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TBAR or T-Boned?

The new reporting regime for SMSF trustees

By Theo Marinis & Marco Piteo

The ATO's TBAR (Transfer Balance Account Reporting) requirements may well sound the death knell for trustees of Self-Managed Super Funds attempting 'to go it alone' without the aid of specialist advice.

From 1 July 2018, Self-Managed Super Funds with a balance greater than $1m in pension phase 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 a 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 'mums and dads) SMSF member/trustees should also, comprehensively review and justify the investment strategy of their fund and the resulting investment choices. 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 <u>across</u> all asset classes and within <u>all</u> assets classes, based on an asset allocation rationale which includes regular investment risk profile analysis for fund members. Investment strategies which have in the past relied on the notion of retaining investment selection 'control' based on a gut-feel around a few favourite stocks or asset classes, or a broad-brush investment analysis 'cut and pasted' from a basic accounting package, will not meet SMSF compliance requirements.

With the role of a 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, it is our view that 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 draw-down phase) who decide to 'go it alone' will need to get much closer to their professional advisers.

This need 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 having the ability do so (with the risk of potential compliance breaches and significant cost for their families and eventually, their estates).

Whilst SMSFs remain popular, and indications are that they 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 'shoe-box' accounting dead and buried (forcing SMSF trustees in draw-down 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 as a result 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 which would no longer be cost-effective, forcing many accountants to outsource to an SMSF administration services provider.

We anticipate the following possible scenarios in the accounting industry:

- 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 it to a generalist.

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