Verus
SMSF Actuaries

When Do You Need an Actuarial Certificate?

1. Introduction

This article discusses the circumstances in which you are required to obtain an actuarial certificate for a Self Managed Superannuation Fund.

2. Account Based Pensions

If your SMSF has one or more account based pensions (including transition to retirement pensions, allocated pensions and market linked pensions) you may need an actuarial certificate. The actuarial certificate provides the percentage of the Fund's investment income (from unsegregated assets) that is exempt from tax under Section 295-390 of the Income Tax Assessment Act.

2.1. General Principles

You will need an actuarial certificate for your SMSF if during the financial year the SMSF was partly in retirement phase and partly in non-retirement phase, unless you have fully segregated the SMSF's retirement phase assets from its non-retirement phase assets.

This means you *won't* need an actuarial certificate if:

- The SMSF was entirely in non-retirement phase for the whole of the year (in which case all the investment income will typically be taxable); or
- The SMSF was entirely in retirement phase for the whole of the year (in which case all the investment income will typically be tax exempt); or
- All of the SMSF's retirement phase assets were segregated from all of the SMSF's non-retirement phase assets throughout the year.

The sections below provide more details.

2.2. Changes Applying From the 2017/18 Tax Year

For the 2017/18 and subsequent tax years, there have been some changes to the rules that impact on whether you need to obtain an actuarial certificate.

a) Deemed Segregation

From the 2017/18 tax year, the ATO has determined that for any period(s) during a year when a Fund is entirely in retirement phase, that Fund must be deemed to be segregated. For all such periods during the tax year, the Fund's investment income would typically be entirely tax exempt, and no actuarial certificate is required in respect of those periods.

However, if at any other time(s) during the year the Fund is partly in retirement phase and partly in non-retirement phase, then an actuarial certificate would be required (unless the Trustee has *elected* to segregate during those periods). For these Funds, the tax exempt percentage shown in the actuarial certificate would be applied just to the investment income earned during the periods when the Fund was not entirely in retirement phase.

b) Disregarded Small Fund Assets

For the 2017/18 and subsequent tax years, a new concept called disregarded small fund assets has been introduced. An SMSF cannot use the segregated method if its assets are disregarded small fund assets.

The assets will be disregarded small fund assets if, just before the start of the tax year:

- One or more of the members in the Fund has a total superannuation balance of more than $1.6m (including all of the members' superannuation entitlements, not just those in this Fund); and

- That member was receiving a retirement phase superannuation income stream (in any fund).

So from the 2017/18 tax year, every Fund with disregarded small fund assets that has a retirement phase pension at any time during the year will need an actuarial certificate.

This also leads to two outcomes that at first sight may seem slightly strange:

- A Fund that has disregarded small fund assets and has been entirely in retirement phase throughout the (2017/18 or a subsequent) tax year will need an actuarial certificate, even though it will be obvious that the tax exempt percentage will be 100%; and

- A Fund that has disregarded small fund assets cannot have any periods of deemed segregation, despite the matters discussed in a) above.

c) Transition to Retirement Income Streams

Up until the 2016/17 tax year, Transition to Retirement Income Streams (TRIS's) were treated as being in retirement phase, like any other type of account based pension. They generated exempt current pension income and would be included in the calculation of the Fund's tax exempt percentage in an actuarial certificate for a Fund using the proportionate (unsegregated) method.

From the 2017/18 tax year the treatment of TRIS's has changed – in most cases they will be in non-retirement phase. This means that they do not generate exempt current pension income. However, there are some exceptions to this, which could cause a TRIS to be in retirement phase in 2017/18 or subsequent tax years. For example, this could occur when a condition of release is met, but the trustee elects not to commute and re-start the TRIS as an account based pension.

So when you are thinking about your need for an actuarial certificate, you should also consider whether any TRIS's are in retirement phase or non-retirement phase:

- For 2016/17 and earlier tax years, TRIS's will always be in retirement phase; while
- For 2017/18 and later tax years, TRIS's will usually be in non-retirement phase (with some exceptions).

2.3. Other Considerations

You will *not* need an actuarial certificate if the SMSF's taxable income was negative during the year. However, note that for this purpose taxable income *excludes* realised capital losses in excess of any realised capital gains. Realised capital losses will not (on their own) make an SMSF's taxable income negative because they can only be offset against realised capital gains.

If your SMSF has a small but positive taxable income during the year, consider whether the benefit of the tax exemption will exceed the cost of the actuarial certificate – if you would only be paying very small amounts in extra tax, it may not be worth getting one.

Finally, if you need an actuarial certificate for an SMSF with account based pensions, you should arrange it after the end of the tax year, but before you submit the Fund's tax return.

3. Defined Benefit Pensions

If your SMSF has one or more defined benefit pensions then superannuation law requires you to obtain an actuarial certificate every year. There are several different types of defined benefit pensions, including complying lifetime, complying term and flexi pensions.

If you need an actuarial certificate for an SMSF with defined benefit pensions, you should arrange it after the end of the tax year, but before you submit the Fund's tax return. If your defined benefit pension is treated as fully or partially Assets Test Exempt for Centrelink purposes, Centrelink also requires that a copy of the actuarial certificate is provided to them before the 31 December after the end of the tax year.

For SMSFs with defined benefit pensions, the actuarial certificate provides the percentage of the Fund's investment income that is exempt from tax under Section 295-390 of the Income Tax Assessment Act. It also provides an opinion regarding whether there is a high probability that the Fund's assets will be sufficient to pay the defined benefit pensions (this is sometimes referred to as the "adequacy opinion" or "high probability test").

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