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Media Release

SMSF Association lambasts proposed earnings calculation

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The Government's proposed model to implement the $3 million tax threshold discriminates against self-managed super funds, says the SMSF Association.

In its submission to the Treasury consultation paper, *Better Targeted Superannuation Concessions*, the Association asserts that funds should be given the option of reporting actual earnings.

"Where a fund cannot or chooses not to report actual earnings attributable to a member, a default notional earning rate should apply."

Association CEO Peter Burgess says instead of adopting this equitable approach, the Government's proposed model promotes simplicity.

"We caution against setting what is a dangerous and concerning precedent. Positioning in this manner is counter to vertical and horizontal equity taxation principles. When we consider the various distortions that arise and exceptions that will need to be addressed, the outcome is far from simple or equitable."

In the detailed submission to Treasury, the Association cites numerous reasons why certain amounts will need to be excluded from an individual's total super balance to avoid 'earnings' being overstated under the proposed model.

The consultation paper dismisses the option of using actual earnings to calculate the new tax because it presents significant challenges for APRA regulated funds.

"The proposed model has been designed for APRA regulated funds, yet three-quarters of the estimated 80,000 members being impacted are SMSF members.

"The lack of equity and unintended consequences arising from the proposal are driven by a desire to placate the large APRA funds – a clear case of the 'tail wagging the dog'. Given its significance for SMSFs, and the distortions already arising, any model must be considered in an SMSF context.

“It is unfair that SMSF members with balances above $3 million will be required to pay tax on unrealised gains because some APRA regulated funds may find it difficult to report the taxable earnings attributable to members.

With minor system and reporting changes, the SMSF sector, and we understand some APRA regulated funds, can report a member’s actual taxable earnings to the ATO on an annual basis.”

“So, we are asking the Government to give these funds the opportunity of reporting actual earnings rather than the proposed model which would calculate earnings based on the movement in the member’s total super balance and, which by definition, includes unrealised gains,” Burgess said.

In its submission the Association also took aim at the extremely short consultation period on the proposed model.

“Through engagement with our members, stakeholders, and other industry groups we are seeing new concerns arise daily, and the limited consultation period has not allowed sufficient time to properly consider the impacts and identify the unintended consequences.”

The process has the appearance of a tick-a-box exercise that risks detrimental outcomes for many individuals affected by the proposal, Burgess said.

About the SMSF Association:

The SMSF Association is the peak body representing the self-managed superannuation fund (SMSF) sector which is comprised of 1.1 million SMSF members and a diverse range of financial professionals servicing SMSFs. The SMSF Association continues to build integrity through professional and education standards for advisers and education resources for trustees. The SMSF Association consists of professional members, principally accountants, auditors, lawyers, financial planners and other professionals such as tax professionals and actuaries. Additionally, the SMSF Association represents SMSF members and provides them access to independent education materials to assist them in the running of their SMSF.

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