TBAR or t-boned?

What will change with the new reporting regime for SMSF trustees.

Summary: SMSF trustees will need to comply with new reporting regimes from July 1, 2018.

Key take-out: Increasingly, it will take specialist knowledge to handle SMSF administration in the future. The TBAR has racheted up the responsibilities.

The Australian Tax Office's new Transfer Balance Account Report (TBAR) requirements could be the death knell for trustees of self-managed super funds attempting 'to go it alone' without the aid of specialist advice.

From next week (after July 1), SMSFs in pension phase with balances greater than $1 million will need to comply with new, onerous 'events-based' ATO reporting requirements.

And this new quarterly reporting responsibility is real time. Traditionally, this was handled via a rear vision "we can fix it up later" approach by many SMSF trustees and their accountants.

Twelve months ago, the average SMSF had a balance of $1,142,000; at over $700 billion, the SMSF sector now represents approximately one-third of the superannuation industry. Not surprisingly, the ATO is now moving to apply the requirements for SMSF compliance reporting to a level commensurate with industry and retail super fund sectors.

With an increasingly onerous compliance burden looming for Australians over 55 (the retired 'mum and dad' investors), SMSF members/trustees must comprehensively review and justify their fund's investment strategy. Similar considerations also apply to the level and basis of personal insurance cover held (or not held) on behalf of fund members.

SMSF investment strategies need to demonstrate appropriate portfolio diversification across all asset classes and within all assets classes, based on an asset allocation rationale that includes regular investment risk profile analysis for fund members. Some SMSFs may find their investment strategy no longer meets compliance requirements. That includes those that invest based on gut-feel around a few favourite stocks or asset classes, and those who undertake broad-brush investment analysis 'cut and pasted' from a basic accounting package.

With the role of SMSF trustee becoming increasingly complex, there may well be a case for a formal education qualification to ensure that trustees are adequately equipped to carry out their legal responsibilities, particularly when there are complex assets involved.

Now that TBAR has ratcheted up the responsibilities, a cost-benefit analysis on the merits of providing for retirement via an SMSF will almost certainly need to be brought forward.

SMSF trustees (with fund members in drawdown phase) who decide to 'go it alone' will need to get much closer to their professional advisers.

This will be particularly important as they approach the point of no longer enjoying managing their investments and the associated administration, and in some cases, no longer have the ability do so. That raises the risk of potential compliance breaches, coming at significant cost to their families, and eventually, their estates.

While SMSFs remain popular, and indications suggest the sector will continue to grow, we are now regularly seeing older SMSF trustee/members requesting assistance to wind up their funds and transfer their retirement savings into mainstream funds.

TBAR has effectively rendered traditional 'shoebox' accounting dead and buried. This will force SMSF trustees in drawdown phase to rely heavily on specialist accounting and financial advisory professionals for compliance. But it will also have some unintended outcomes for the accountancy profession.

There will an inevitable quality lift in terms of the way SMSFs are managed because of TBAR, however, real-time reporting will increase administration, and therefore, costs. Inevitably, these costs will flow onto the client as more professional advice time is required.

Similarly, trustees who still want to go it alone will now need to access more costly and professional SMSF software packages.

Given that accountants are generally protective of their client base, TBAR is likely to cause some reckoning for those accounting practices who have in the past provided an SMSF administration service (without necessarily having the requisite specialist knowledge) due to a resistance to outsourcing that expertise. This logic is flawed, however, if the client is not receiving the specialist service they require.

Our analysis also shows that for accounting firms to continue to provide in-house SMSF administration, the increase in costs (ultimately passed on to the client) would increase to a price level no longer cost-effective. That would force many accountants to outsource to an SMSF administration services provider.

Here are some possible scenarios for the accounting profession:

- The continued provision of SMSF services, with increased costs absorbed through 'other' entities;
- The increase in SMSF service costs absorbed to the point of making little-to-no profit, with increased risk of an inferior service delivery;
- The realisation by smaller firms that it is in their clients' best interests to engage a third-party SMSF specialist to provide service to their clients.

Accounting firms should not be discouraged from administering SMSFs, but they will need to specialise, or outsource.

To use a medical analogy, your GP should not operate on your hip; a specialist must be called in – and so it is under the new TBAR standards. Don't leave this to a generalist.

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