Actuarial certificates for ECPI through Class

Q1) What are the tax implications for electing to apply the choice to use the proportionate method for ECPI for the entire year versus using the deemed segregation method for ECPI?

The default position for a fund claiming ECPI is that any period of deemed segregation will use the segregated method to claim ECPI in that period and the fund may claim ECPI on income earned at other times where there was a non-retirement phase account using the proportion method by obtaining an actuarial certificate.

From the 2021- 22 income year an SMSF which has periods of deemed segregation may elect to treat all assets of the fund as if they were not segregated pension assets, and so use the proportionate method to claim ECPI on income for the whole income year.

Whether the deemed segregated approach, or the proportionate method approach, will provide the better tax outcomes depends on the timing of when income was received in the year.

- Where income is earned approximately uniformly over the year the SMSF s tax outcomes may be similar under either approach. Tax outcomes may be most impacted where there is significant and lumpy income, capital gains or losses incurred in the year. If this is the case, then a general rule of thumb may be that
- If the significant income was incurred in periods of deemed segregation, then not applying the choice to use the proportionate method may maximise ECPI.
- If the significant income was incurred in periods where there was a non-retirement phase account, then choosing to apply the choice to use the proportionate method may maximise ECPI.
- If there was a significant capital loss incurred in periods of deemed segregation, then choosing to apply the choice may allow a net capital loss to be carried forward under the proportionate method.
- If there was significant gains or losses incurred in periods of deemed segregation and in periods where there was a non-retirement phase account, then a comparison of outcomes under each method may be required to determine which will maximise the funds ECPI.

Q2) Will the actuarial certificate include a comparison of ECPI choice outcomes? If not will we need to pay for a second actuarial certificate to compare the tax outcomes or can we do a comparison through doing an amendment on Accurium?

You can view the impact the ECPI method choice has on the exempt income proportion by toggling the ECPI choice question within the actuarial certificate form. his can be done without paying for two actuarial certificates

- You can proceed to the draft result to view the exempt income proportion for one ECPI choice option, and then go back into the form and select the other ECPI choice option to see the impact on the draft exempt income proportion or
- You can submit an application using one option for ECPI choice, and then submit a free amendment selecting the other ECPI choice option.

What is easily achievable within the software platforms is to compare the ECPI outcomes by applying for the actuarial certificate using the default method where no choice is exercised, and then compare that outcome to that achieved if you apply for the actuarial certificate where you do exercise the choice to use the proportionate method for the income year. You can utilise the draft actuarial percentages, or if you submit the application to us, we offer free amendments, allowing you to submit the fund again to view an alternate calculation. Please refer to the webinar recording to see how this can be achieved within your software platform.

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Q3) Why was the choice for how to calculate ECPI not provided in the previous financial years 2021 financial years and before ?

From the 2017-18 financial year to the 2020-21financial year SMSFs claiming ECPI where there was a period of deemed segregation a period when the fund was solely supporting retirement phase liabilities, the fund must claim ECPI in that period using the segregated method, and to claim ECPI in other periods would use the proportionate method. The exception was if the fund had disregarded small fund assets, in which case the fund must use the proportionate method to claim ECPI for the entire income year.

A legislative change was made in the treasury Laws Amendment Enhancing Superannuation Outcomes for Australians and helping Australian businesses Invest Bill2021 which amended section 295-385 ITAA so that SMSF trustees can choose to treat all of the funds' assets as not being segregated current pension assets for an income year. These new rules apply from the 2021-22 income year and provide SMSF trustees with the choice to use the proportionate method to claim ECPI on all fund assets, when some assets would otherwise be deemed to be segregated pension assets.

A recent blog we wrote explaining the new ECPI choice rules can be accessed here Changes to the ECPI calculation method - Accurium

Q4) Client starts ABP only of $1.6 million at 1/07/2017. His balance has now gone to $1.65 million (even after pensions). Is an actuarial certificate required using the proportionate method?

The transfer balance cap rules impose a limit on how much can be moved into the retirement phase of superannuation. Once a retirement phase pension is commenced it can grow or reduce with earnings over time and this will not impact the member s transfer balance account or the pension s retirement phase status.

If an SMSF only has retirement phase accounts (e.g. an account-based pension) over an entire income year and any member had a total superannuation balance of more than $1.6 million at the prior 30 June then for income years 2017-18 to 2020-21 the fund would meet the definition of disregarded small fund assets and so would require an actuarial certificate to claim ECPI, however the actuarial exempt income proportion would be exempt.

For a fund solely in retirement phase from the 2021-22 income year a legislative change to the definition of disregarded small fund assets means the member balances no longer matter, the fund can claim ECPI using the segregated method and an actuarial certificate will not be required to claim ECPI.

This handy flow chart for when an actuarial certificate is required might be useful Is-an-actuarial-certificate-required-flow-chart.pdf accurium.com.au

Q5) If sole member fund has balance of $1.8million in pension at 1 July 2021 and then a deductible contribution is made on 30 June 2022 what are the implications for ECPI and the actuarial certificate?

If we consider an SMSF with $1.8 million in retirement phase at 1 July 2021 then an initial assumption is that the pension was commenced prior to 1 July 2021 and has subsequently grown to $1.8 million as the general transfer balance cap is currently $1.7 million and so the member could not commence a retirement phase pension on 1 July 2021 for $1.8million.

A single member SMSF with $1.8 million in retirement phase at 1 July 2021 and which remains solely in retirement phase for the 2021- 22 income year would claim ECPI using the segregated method.

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Q5 cont.) If sole member fund has balance of $1.8million in pension at 1 July 2021 and then a deductible contribution is made on 30 June 2022 what are the implications for ECPI and the actuarial certificate?

However, as a contribution was received on 30 June 2022 the fund was not solely in retirement phase for the entire income year and therefore would be deemed to have disregarded small fund assets.

As the SMSF had disregarded small fund assets in the 2021-22 year, even though it was solely retirement phase for most of the income year, the fund must use the proportionate method and obtain an actuarial certificate to claim ECPI in that year.

Q6) Could you please explain when a fund will have disregarded small fund assets?

We have a flowchart which you can download on our website which explains when a fund will have disregarded small fund assets DSFA , and is a great resource to keep on hand does-yourfund-have-disregards-small-fund-assets.pdf accurium.com.au

It is important to remember that a funds DSFA status can change each year, and if a fund has DSFA it must use the proportionate method and obtain an actuarial certificate to claim ECPI in that year.

Q7) How do roll-overs out of the SMSF affect ECPI?

How a roll-over out of the SMSF will impact the proportion of income which can be claimed as ECPI depends on whether retirement phase or non-retirement phase monies are moving out of the SMSF, and the method used to claim ECPI.

All else equal, if using the proportionate method to claim ECPI, a roll-over out of the SMSF of a

- retirement phase balance, e.g. account-based pension, will reduce the actuarial exempt income proportion, and so the proportion of income claimed as ECPI will decrease

- non-retirement phase balance, e.g. accumulation, will increase the actuarial exempt income proportion, and so the proportion of income claimed as ECPI will increase

If the fund is using the segregated method to claim ECPI over the whole year, then a roll-over of retirement phase balances out of the SMSF will not impact the proportion of income claimed as ECPI, all relevant income will continue to be claimed as ECPI.

If the fund is using both the proportionate and segregated method to claim ECPI then when the segregated periods occurred in the year, and when the rollover occurred, will influence its impact on the proportion of income claimed as ECPI.

Q8) Can we use the Actuarial Method and TR93/1 method at the same time to claim a deduction on SMSF expenses?

When claiming a deduction for expenses in the SMSF it is important the method used to claim the deduction on expenses which need to be apportioned is fair and reasonable based on claiming a deduction to the extent the expense was incurred in producing assessable income.

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Q8 cont.) Can we use the Actuarial Method and TR93/71 method at the same time to claim a deduction on SMSF expenses?

As There is no prescribed method for apportioning expenses however two common approaches are

- the Actuarial method which claims a deduction based on 1 – actuarial exempt income proportion
- the TR 93/17 method (also known as income ratio method) which claims a deduction based on the total assessable income / total income where income includes assessable contributions and rollovers

A fund may use both these methods in an income year where it is fair and reasonable to do so. For example, non-capital expenditure incurred in gaining or producing investment income (e.g. rental income on an investment property) may use the actuarial method, whereas the TR 93/17 or income ratio method may be used for general administrative expenses (e.g. accounting and audit costs) relevant to the operation of the fund as a whole. In practice if the fund has received contributions or rollovers the TR 93/17 method may give a higher deduction for general administrative expenses and this may mean the fund is using both the actuarial and TR 93/17 methods based on what is a fair and reasonable method for non-capital expenditure vs general administrative expenses.

The following article from the TechHub may be useful to further understand the deductibility of fund expenses: Beware of the effect of ECPI on deductions - Accurium

Q9) Do we need to get an actuarial certificate if a fund is in a full pension phase and one member reached over $1.7m TSB and the other one has defined benefit income stream?

Yes an actuarial certificate will be required. Any SMSF which has a defined benefit income stream (also known as a life expectancy or lifetime pension) will require an actuarial certificate which provides an actuary's adequacy statement of opinion, as well as the exempt income proportion calculation.

These defined benefit pension actuarial certificates cannot be applied for through the software platforms. The actuarial certificate form for SMSFs with these pensions can be found on our website here: Defined benefit pensions - Accurium

SMSFs which include legacy defined benefit pensions can face difficulties maximising ECPI when the defined benefit pensions expire or the pensioner passes away, due to any remaining assets moving to an unallocated reserve in the fund. To find out more about your options for dealing with legacy pensions view our recent workshop here: Dealing with legacy pensions in an SMSF – an uncommon common problem - Accurium.

Q10) Can you withdraw minimum pension payments from a member's accumulation balance?

No. A minimum pension payment must be cashed each year for each pension account in the SMSF in order to comply with the relevant pension standards. The cashing requirements mean the pension payment must be cashed (i.e. paid) from the pension account in order to meet the pension standards. As a general rule, a benefit is cashed when the member receives an amount and the member's benefits in the SMSF are reduced. A journal entry, or a payment from an accumulation account, will not count as a pension payment.

Where the minimum pension standards are not met (i.e. a minimum payment is not cashed from each pension account) the fund may lose the ability to claim ECPI. The repercussions and options available should the minimum payments not be met are further discussed in our TechHub article: Options for a shortfall in the minimum pension for an ABP - Accurium.

Actuarial certificates for ECPI through Class

Q10 cont.) Can you withdraw minimum pension payments from a member's accumulation balance?

For a deeper dive into the rules for paying a pension from an SMSF you can access our recent webclass on that topic here: Paying a pension from an SMSF - Accurium.

Q11) When you apply for a certificate from Accurium using a platform (e.g. BGL, Class, Supermate), is the application able to be viewed alongside applications from previous years entered manually on the Accurium website?

Yes. If you applied for the certificates through the same Accurium login then irrespective of whether you ordered the certificate via a platform, or directly through our website, the application and certificate history will be available to view in your Accurium dashboard.

Q12) We have found that Class does not include any depreciation amounts as deductible when the fund is partly in pension phase, is that correct?

The depreciation amounts, more specifically Capital Allowance and Capital Work Deduction items, will be reduced by the actuarial exempt income proportion. For example, if the capital allowance is $1,000, and the actuarial percentage = 80%, then Class will claim $200 deductions under the Capital Allowance and $800 as a non-deductible portion.

Q13) If you don't do a period end prior to a partial commutation lump sum, the member taking a lump sum does not get their full share of income prior to the lump sum being taken.

The member's daily weighted average balance will automatically take into account any lump sum payments / partial commutations. If the lump sum payment / partial commutation amount is small compared to the overall pension balance, and there is enough liquidity to meet the payment then the period update is not required, only optional. For example, a $50,000 commutation/lump sum payment from a $1M pension balance.
A Period Update is warranted, however, if you are doing a substantial amount (>50%) as a commutation/lump sum payment, where an updated valuation is necessary, and/or sale of investments is required to provide liquidity (i.e. cash amount).

Q14) Does registering for GST part way through the year affect this when put in as a new fund policy?

GST registration is the only exception where you can have multiple fund policies in Class for a given financial year. Apart from GST, the rest of fund policy attributes should be identical to ensure the correct calculation.

Q15) What if we are currently using a different actuarial provider? I am assuming the choice made in the fund tax policy window in Class will also flow through to other systems?

Yes, that's correct. Class has updated the payload to support this choice and integration with all actuarial providers: Accurium, Act2, Heffron, Lime, Verus, ASAP, Haintz.

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