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Super changes trigger tax hit for $200b in SMSF assets

by Joanna Mather

A whopping $200 billion in self-managed superannuation fund assets has become taxable as a result of the Turnbull government's 2016 budget changes, according to a new report.

The shift was triggered by the introduction of a $1.6 million limit on how much tax-free money retirees can hold in super, as well as more tax on what are known as transition-to-retirement pensions.

The upshot is much bigger tax bills for SMSFs.

"The hard-hitting impact of this change is that almost 25 per cent of SMSF tax-free assets have lost that status," said Kevin Bungard, the chief executive of Class Super, which prepared the figures. Class Super provides administration software for SMSFs and therefore has access to large quantities of data.

The government announced the $1.6 million transfer balance cap in the 2016 budget. Excess amounts have had to be moved back to an accumulation account or out of super altogether.

The result has been a $200 billion transfer from pension accounts into accumulation accounts, where the money is taxed at 15 per cent.

According to Class, the value of taxable SMSF assets in accumulation accounts doubled to reach $422 billion as at August 1, 2018.

"The forced shift of assets out of pension phase has dramatic tax implications for SMSFs," Mr Bungard said.

"Assuming a modest return on assets for the 2018 financial year, we estimate this shift will result in an increase in the gross tax due on SMSF earnings of nearly 90 per cent from 2017."

Revenue jackpot

It's a revenue bonanza for the government. Assuming a return of 5 per cent on SMSF assets for 2018, an extra $1 billion in gross tax will be collected because of the shift, Class calculates.

About $800 million of this linked to the transfer balance cap and $200 million to the decision to increase taxes on transition-to-retirement income.

Class's figures are not the final result because they do not take into account contributions taxes, deductible expenses and rebates, including franking credits.

The 2016 federal budget papers show the government anticipated a $2.6 billion increase in revenue (including $929 billion this financial year) over the three years to 2019-20, so the figures are right on track.

BDO superannuation partner Chris Balalovski said the government's tax take would be even bigger once assessable capital gains were taken into account.

"It's hard to determine the exact figure, but it could be a similar number [to $1 billion]," he said.

Self-managed Independent Superannuation Funds Association managing director Michael Lorimer said he was unsurprised by the quantum of dollars shifted.

"Quite frankly the number is probably bigger across the entire sector because those reforms don't just apply to SMSFs, they apply to all the retail and industry funds too," he said.

"There would be people with large balances and people with transition-to-retirement incomes in those sorts of funds who would have had to act."

If Labor won the next election and managed to implement a policy denying franking credit refunds, the additional tax burden for superannuants would be "horrendous", Mr Lormer added.

"Over the space of two or three years, the net tax take from the reform measures already in place together with the proposed refundable franking credit changes will be a staggering number."

SMSF Association acting chief executive Jordan George said the figures added weight to the argument that Labor's franking credit policy would not collect nearly as much as anticipated.

"The Class report shows that many SMSF members have had the tax they paid on their superannuation assets increased, which would substantially reduce the cash refunds [associated with] franking credits," he said.

In 2016, the government said limiting the amount that could be transferred into tax-free retirement accounts would "make the superannuation system more fiscally sustainable and increase confidence that the settings are consistent with the objective of superannuation", which was to provide retirement income, not wealth building or estate planning.

In March 2017, 31 per cent of SMSF assets were held in pension phase and 45 per cent were held in "mixed phases".

As at June 2018, only 14 per cent of assets are in tax-free pension phase, but the volume held in mixed phases has jumped to 57 per cent, according to Class.