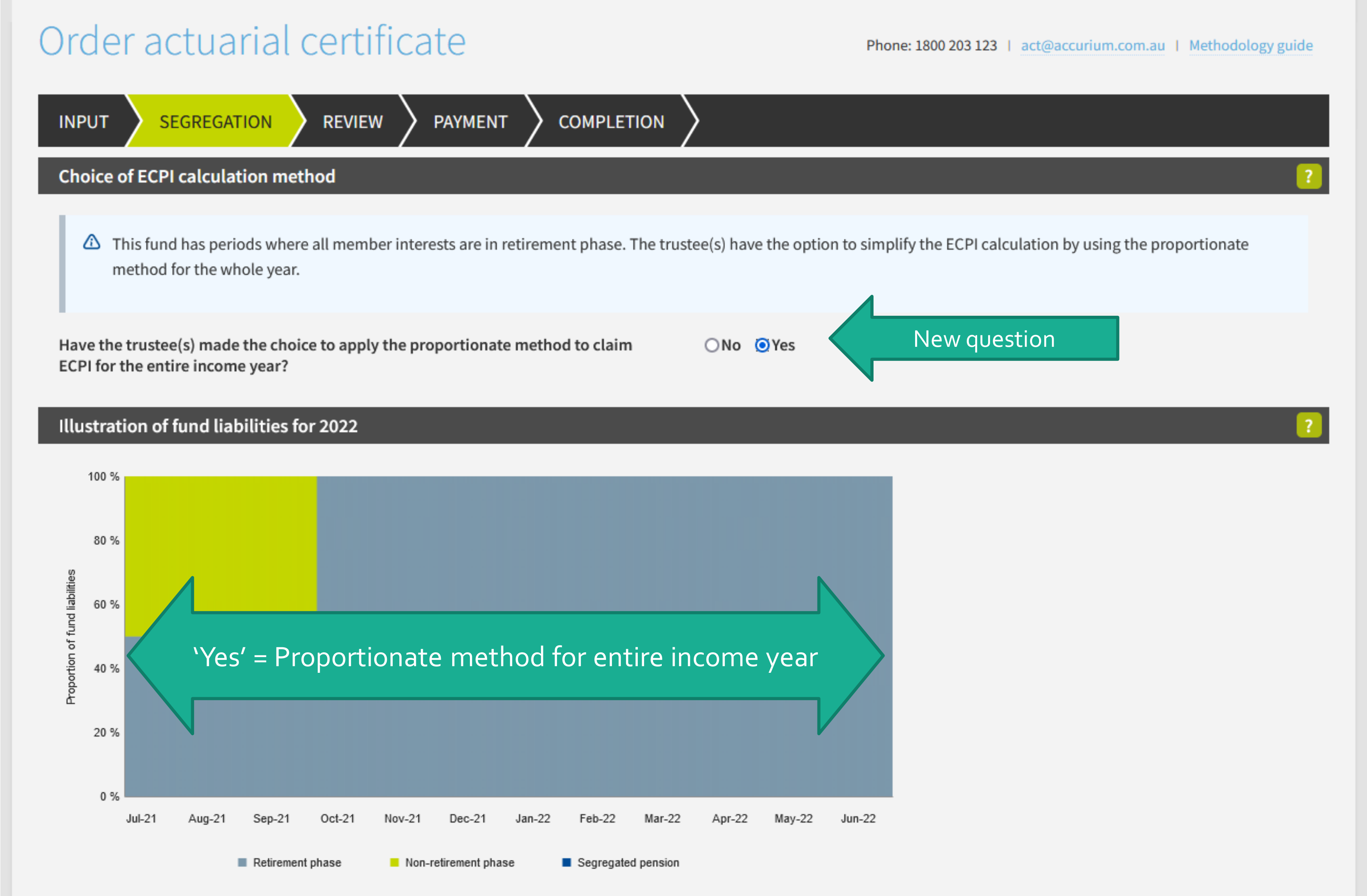
- Accountant
- Preparing annual reports
- Run comparative analysis

Forward planning approach

- Adviser
- Asset disposal recommendation
- Estimate tax outcome

The ECPI choice decision

- Accurium's actuarial certificate process asks you to confirm your choice
- Can complete a comparative analysis by toggling between
  - Yes = use proportionate method
  - No = use segregated method in periods of deemed segregation



The ECPI choice decision

- Accurium's actuarial certificate process asks you to confirm your choice
- Can complete a comparative analysis by toggling between
  - Yes = use proportionate method
  - No = use segregated method in periods of deemed segregation

The new ECPI choice rules

To elect or not elect? That is the question….

- Where a fund is eligible to make a choice
  - it may materially impact ECPI if have significant and irregular income or/and capital gains
  - otherwise, the choice made may not materially impact ECPI
- Whether proportionate or segregated method is 'better' depends on timing of income.
- If significant income or/and capital gains incurred in a period…

…of deemed segregation

- Do not choose to apply proportionate method, select 'No'
- Under segregated method that income is 100% exempt

…with a non-retirement phase interest

- Choose to apply proportionate method, select 'Yes'
- Electing to treat periods of deemed segregation under the proportionate method will increase the exempt income % applying to the income

…of deemed segregation *and* in a period where have a non-retirement phase interest

- comparison of outcomes required

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Do you think you will need to run a comparison of ECPI outcomes for your clients?

ⓘ Start presenting to display the poll results on this slide.

Happy Days Super Fund – ECPI choice

Case study – Happy Days Super Fund

Howard: retiree aged 67

30/6/21 ABP balance = $1,486,240

- Monthly pension payments - $3,100
- Partial commutation $50k 1/3/22

30/6/21 bal in APRA fund = $7,180

Marion: working aged 64

30/6/21 Accumulation = $358,845

21/10/21 start ABP on 65th birthday

- Pension payment paid 28/6/22 - $6,400

Continues to work – employer contributions directed to APRA fund for insurance

- 30/6/21 balance in APRA fund = $3,650

Ritchie: working aged 41

10/2/22 joined fund with rollover of $294,580

Employer cont $1,375 paid into SMSF 28/4/22

Joanie: working aged 39

10/2/22 joined fund with rollover of $167,840

Employer cont $1,375 paid into SMSF 28/4/22

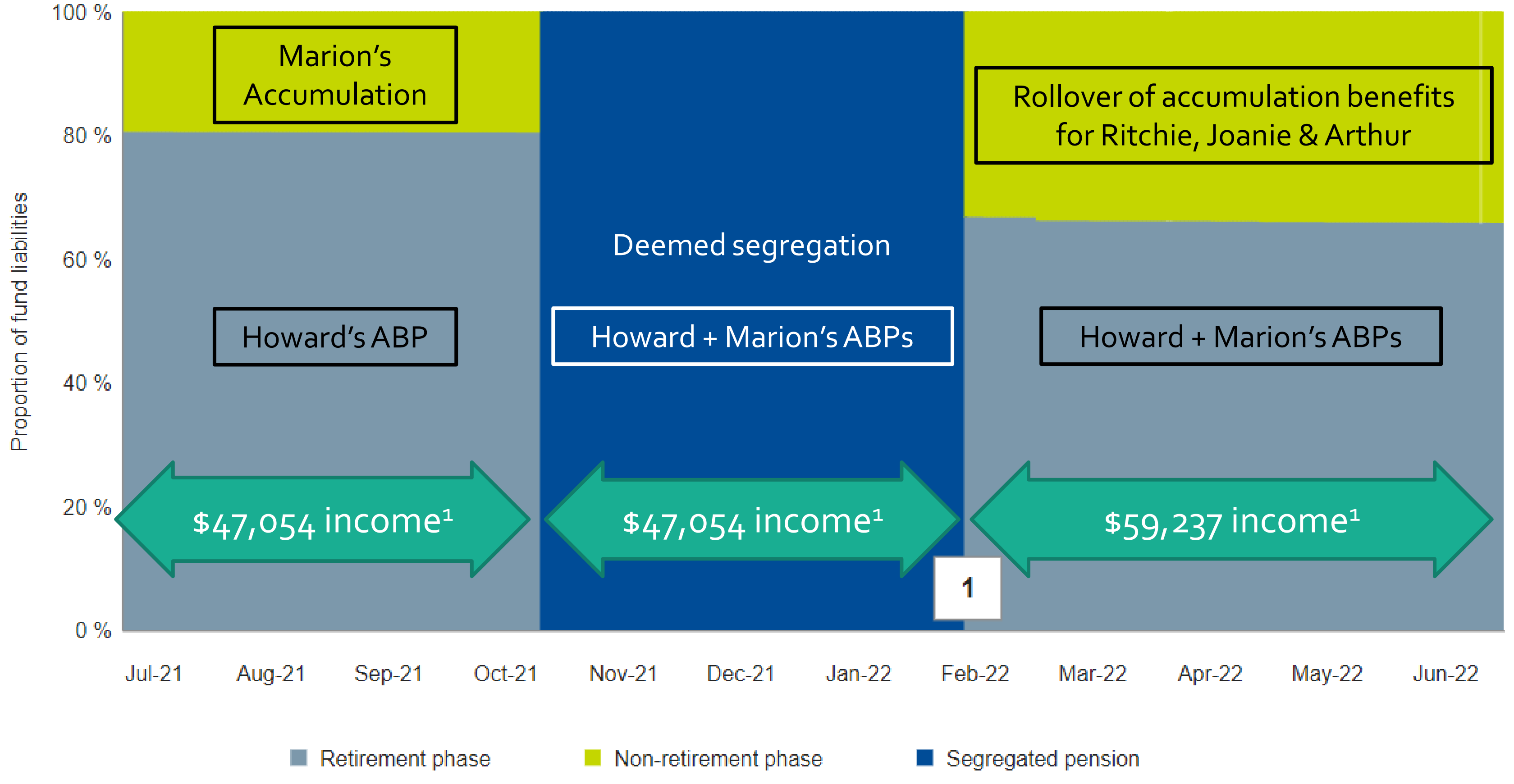
Arthur: working aged 43

10/2/22 joined fund with rollover of $494,380

Employer cont $3,750 paid into SMSF 28/4/22

Case study – Happy Days Super Fund

Illustration of fund liabilities for 2022



Fund is eligible to make a 'choice' for ECPI

Fund does not have DSFA

SMSF earning rate[1] for 2021-22 = 9.35%

Member balances at time of exiting deemed segregation period at 10 Feb 22:

- Howard: $1,545,079
- Marion: $379,731

1. Assessable portion of total income, excluding assessable contributions

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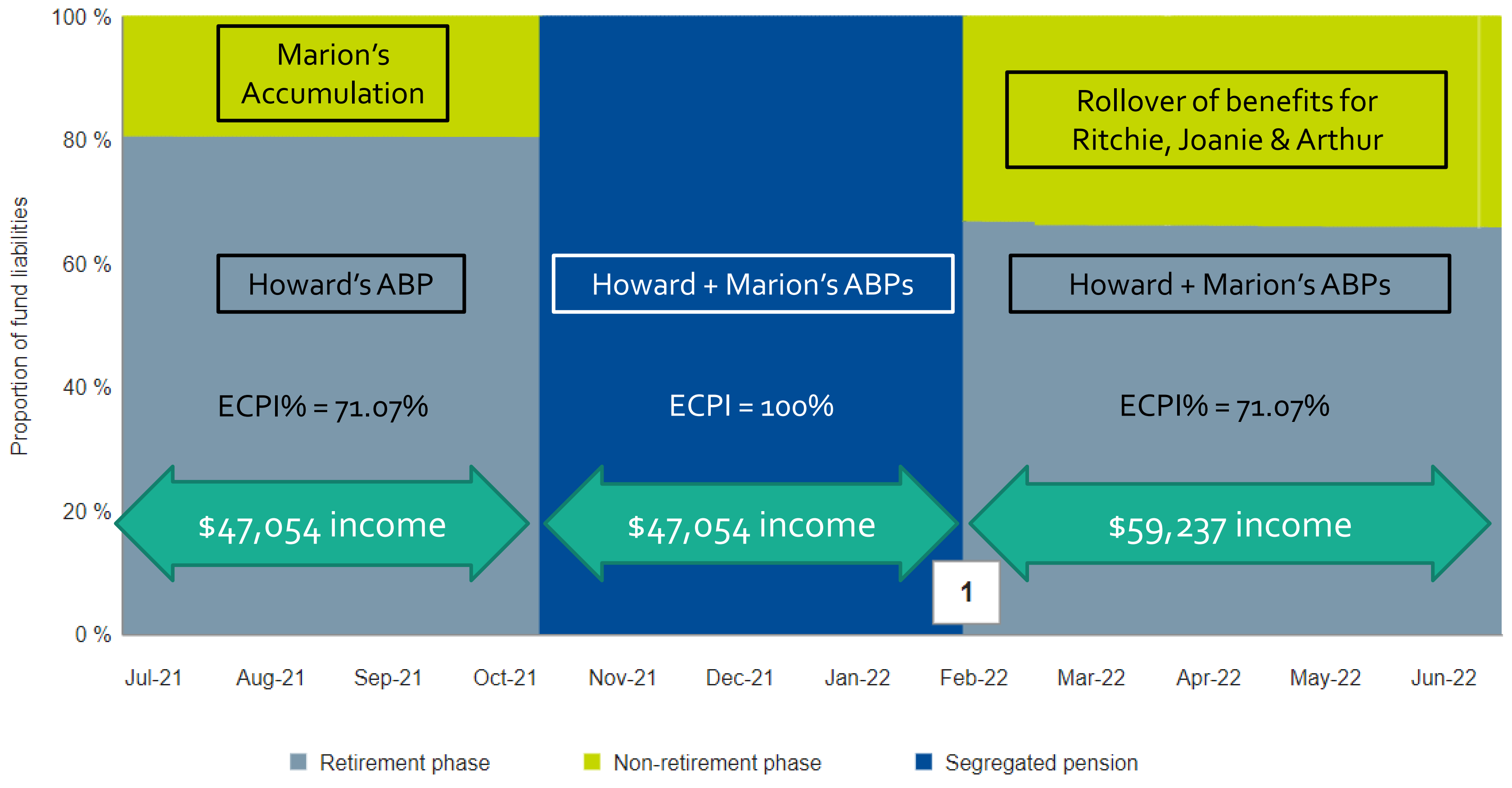
Choice to use proportionate method = "No"

Illustration of fund liabilities for 2022



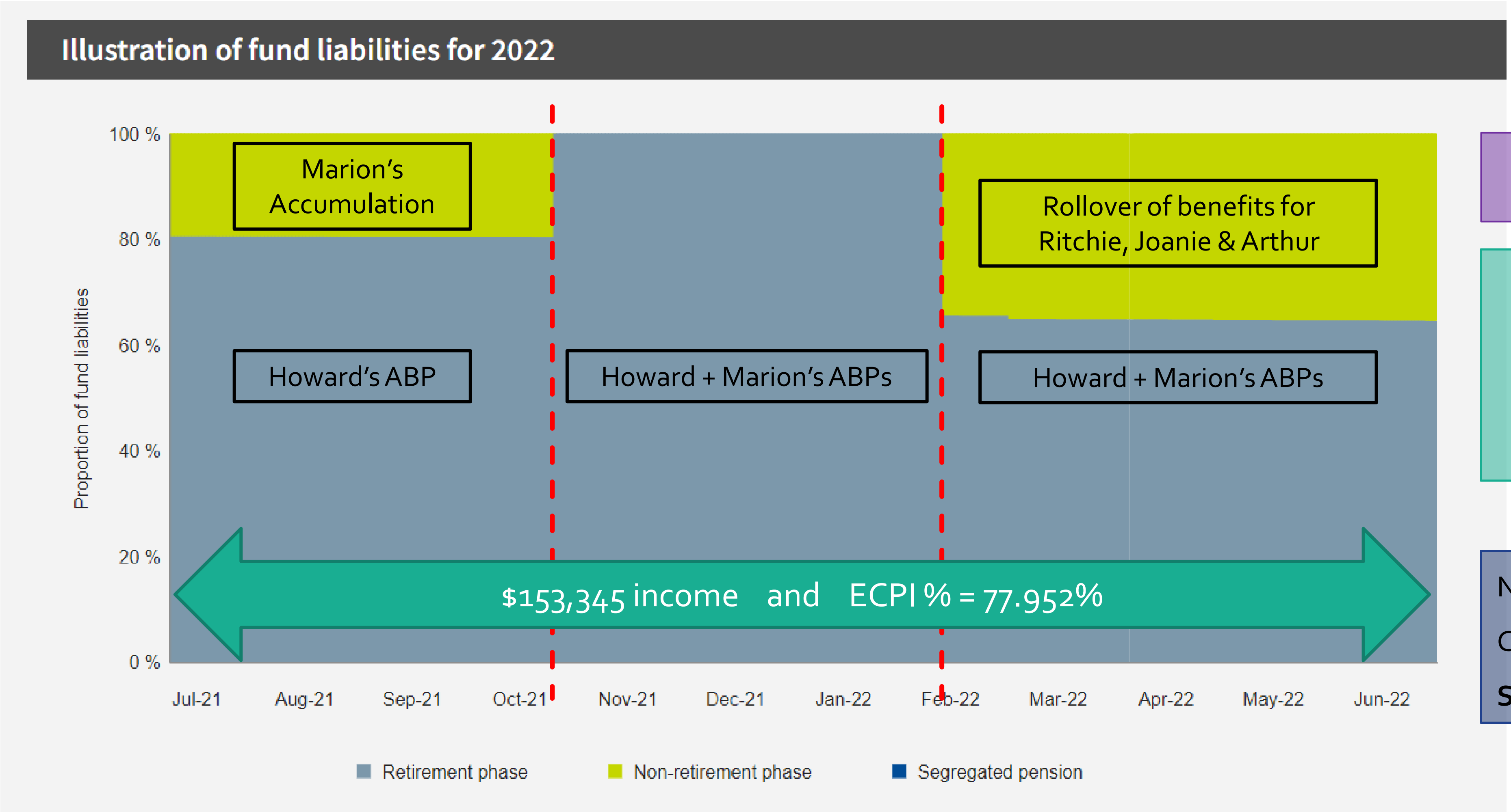
Fund does not choose to use the proportionate method on assets

ECPI for unsegregated periods:
($47,054 + $59,237) x 71.07% = $75,541

ECPI for period of deemed segregation:
= $47,054

Total ECPI = $122,595

Choice to use proportionate method = "Yes"



Fund chooses to use the proportionate method on assets

Proportionate method ECPI:
($47,054 + $47,054 + $59,237) x 77.952%

Total ECPI = $119,535

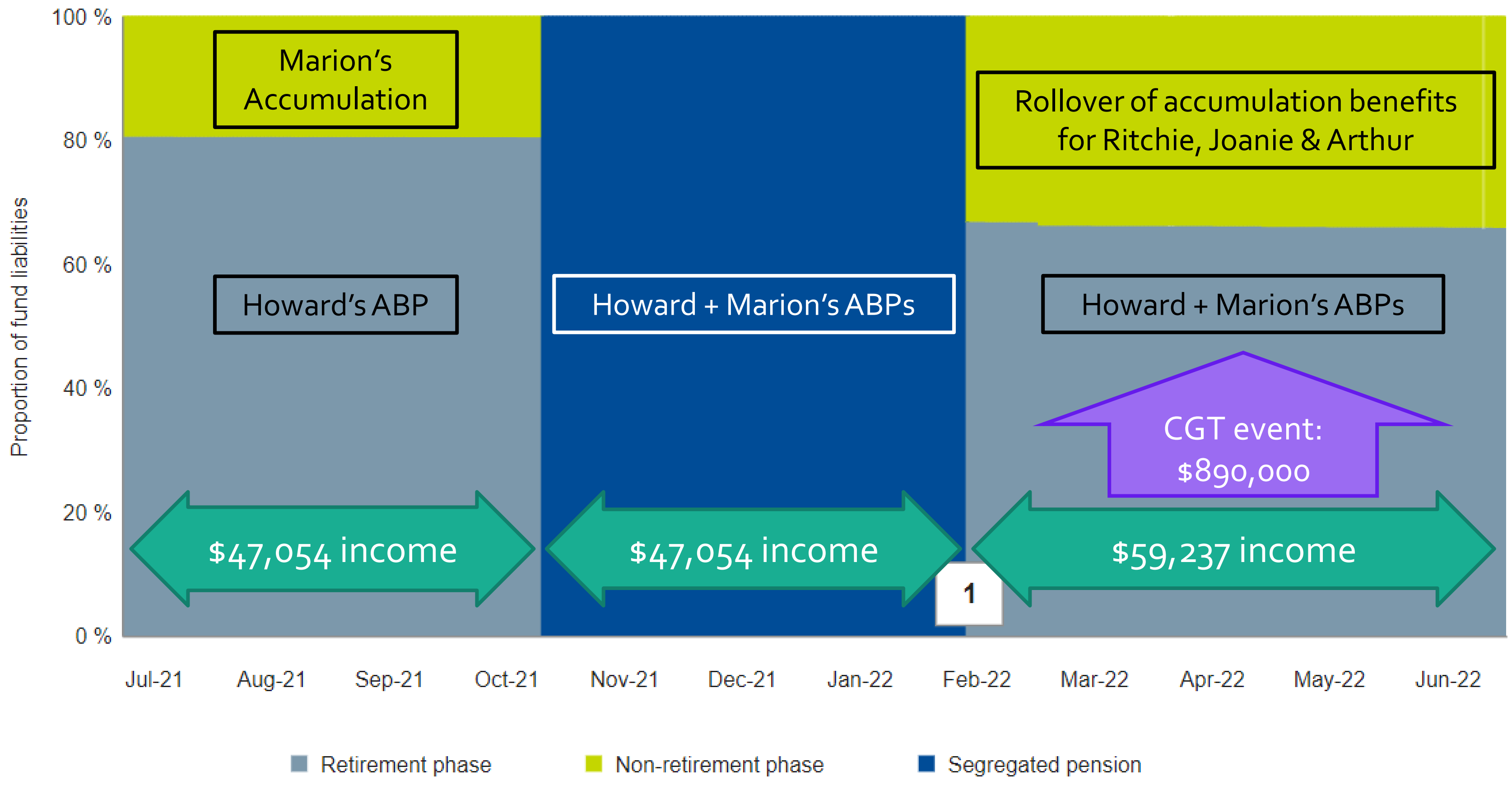
No choice made: ECPI = $122,595

Choice made: ECPI = $119,535

Similar ECPI outcomes

Case study – significant gain in unsegregated period

Illustration of fund liabilities for 2022



Choice = "No"

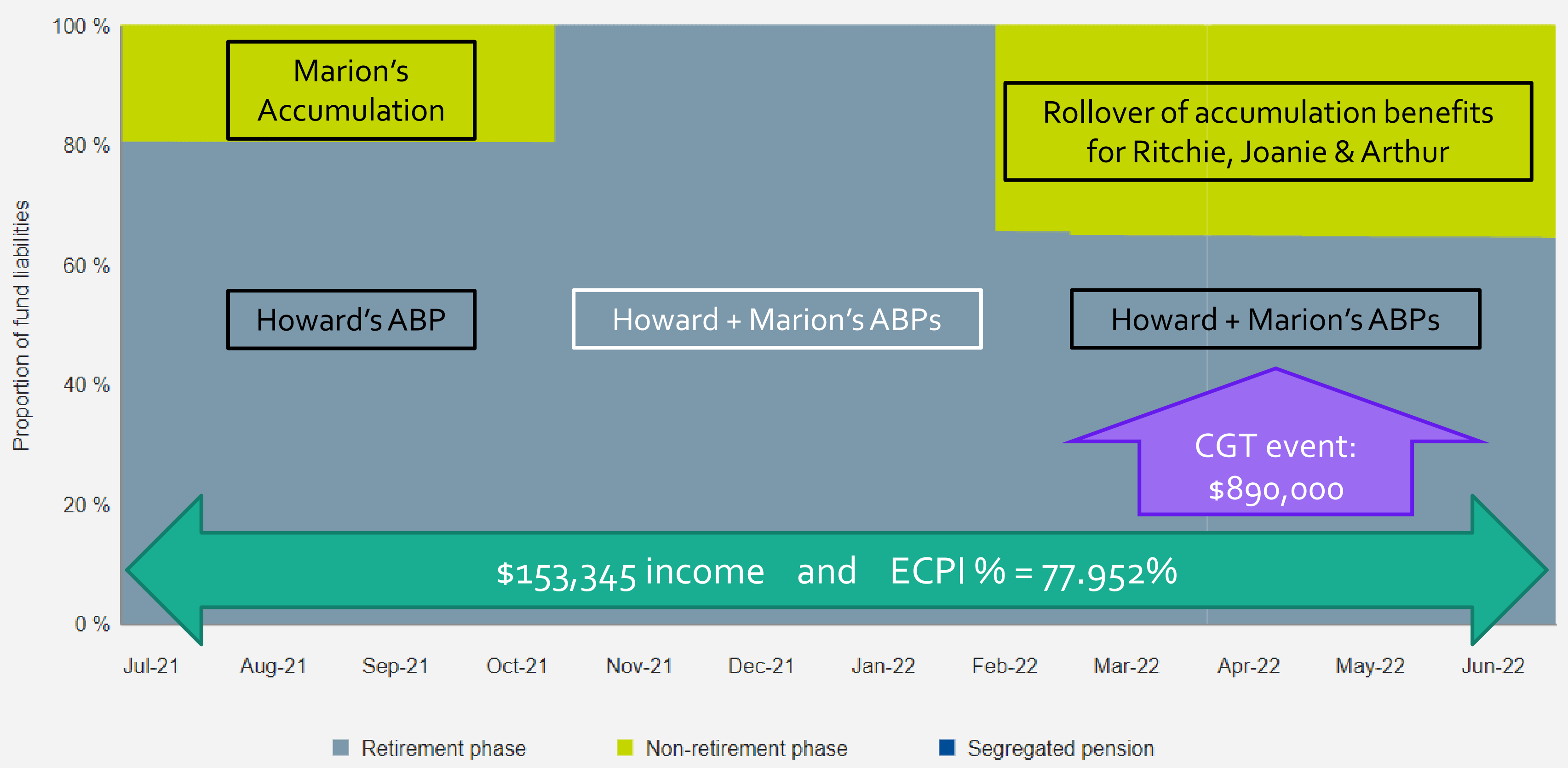
ECPI for unsegregated periods: ($47,054 + $59,237 + 2/3 x $890k) x 71.07% = $497,223

ECPI for period of deemed segregation: $47,054

Total ECPI = $544,277

Case study – significant gain in unsegregated period

Illustration of fund liabilities for 2022



Choice = "Yes"

ECPI for unsegregated periods:
($47,054 + $47,054 + $59,237 + 2/3 x $890k) x 77.952%

Total ECPI = $582,050

No choice made: ECPI = $544,277

Choice made: ECPI = $582,050

Choice "Yes" better ECPI outcome

Class Super

Accurium Actuarial Certificate Integration

What Class has implemented

- **Fund Policy**
  - **Election of ECPI Calculation Method** field will appear only for affected funds (switching from deemed segregated vs to unsegregated or vice versa) from 1 July 2021
  - You can select either Both or Proportional Method
- **Period Update & Exception Report**
  - Existing period update algorithm remain unchanged
  - Incorporate new warning messages for affected funds to update fund policy.
- **Actuarial Certificate & Tax Return**
  - Work with all the major actuarial providers to send the flag for Use Deemed Segregation (Y/N)
  - SMSF Annual Return will auto-populate the selected method to calculate ECPI

Key Takeaways for Class Users

Hints & Tips	No.	Details & Why
!	1	Update external super balance p.a. under Member > Contribution Caps
⚠	2	Only one fund policy for the year! (Best Practice is to have one fund policy per financial year, even if they are the same)
!	3	Review Exceptions Report for any warnings or errors
!	4	Use both options to compare for the best outcome: • Higher Actuarial Exempt % ≠ better tax outcome • Higher ECPI ≠ better tax outcome • Always compare net tax payable position • Plan investment disposal with large capital gains in deemed segregated period
!	5	Review Fund Expense (Pension Exemption) % based on the new ECPI methodology


Q&A

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Audience Q&A Session

ⓘ Start presenting to display the audience questions on this slide.

In closing

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Tel: 1800 203 123 or

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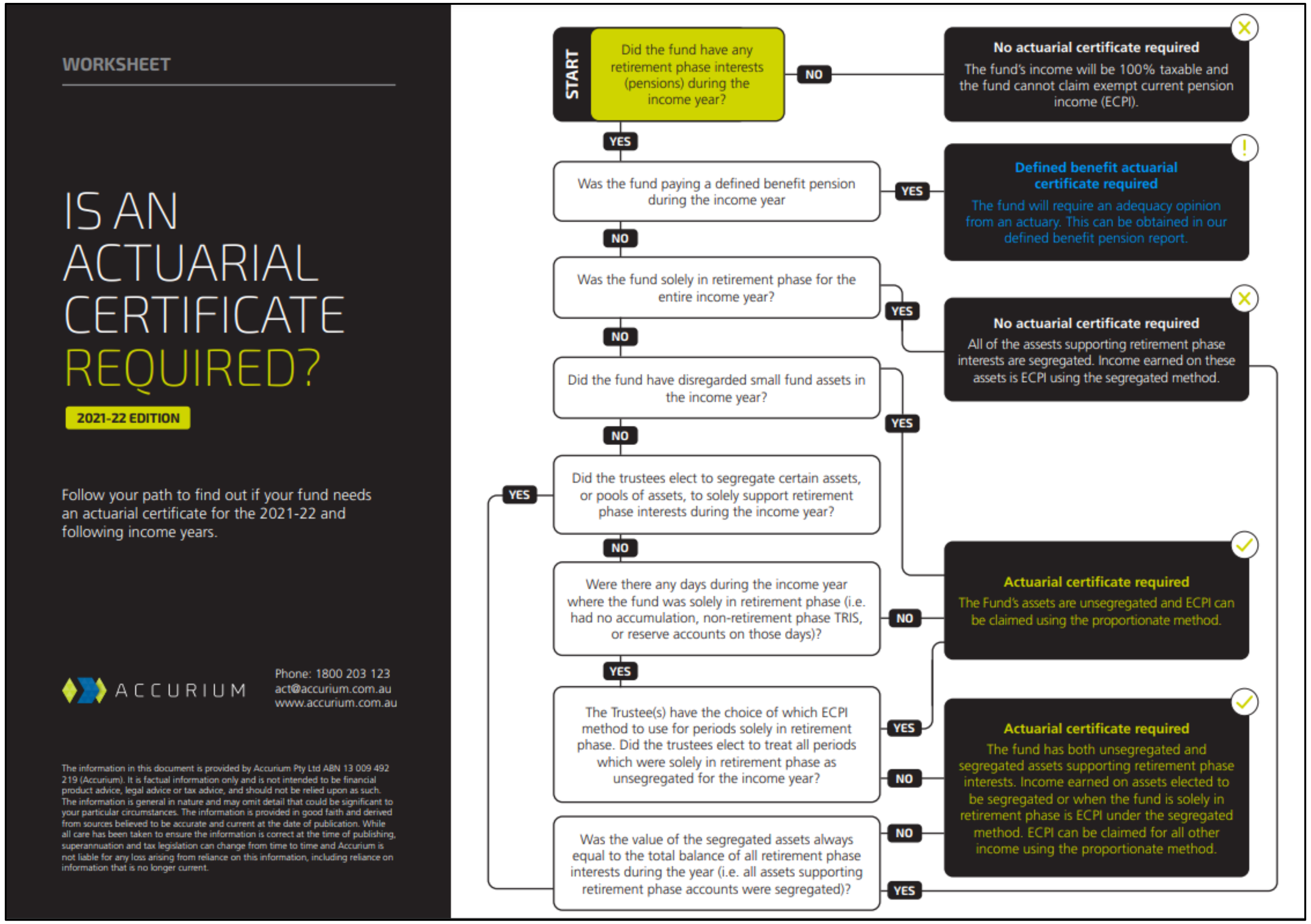
WORKSHEET

IS AN ACTUARIAL CERTIFICATE REQUIRED?

2021-22 EDITION

Follow your path to find out if your fund needs an actuarial certificate for the 2021-22 and following income years.

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