

Beware of the SMSF Annual Return

Following a review of initial lodgements of the new self-managed superannuation fund (SMSF) annual returns for 2007/08, the Australian Tax Office (ATO) has highlighted several common errors and issues.

Regulatory information

The ATO says a number of returns have been lodged indicating that investments were not made and maintained on an arm's-length basis.

The ATO suspects that a proportion of these had started answering "no" to the list of questions in Section I and continued to respond in the same way down the column. Answering "no" to either questions "G" or "M" in Section I would be an indicator of a possible regulatory issue for the fund.

The ATO notes that incorrect responses may result in delays in processing returns, unnecessary contact from the ATO or penalties in some cases.

Member reporting

A number of incorrect member tax file numbers (TFNs) in Sections F and G of the return have been identified.

Other common errors included the use of the fund's TFN or the tax agent number. If an incorrect member TFN is provided, there will be a hold up in processing the return, which may affect refunds or co-contribution payments.

Assets and liabilities

Some SMSF returns have reported assets and liabilities in Section H that do not balance with the member entitlements. The ATO will contact trustees if asset and liability figures for the SMSF do not balance with member entitlements.

Should you require assistance or additional information, contact

Jennie Lynn | 02 9240 9760 | jennie_lynn@pkf.com.au

Level 10, 1 Margaret Street | Sydney | New South Wales 2000 | Australia

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ATO tips

- *Report all member transactions* - all member transactions which impact on an SMSF's financial position must be reported.
- *Investment and management expenses* - expenses incurred from derived investment income should generally be reported at section "C" item "11" label "I" in the SMSF annual return. Management and administration expenses include expenses related to accounting fees, management fees and certain legal fees and should be reported at section "C" item "11" label "J" in the SMSF annual return.
- *Rollovers* - all amounts rolled into the SMSF from other funds must be reported in the return. This information is available from the previous fund on the "Rollover benefits statement" (NAT 70945) and should be checked to ensure these items are reported correctly.
- *Special income* - non-arm's length income should be reported in section "B" item "10" label "U" in the annual return. The amount reported at this label is a sum of net non-arm's length private company dividends (label U1) plus net non-arm's length trust distributions (label U2) plus net other non-arm's length income (label U3). Only deductions that relate to the non-arm's length component of income can reduce the amount of income reported at label "U".
- *Exempt current pension income (ECPI)* - before a fund starts paying a pension, all assets need to be re-valued to current market value. All income earned during the financial year must be reported in the SMSF annual return, even if the fund is in 100% pension phase.

The ATO no longer accepts partially-completed or inaccurate returns. They have also warned that providing false or misleading information can now result in an administrative penalty of 20 penalty units which currently equals \$2,200 at \$110 per unit.

Further guidance can be found in the ATO publication "Completing the SMSF Annual Return".