Tax Statement & 2018-19 EoFY Processing in Class

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Class

Presenter Profile

- Compliance & Technical Services Manager

- 20 years of industry experience, 10 years with Class

- Chartered Accountants (CA)

- SMSF Specialist Advisor (SSA)

- Registered Tax Agent

- B Com / LLB

Disclaimer

- Any information expressed in this PowerPoint presentation does not purport to be any financial, tax or legal advice as we have not taken into account any of your or your client's financial or tax objectives that are specific to you or your client's circumstances.

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What will we cover?

- 2018 and 2019 take-on fund checklist

- What transactions can be automated

- What's new in 2019 SMSF Annual Return

- Tax Statement – Optical Character Recognition (OCR)

- Tax Statement – Automation

- Comprehensive Case Study

- Q & A

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Checklist for Take-on Funds on or after 30 Jun 2018

No.	Description	
Transfer Balance Account		
1	Confirm the member's transfer balance account balance in Online services for tax agents	☐
2	Use Manual TBAR event to increase or decrease the member's transfer balance account to match with the ATO record. Tick the adjustment box so that this event is not reportable event.	☐
3	Update the Pension Account Identifier for pension accounts to match with the previous TBAR records lodged.	☐
Total Super Balance		
1	Class will use 30 June member's balance loaded to determine a member's total super balance. If that is correct, then step 2 is not required.	☐
2	Under Member Contribution Caps, use either the external balance or adjustment field to increase or decrease member's total super balance as at 30 June.	☐

Additional Checklist if applicable

No.	Description	
Pension Details		
1	Update condition of release or member transitions	☐
2	If it is capped defined benefit income stream, enter the 30 June 2017 special value if applicable.	☐
Non-Concessional Contribution Caps		
1	Confirming whether Bring Forward Rule is triggered, if so how many NCC cap remaining.	☐
Unused concessional contribution cap carry forward (from 30 June 2019)		
1	Under Member Contribution Caps, confirming a member's total concessional contributions in previous years (if member's TSB as 30 June 2019 was less than $500K)	☐

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What transactions generally cannot be automated

Pension and Payments

- *Pension establishment / Pension commutation / TRIS conversion*
- *Death benefit pension / Reversionary pension*
- *Lump Sum Payment*
- *Rollover Out*
- *Family law settlement*

Rollover In and Contributions

- *Rollover in*
- *Contribution split*
- *In specie transfer*
- *Downsizer contribution / Small business concessions contribution*
- *Large and unexpected concessional and non-concessional contribution*

Other Transactions

- *Buy and sale of a property*
- *Fund income tax payment / refund*

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Aim for 80-90% of All Transaction Automated

Comment Events	How can they be automated?

• **Member Income**
   • Contribution (Employer or regular contribution)
   • Rollover In (Delayed to 31 March 2021)
	• SuperStream: **SMSFDataFlow** or
	• Cash feed plus transaction rules

• **Investment Income**
   • Dividend / Distribution and even DRP
   • Interest
   • Foreign Income
   • Rental Income
	• Cash feed plus income generation
	• Broker feed with balance, income / DRP will be automatically generated
	• "Smart Way" of Rental Income, annual rental statement

• **Expenses**
   • Accounting / Admin Fee
   • Auditor Fee / Actuarial Fee
   • Investment Management Fee / Bank Fee / Adviser
   • PAYG / GST Instalment
	• Cash feed plus transaction rules
	• Wrap / Platform Feed

• **Investment Transactions**
   • Listed Shares & Units Buy and Sell
   • Managed Funds Buy and Sell
   • Term Deposits Buy and Sell
   • Corporate Actions
   • Foreign Shares and Foreign Bank Account
   • Distribution Tax Statement
	• Broker Feed
	• Wrap / Platform Feed
	• Use Class Corporate Action Console / Template
	• Use Tax Statement OCR (Public Beta)
	• Use Class Tax Statement Automation

• **Member Payments**
   • Pension Payment / Drawdowns
   • Member Insurance Premium
	• Cash feed plus transaction rules
	• Use Pension Review

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How do I achieve 80-90% automation?

Rule of Thumb Measure

- *Review Browse Events and group by Processed by:*

  % of events = Processed by Class / Total Events Processed

Things to Improve

- *Make data feeds set up as your priority*

- *Do pension reviews*

- *Use transaction rules*

- *Use Class business consoles (particular Cash Console)*

- *Contact your regional sales managers / client success team for a health check*

What's new in the 2019 SMSF Annual Return

- Part A qualification

- Electronic funds transfer details and instructions

- Downsizer contributions into superannuation

- Outstanding limited recourse borrowing arrangement amounts

- Crypto-currency label

Part A (Financial Report) Qualification

- This information will help ATO build a more complete risk profile of the SMSF population.

- This information is only one of the factors ATO would take into account in making a risk assessment of the fund.

- ATO would not generally raise a fund audit or review case based solely on a qualification of Part A of the auditor's report.
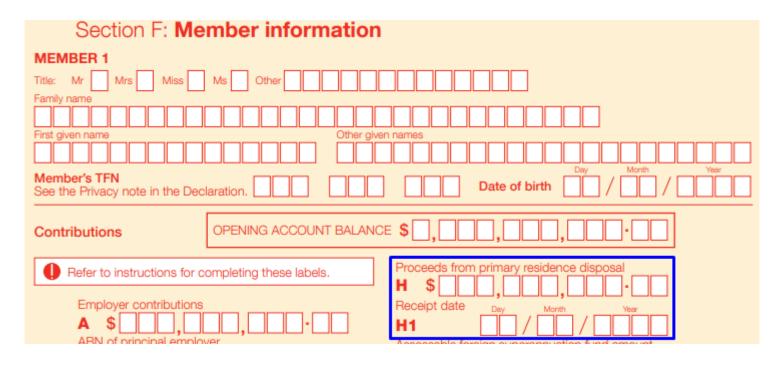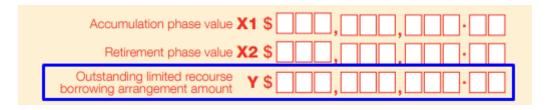
Electronic Funds Transfer (EFT)

Downsizer Contribution

- A downsizer contribution into super form must be completed and provided to the SMSF.

- Downsizer contribution amount and receipt date need to be reported to the ATO.

Outstanding LRBA Amount

Accumulation phase value **X1** $	□□□,□□□,□□□.□□	
Retirement phase value **X2** $	□□□,□□□,□□□.□□	
Outstanding limited recourse borrowing arrangement amount **Y** $	□□□,□□□,□□□.□□	

- **This information will be used for statistical purposes only.**

- You should report the outstanding loan balances for all LRBAs, and not just those that would have been caught by the proposed changes for total superannuation balance purposes.

- The reported amounts will not be used in calculations of a member's total superannuation balance.

- ATO Accepted Formula: *Member's Outstand LRBA = Fund's outstanding LRBA x (Value of member's interest supported by the assets that secure the LRBA / Value of fund's interest supported by the assets that secure the LRBA)*

Crypto-currency

- If your SMSF holds an investment in crypto-currency, this information needs to be reported separately in the crypto-currency label within Section H Assets and liabilities.

- A new label 15c Other investment has been added into the SAR to report the value of an SMSF's crypto-currency amount.

- ATO is collecting bulk records from Australian crypto-currency designated service providers (DSPs) as part of a data matching program to ensure taxpayers trading in crypto-currency are paying the right amount of tax.

- TD 2014/25 and TD 2014/26 confirmed that are not money but capital gains tax (CGT) assets.

Key Difference between AMIT and MIT regime

AMIT Regime	Existing MIT Regime
• Taxable income, including realised net capital gains and tax credits (if any), is attributed to investors on a 'fair and reasonable' basis, having regard to investors' rights as set out in the Fund's Constitution.	• Taxable income is assessable to investors on a 'present entitlement' basis i.e. based on their proportionate share of distributions.
• An AMIT fund may choose not to pay some or all of its attributed income in cash. This means an investor's assessable income may differ from the cash distributions they receive	• Cash corresponding to taxable income is generally distributed in full (or reinvested).
• Investors are subject to tax on the total amount of income attributed to them – including any income not paid in cash. Note: income distributed in a financial year can be less than the assessable income for the year.	• Investors are subject to tax on the income of the Fund in proportion to the amount that is distributed to them each financial year.
• An investor's cost base may be adjusted up or down. Generally, any difference between the amount of income attributed to an investor and the amount of cash distributed will cause an adjustment to the investor's cost base.	• An investor's cost base may only be adjusted downward e.g. for tax-deferred income.
• The AMIT fund must issue an AMIT member annual statement (AMMA statement), advising investors of the amount of income attributed to them and any cost base adjustments ('cost base net increase amount' or 'cost base net decrease amount').	• The Fund issues a Standard Distribution Statement to investors detailing the components of income distributed.

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AMIT Cost Base Adjustment

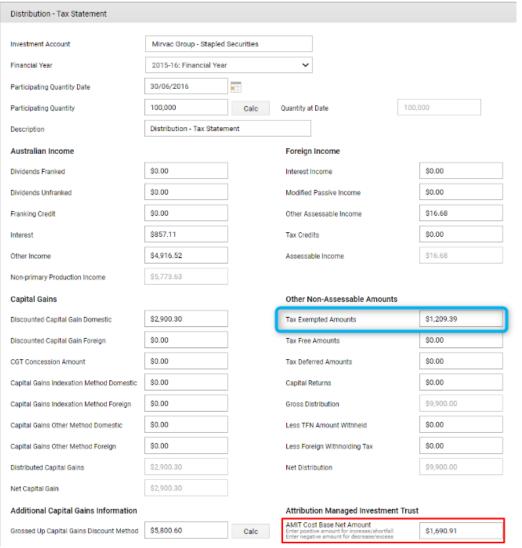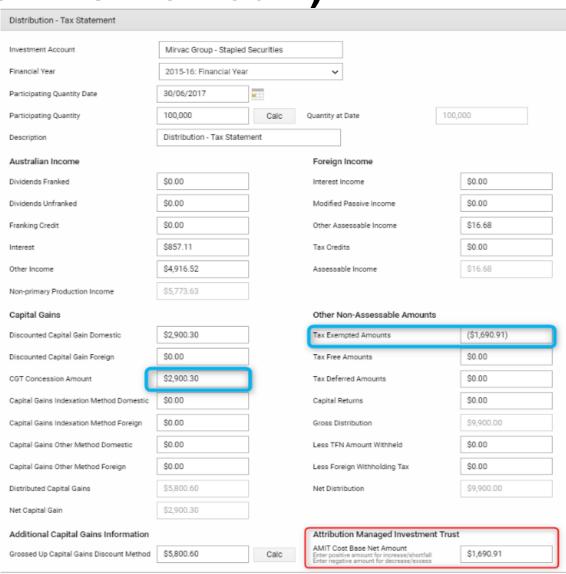| Scenario	AMIT Cost Base	Applied to your cost base	CGT impact
Attributable Amount > Cash (Negative Tax Exempted)	Net cost base increase amount	Increases the cost base and reduced cost base	Reduced capital gain or increased capital loss on the disposal of the units
Attributable Amount < Cash (Positive Tax Exempted)	Net cost base reduction amount	Reduces the cost base and reduced cost base	Greater capital gain or reduced capital loss on the disposal of the units
Attributable Amount < Cash (Positive Tax Exempted to the amount equal to the cost base, excess manually entered as capital gain.)	Net cost base reduction amount	If the reduction amount is greater than the cost base amount, it reduces the cost base to nil	CGT event E10 is triggered – the gross capital gain is the balance of the AMIT cost base net amount

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Work Example 1 (2016-17 Mirvac MGR)

PERIOD END DATE	NO. OF SECURITIES HELD AT PERIOD END	DISTRIBUTION AMOUNT PER SECURITY	MIRVAC PROPERTY TRUST DISTRIBUTIONS	MIRVAC LTD DIVIDEND	TOTAL
31/12/2015 (paid 29/02/2016)	100,000	$0.047	$4,700.00	$0.00	$4,700.00
30/06/2016 (paid 30/08/2016)	100,000	$0.052	$5,200.00	$0.00	$5,200.00
Total Paid		$0.099			$9,900.00

PART B - COMPONENTS OF DISTRIBUTION

	NOTES	CASH DISTRIBUTION	FRANKING CREDITS	TAXABLE INCOME
Australian Income				
Dividends franked	1	$0.00	$0.00	$0.00
Dividends unfranked	2	$0.00		$0.00
Interest	3	$857.11		$857.11
Other income	4	$4,916.52		$4,916.52
Non primary production income		$5,773.63		$5,773.63
			FOREIGN INCOME TAX OFFSET	
Capital Gains				
Discounted capital gains	5 & 12	$2,900.30		$2,900.30
Capital gains – indexation method	6 & 12	$0.00		$0.00
Capital gains – other	7 & 12	$0.00		$0.00
Distributed capital gains		$2,900.30		
Net Capital Gains				$2,900.30
Assessable Foreign Income	8 & 9	$16.68	$0.00	$16.68
Other Non-Assessable Amounts				
Non-assessable amounts	10	$1,209.39		

PART C - ATTRIBUTION MANAGED INVESTMENT TRUST ('AMIT') COST BASE ADJUSTMENTS

AMIT cost base net increase amount	11	$1,690.91		
AMIT cost base net decrease amount	11	$0.00		

Work Example 1 (MGR Method 1 vs Method 2)

Work Example 2 (2018-19 VAS)

PART B – COMPONENTS OF ATTRIBUTION

Item	Cash Distribution	Tax Paid/Offsets	Attribution
Australian Income			
Unfranked distributions	$689.83		$689.84
Unfranked CFI distributions	$1,101.27		$1,100.20
Interest - subject to non resident WHT	$373.22		$421.61
Interest - not subject to non resident WHT	$0.00		$0.00
Other income	$513.08		$942.59
Non primary production income	$2,677.40		$3,154.24
Franked distributions (1) $23,101.35 - $7,109.49 = $15,991.86	$15,922.93	$7,109.49	$23,101.35
Capital Gains			
Discounted capital gains TAP	$0.00		$0.00
Discounted capital gains NTAP	$318.49		$437.60
Capital gains – other method TAP	$0.00		$0.00
Capital gains – other method NTAP	$0.00		$0.00
Net capital gain	$318.49		$437.60
AMIT CGT gross up amount			$437.60
Other capital gains distribution	$318.49		
Total current year capital gains	$636.98		$875.20
Foreign Income			
Assessable foreign source income (2) $431.40 - $27.86 = $403.54	$394.88	$27.86	$431.40
Other Non-assessable Amounts			
Non-assessable non-exempt amount	$0.00		$0.00
Net exempt income	$0.00		
Other non-attributable amounts	$0.00		
Gross Amount	$19,632.19		$27,562.19
AMIT cost base net amount - excess (Reduce cost base) (3) Tax Exempted = $(792.65) and AMIT = $792.65			$0.00
AMIT cost base net amount - shortfall (Increase cost base)			$792.65
Less TFN amounts withheld	$0.00		
Less non-resident withholding tax			
- Interest / dividend amounts withheld	$0.00		
- Fund payment amounts withheld	$0.00		
Less other expenses	$0.00		
Net Cash Distribution	$19,632.19		

Australian Income

Dividends Franked	$15,991.86
Dividends Unfranked	$1,790.04
Franking Credit	$7,109.49
Interest	$421.61
Other Income	$942.59
Non-primary Production Income	$19,146.10

Capital Gains

Discounted Capital Gain Domestic	$0.00
Discounted Capital Gain Foreign	$437.60
CGT Concession Amount	$437.60
Capital Gains Indexation Method Domestic	$0.00
Capital Gains Indexation Method Foreign	$0.00
Capital Gains Other Method Domestic	$0.00
Capital Gains Other Method Foreign	$0.00
Distributed Capital Gains	$875.20
Net Capital Gain	$437.60

Additional Capital Gains Information

Grossed Up Capital Gains Discount Method	$875.20	Calc

Foreign Income

Interest Income	$0.00
Modified Passive Income	$0.00
Other Assessable Income	$403.54
Tax Credits	$27.86
Assessable Income	$403.54

Other Non-Assessable Amounts

Tax Exempted Amounts	($792.65)
Tax Free Amounts	$0.00
Tax Deferred Amounts	$0.00
Capital Returns	$0.00
Gross Distribution	$19,632.19
Less TFN Amount Withheld	$0.00
Less Foreign Withholding Tax	$0.00
Net Distribution	$19,632.19

Attribution Managed Investment Trust

AMIT Cost Base Net Amount Enter positive amount for increase/shortfall Enter negative amount for decrease/excess	$792.65

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Tax Statement OCR (Public Beta)

- Works best with **digital PDF**, scanned PDF with good quality will also be supported

- Minimum resolution is 300 DPI (Dot Per Inch)

- Stapled securities are not supported but can still be uploaded into DMS

- Wrap / platform tax statements are not supported but can still be uploaded into DMS

- Any tax statements that Class cannot extract the data, it is recommended that you upload the statement and raise a support request to assist our crowdsourcing effort.

- Public Beta release date estimated to be next week, most likely will be 1 August 2019.

- Welcome any feedback on **accuracy, speed and user friendliness** of this feature, this will allow us to improve the algorithms applied to match tax statement data captured using OCR.

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Tax Statement Automation

- Launched in March 2019, generally well received by Class clients.

- Support widely held listed trusts, ETFs and managed funds (> 100 funds/portfolios)

  - ✓ Click **here** to see a complete list of supported listed trusts and managed funds for 2017/18. 2018/19 will be similar list.

  - ✓ Click **here** to refer to the process of requesting tax statement template for the ones that are not currently supported.

- All stapled securities are supported, 10 of them require <u>recommended processing on distributions</u> before you can use the community template.

- Type of Tax Statement Ratios

  - ➢ Constant

  - ➢ Varying

  - ➢ Aggregated

- Listed trusts or managed funds from a wrap/platform feed is not supported

A Comprehensive Case Study – Piggy Super Fund

- How to resolve Exception Report errors

- How to set up investments with LRBA

- How to set up crypto-currency

- How to use a tax agent's trust account for tax refund

- How to perform TRIS conversion

- How to process downsizer contribution

- How to use tax statement OCR (Upload vs Upload and Extract)

- How to use tax statement automation

- How to obtain actuarial certificate

- How to produce 2019 SMSF Annual Return

Questions?

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