



Changes to Exempt Current Pension Income

Agenda

- i. Transition to retirement income streams
- ii. Elected Segregation Vs Deemed Segregation
- iii. Actuarial Certificate case studies
- iv. Integration between Simple Fund 360 and Accurium.

Available on demand: <https://community.bglcorp.com>

Transition to retirement income Streams



TRIS: retirement phase status

- Lost tax exempt status at 1 July 2017
- A 'non-retirement phase' TRIS
 - Will not count towards claiming ECPI, earnings taxed at maximum of 15%
 - Will not raise a TBA credit at 1 July 2017 or upon commencement nor other TBAR events
 - Still an income stream = must make minimum pension payments
- TRIS will commence being in tax free 'retirement phase'
 - Automatically upon attaining age 65
 - Once trustee is notified pensioner has satisfied a condition of release with nil cashing restriction
 - Account balance credit for member's TBA, and will need to lodge TBAR
 - Eligible to count towards claiming ECPI, tax free earnings

TRIS: retirement phase TRIS is not an ABP

- Pension is still a TRIS not an ABP
 - ATO view is law does not facilitate 'auto conversion' of TRIS to an ABP
- ATO view that law does provide that once nil cashing restriction condition of release met
 - Limitation of 10% max payment no longer applies
 - Commutation restrictions no longer apply
 - Can make lump sums (would need to report for TBAR and won't count towards mins)
- If return to work under age 65 existing TRIS remains in retirement phase
- Be aware of:
 - Rules written into Fund documentation e.g. pension documentation might limit payments to 10%
 - Implications if cease TRIS and re-start as ABP e.g. might impact tax components

TRIS: payment upon death

- Non-reversionary TRIS
 - Paid as death benefit income stream = retirement phase ABP
 - TBA credit of account balance at time death benefit income stream commences
- Reversionary TRIS
 - Paid as a retirement phase TRIS to beneficiary
 - TBA credit of account balance at date of death in 12 months time
 - Current rules: beneficiary can accept reversionary income stream only if have met condition of release, if not need to cease and take as death benefit income stream/lump sum

TRIS: fixing issue with reversionary TRIS

- Treasury Laws Amendment (2018 Measures No. 4) Bill 2018
 - Beneficiary can accept reversionary income stream even if have not met a condition of release
 - Will apply retrospectively from 1 July 2017
 - Currently with Senate
- TBAR of reversionary TRIS where beneficiary has not met condition of release
 - ATO aware of current 'gap' between how a fund would need to administrate and report a reversionary TRIS upon death of primary pensioner
 - Need to apply law as currently stands but would review on case by case basis
 - Will not be applying compliance resources to review funds with reversionary TRIS

Elected segregation vs deemed segregation



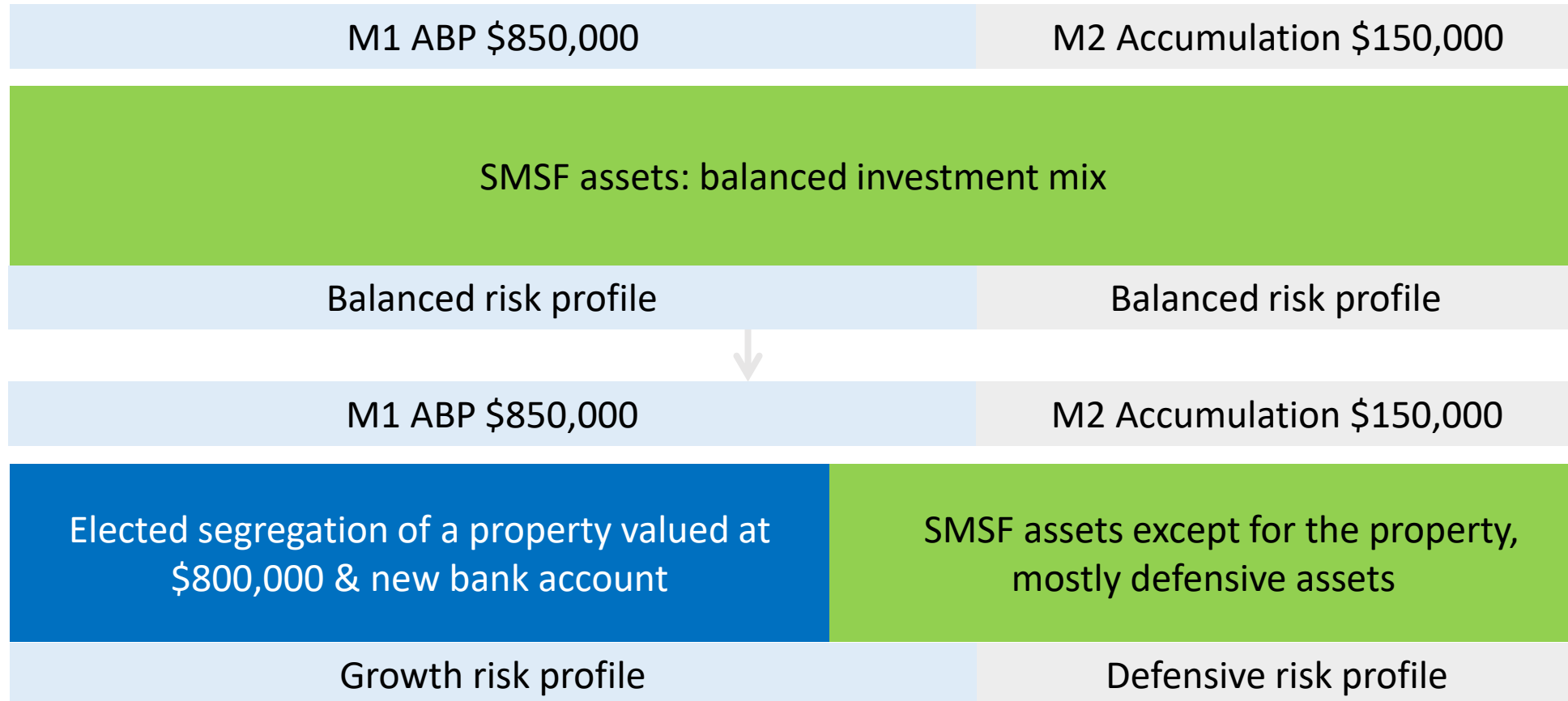
Segregated pension assets

- Claim ECPI under section 295.385 of ITAA 1997
 - Don't need an actuarial certificate
 - Income on segregated assets is exempt current pension income
 - Capital gains/losses disregarded
- Segregated pension assets are those solely supporting retirement phase liabilities
- Two types:
 - Elected segregation
 - Deemed segregation

Elected segregation for tax purposes

- Electing for an asset or pool of assets to support a retirement phase income stream
 - Cannot segregate part of an asset
 - May need notional sub-accounts where asset earns income to maintain segregation
 - Claim ECPI on earnings using segregated method
- Document in Fund's investment strategy have segregated for tax purposes
 - Implications for member risk profiles
 - Liquidity considerations to meet minimum pension standards
- Can have segregation for investment purposes but treat fund as unsegregated for tax purposes

Elected segregation example



Elected segregation example

M1 ABP \$850,000

M2 Accumulation \$150,000

Elected segregation of a property valued at \$800,000 & new bank account

SMSF assets except for the property, mostly defensive assets

- M1 pays minimum pension payment of \$42,500...

M1 ABP \$807,500

M2 Accumulation \$150,000

Elected segregation of a property valued at \$800,000 & new bank account

SMSF assets except for the property, mostly defensive assets

- M1 now only has \$7,500 in assets that are not assets elected as segregated... could face liquidity issues

Elected segregation example

M1 ABP \$807,500

M2 Accumulation \$150,000

Elected segregation of a property valued at \$800,000 & new bank account

SMSF assets except for the property, mostly defensive assets

- M1 takes payment of \$15,000...

M1 ABP \$792,500

M2 Accumulation \$150,000

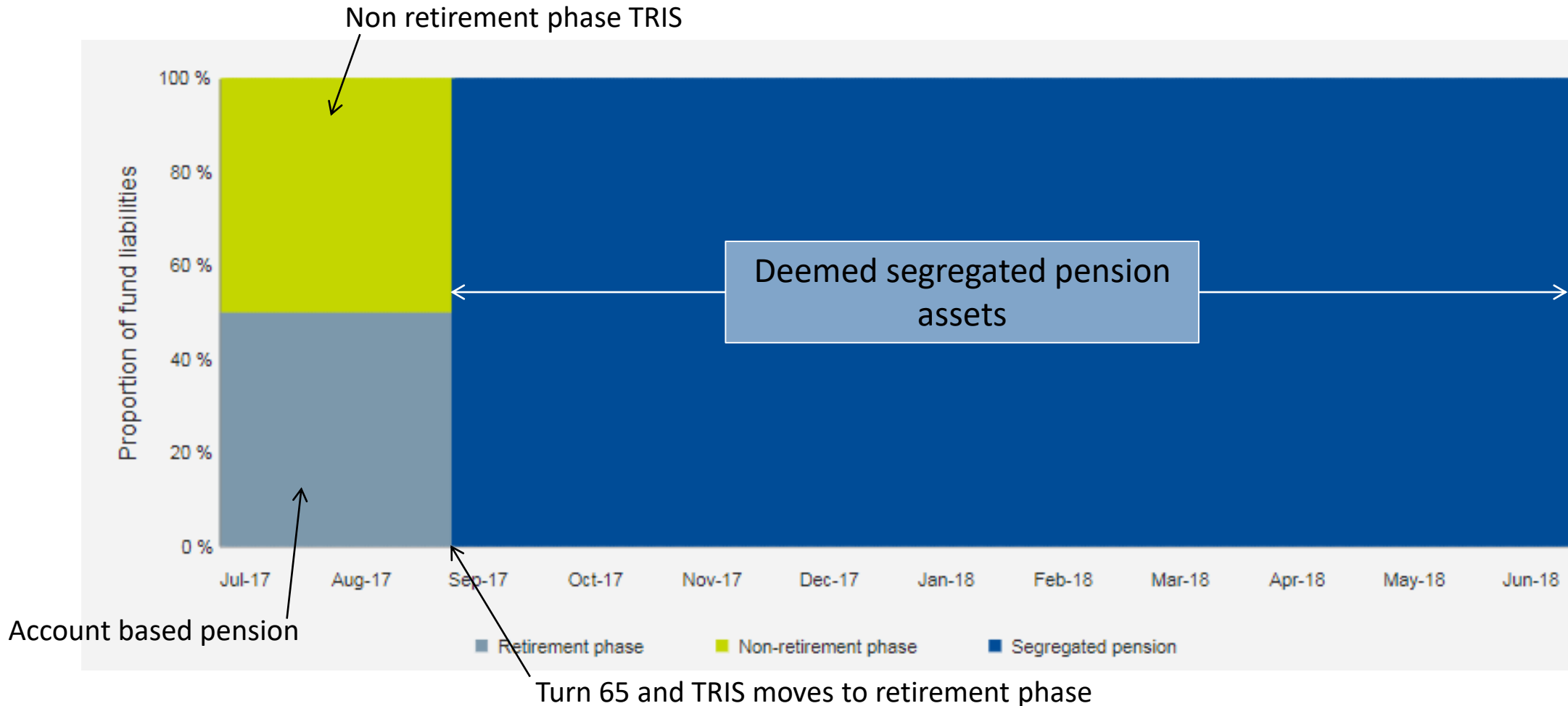
SMSF assets: balanced investment mix

- Segregated asset exceeds account to which attributed = asset no longer segregated

Deemed segregation

- If SMSF solely supporting retirement phase accounts at a time in the year then must use the segregated method to claim ECPI in those periods
 - Can have multiple deemed segregation periods in a financial year
- Prior to 1 July 2017
 - ATO will not review calculations of ECPI where used proportionate method over entire year even if had periods where fund was solely in pension during the year
- No choice from 2017/18
 - Must use segregated method in periods where fund solely in retirement phase
 - Must use proportionate method where had assets which were not segregated

Illustration of deemed segregation



What if there was an accumulation account

- Sometimes a Fund can have a momentary accumulation balance in the year:
 - Commenced a pension on 1 July with entire accumulation balance
 - Received a contribution and immediately commenced a pension
 - Completed a partial commutation and immediately withdrew the amount from accumulation
- ATO view: is a matter of evidence as to whether require actuarial certificate for when had accumulation
 - If no income earned whilst fund had the accumulation balance no actuarial certificate required, can use deemed segregated method for entire year's income
- Example: a minute that ABP commenced immediately upon receipt of contribution, with entire balance = evidence no income was earned when fund had a balance in accumulation phase

Assets which are not segregated

- Claim ECPI under section 295.390 of ITAA 1997
 - Actuarial certificate required if want to claim ECPI (optional)
 - Certificate is for a full income year and excludes segregated pension assets
 - Exempt income proportion applies to assessable income and net capital gains earned on assets which were not segregated assets
- Assets are not segregated
 - On any day assets support retirement phase and non-retirement phase
 - Where a fund is solely in accumulation phase
 - Over the entire financial year if a fund has **disregarded small fund assets**

Disregarded small fund assets

- New annual assessment each 30 June for how must claim ECPI in the next year
 - Also applies in first year of the SMSF
- SMSF will have disregarded small fund assets for the next financial year if:
 - At 30 June a member was in retirement phase and had at least \$1.6m TSB
 - In next financial year the SMSF has a member in retirement phase at any time
- Cannot have elected or deemed segregation for tax purposes
- Applies to 2017-18 financial years onwards
- Where an SMSF only has retirement phase income streams but TSB of a member grows above \$1.6m will need an actuarial certificate to claim ECPI

Actuarial certificate case studies



Case Study 1 – Account-based Pension

1st July, a fund has 1 member who has an account based pension and an accumulation interest. The member's Total Super Balance (TSB) exceeds 1.6 million. What options are available to calculate ECPI?

2017 and prior treatment	2018 FY Treatment
<ul style="list-style-type: none">•Unsegregated method - Fund could apply for an Actuarial Certificate. Tax Exempt proportion determined by the Actuary for entire financial year.•Segregated Method - The Fund could have elected to segregate assets.	<ul style="list-style-type: none">•Unsegregated method - Fund can apply for an Actuarial Certificate.

Case Study 2: Transition to Retirement

1st July, The Johnson Super Fund has 1 member who has a Transition to Retirement Income Stream (TRIS) and another fund member in accumulation phase, No fund assets have been segregated. What options are available to calculate ECPI?

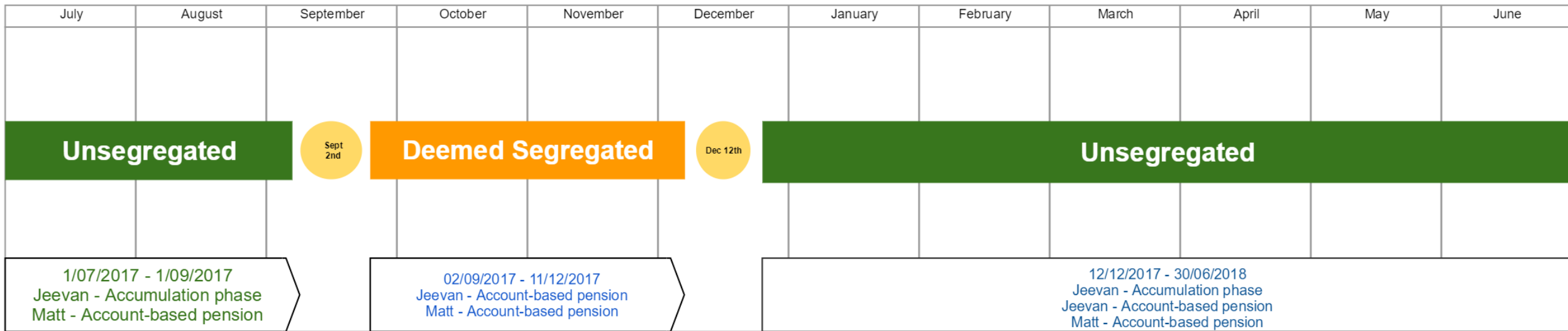
2017 and prior treatment

Unsegregated method using the Tax Exempt proportion determined by the Actuary for entire financial year.

2018 FY Treatment

- No Actuarial Certificate required.
- Fund not able to claim a tax exemption for ECPI.

Case Study 3: Deemed Segregation



Case Study 3: Deemed Segregation

2017 and prior treatment	2018 FY Treatment
<ul style="list-style-type: none">•Actuarial Certificate would be obtained•Unsegregated method using the Tax Exempt Proportion determined by the Actuary for entire financial year.	<ul style="list-style-type: none">•Actuarial Certificate will be obtained.•Unsegregated method using the Tax Exempt proportion determined by the Actuary is applied for the following segments<ul style="list-style-type: none">• 01/07 – 01/09 and 12/12 -30/06 <p>For the period 02 Sept – 11 Dec the fund will be deemed to be segregated for tax purposes only.</p>

Integration: Simple Fund 360 and Accurium



A C C U R I U M

What to look out for...

- 2017-18 financial years onwards will allow for deemed segregation rules
- All fund data will pre-fill onto the Accurium actuarial certificate application form
- Data feeds rely on you having correctly entered all fund transactions and events in BGL 360 prior to applying for the actuarial certificate
 - Important to put all transactions on their actual dates
 - Check whether the fund has disregarded small fund assets to answer segregation eligibility question
- Check periods of deemed segregation align with your expectation of when the fund was solely in retirement
- Can enter additional comments if your fund has unusual circumstances or to provide detail of elected segregation of fund assets

Case study 3: deemed segregation

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INPUT

SEGREGATION

REVIEW

PAYMENT

COMPLETION

Order details

Office details

BGLCORP
11054355243

Phone number

04 01046539

Email certificate to

ACOSTA@BGLCORP.COM.AU

Postal address

606-608 Hawthorn Road
East Brighton VIC 3187

EDIT

Additional recipient (optional)

Financial year ⁱ

2017/18

Number of members ⁱ

2

Does the Fund have a [reserve account](#)? ⁱ

No Yes

Did the Fund commence in the financial year? ⁱ

No Yes

Did the Fund wind up in the financial year? ⁱ

No Yes

Were there any assets which produced [non-arm's length income](#)? ⁱ

No Yes

Did the Fund have any [TRIS](#) (retirement phase or non-retirement phase) accounts? ⁱ

No Yes

Did the Fund receive any insurance proceeds during the financial year? ⁱ

No Yes

Can you use the [segregated method](#) for this Fund in this financial year? ⁱ

No Yes

Was there any [elected segregation](#) of fund assets? ⁱ

No Yes

- This Fund does NOT have disregarded small fund assets and is 'eligible' to use the segregated method.
- There was no elected segregation for tax purposes maintained by the Fund as part of their investment strategy.

Fund member details



Member 1

Member 2

First name ⁱ

Jeevan

Matt

Last name ⁱ

Hockey

Coughs

Opening balances

	Jeevan Hockey	Matt Coughs
Accumulation	\$ 454000	\$ 0
Account-based pension	\$ 0	\$ 325000

Total Fund opening balance

Internal transfers are a new section showing pension commencements, full and partial commutations, TRIS conversions, death benefit or reversionary pensions

Internal transfers

Date	Type	From account	To account	Amount	Amount left over
02/09/2017	Pension commencement	Member 1 (ACC)	Member 1 (ABP)	\$ 457038.07	\$ 0



Accumulation accounts

Non-concessional contributions

Date	Jeevan Hockey	Matt Coughs	
12/12/2017	\$ 50000	\$ 0	+ -
Total	\$50,000.00	\$0.00	1 +

Concessional contributions

Transfers / rollovers in



Account-based pension

Pension payments



Date

Jeevan Hockey

Matt Coughs

02/07/2017

\$ 0

\$ 10000



15/12/2017

\$ 10000

\$ 0



21/06/2018

\$ 10000

\$ 10000



Total

\$20,000.00

\$20,000.00

1 +

Lump sum payments



Closing balance



Closing fund balance (before income tax)

\$ 794865

Each retirement phase income stream will have a pension payments and lump sum section. We assume items in the pension payments section count towards the minimum pension standards, but those entered under lump sums do not.

Comments



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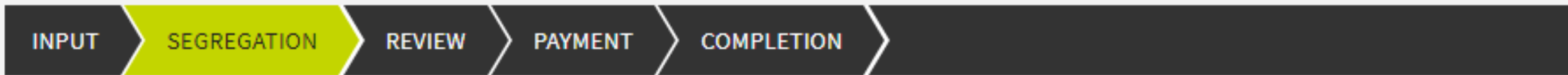
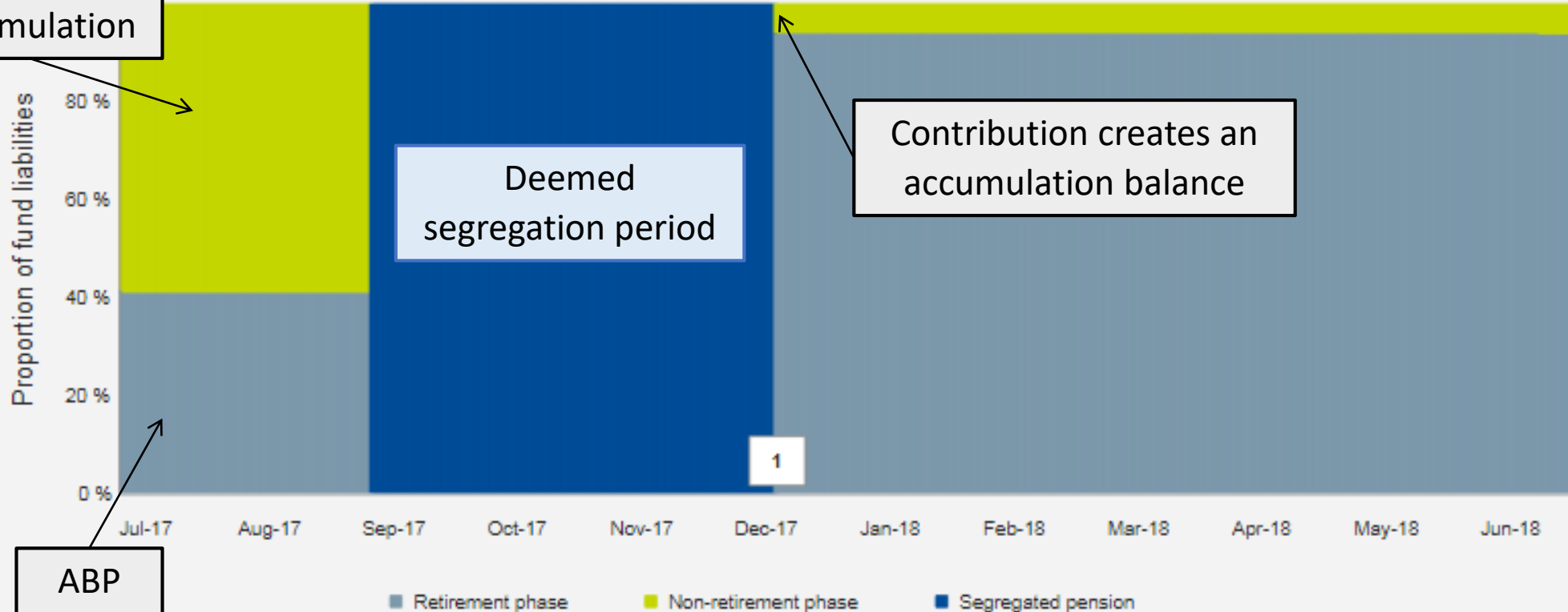


Illustration of fund liabilities for 2018 ?

Accumulation

ABP commenced with accumulation balance



ABP

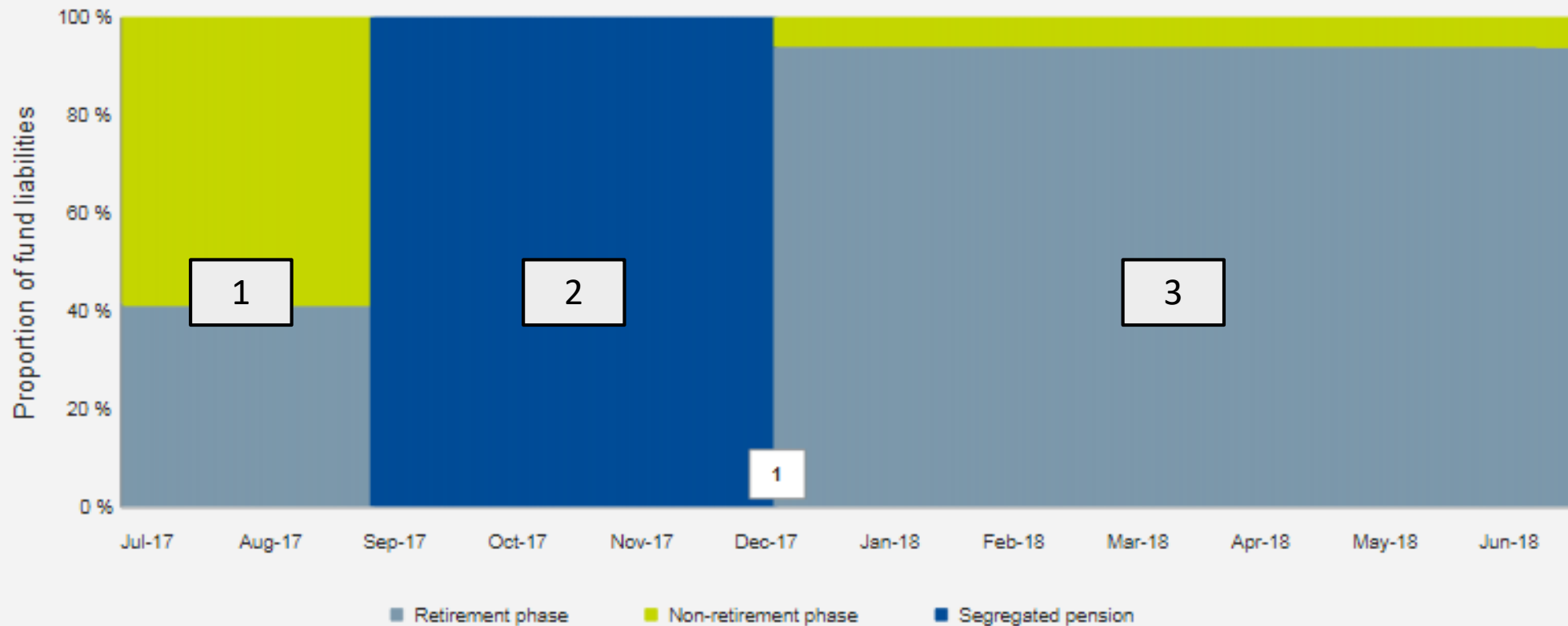
Contribution creates an accumulation balance

Deemed segregation period

1

Retirement phase Non-retirement phase Segregated pension

- Segregated method 2 September – 11 December
- Unsegregated method 1 July – 1 September and 12 December – 30 June
- Three sets of accounts
 - $ECPI = \text{income on segregated pension assets} + (\text{exempt income proportion} \times \text{income on assets not segregated})$



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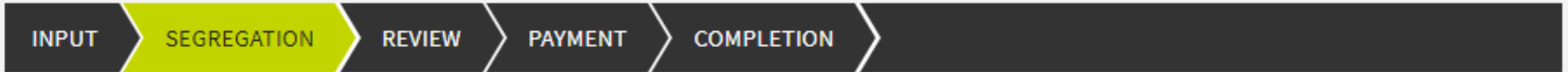
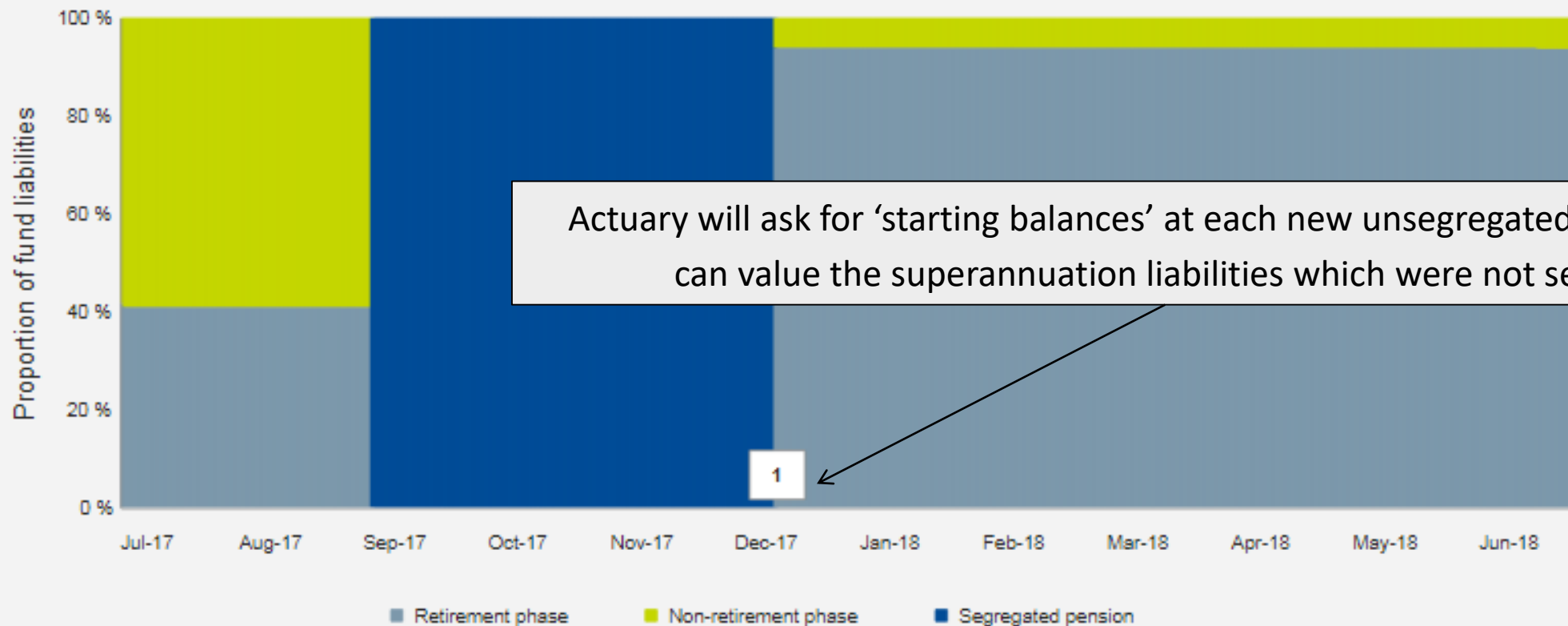



Illustration of fund liabilities for 2018 ?



 Based on the information you have provided on the Inputs page the Fund has periods of deemed segregation in the selected financial year.


These are periods where fund assets are solely supporting retirement phase liabilities and are shown in dark blue above. The Fund must use the segregated method to claim ECPI on income earned during these periods.

In order to calculate the exempt income proportion (which will apply to income earned on assets which were not segregated) we require some additional information. Please enter below the value of each member's account balance (including income earned up to this date) at the start of each period where the Fund ceased to have deemed segregation. These are the 'start of day' balances before the accumulation interest was created (e.g. balance prior to a contribution or commutation).

1

Period start 02/09/2017

Period end 11/12/2017

Balances as at 12/12/2017 

Jeevan

Matt



Account-based pension

\$ 457038.07

\$ 317826.93

Balances at the start of each unsegregated period will be pre-filled from BGL 360.

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⚠ 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	Deemed Segregation SMSF	
Fund ABN	11054355243	
Financial year	2017/18	
<u>Draft</u> tax exempt income proportion	81.774%	
Applies to income earned in the following (unsegregated) periods	From	To
	01/07/2017	01/09/2017
	12/12/2017	30/06/2018

Exempt income proportion will feed back to BGL 360 upon completion along with dates of deemed and unsegregated periods

Operating statement

Case study 3 continued in SF 360



1. Send data to Actuary

Request an actuarial certificate without manually entering any data. Click "+ New Actuarial Certificate" to your right.



2. Review application

You will need to click on the link below and review the data which has been submitted on the Actuary Provider's website.



3. Estimated Percentage

The Actuary will return to BGL an estimated percentage. Once this is received you can Create Entries and commence the year-end process.



4. Actuary Confirmed

The Actuary will return a confirmed percentage and email you a Certificate. You are finished!!!

Actuarial Period	Tax Exempt Percentage	Gen Exp %	Inv Exp %	Certificate Provider	Certificate Status
Financial Year 2018					
01/07/2017 - 01/09/2017 Unsegregated	81.774				
02/09/2017 - 11/12/2017 Segregated	100	0	0	Accurium	Confirmed
12/12/2017 - 30/06/2018 Unsegregated	81.774				

QUESTIONS?

- You can contact Accurium on 1800 203 123 or act@accurium.com.au
- Contact BGL support on 1300 654 401

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