Exempt current pension income

Claiming a tax exemption for exempt current pension income when your small super fund pays retirement income streams.

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Tax losses

If an SMSF has income tax losses (not capital losses) reduce the amount of the loss by the net ECPI amount.

How expenses are treated when an SMSF has ECPI

Generally expenses which a SMSF incurs can't be claimed on the SMSF annual return.

How capital gains and capital losses are treated when an SMSF has ECPI

The effects of capital gains and capital losses differ depending on which method was used to calculate ECPI.

Non-arm's length income and assessable contributions

Non-arm's length income (NALI) and assessable contributions are excluded when you calculate the SMSF's ECPI.

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How to comply small super funds

Relevant information for complying small super funds with no more than 6 members.

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This information includes:

- self-managed super funds (SMSF)
- small APRA funds (SAF).

Ordinary and statutory income a small super fund earns from assets held to support retirement-phase income streams is exempt from income tax. This income is called exempt current pension income (ECPI).

ECPI is claimed in the SMSF annual return or the Fund income tax return.

To claim ECPI, all of a fund's assets must be valued at current market value. This also applies when a **transition to retirement income stream (TRIS)** moves into retirement phase.

From 1 July 2017, income from assets supporting a TRIS is not ECPI unless the TRIS is in retirement phase. This applies to all TRIS regardless of the date the TRIS started.

ECPI has been extended from 1 July 2017 to include income supporting retirement-phase products such as deferred lifetime annuities and self-annuitisation products.

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Methods for calculating ECPI

There are 2 methods for calculating the amount of ECPI a fund can claim.

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Segregated method

This method is used when a fund's assets are 'segregated'. This means there are specific assets supporting retirement-phase income streams which are clearly held separate from any other assets the fund holds in accumulation phase.

When using the segregated method to calculate ECPI, all income from 'segregated current pension assets' is ECPI.

Assets of a complying fund are segregated current pension assets if the assets are identified as supporting retirement-phase income streams and the sole purpose of these assets is to pay retirement-phase income streams. Capital gains and losses are disregarded if a capital gains tax event occurs in relation to a segregated current pension asset.

Usually, the value of the assets supporting retirement-phase income streams will equal the value of those income streams. However, if the market value of the assets supporting retirement-phase income streams exceeds the sum of the account balances of those income streams, the assets can't be segregated current pension assets to the extent they exceed the account balances.

For some retirement-phase income streams that began before 20 September2007, the assets supporting these income streams can only be segregated current pension assets if the fund obtains an actuarial certificate. The actuarial certificate verifies that the assets and expected earnings are sufficient to pay, in part or full, the income stream's liabilities as they fall due.

Proportionate method

The proportionate method is used to calculate ECPI a fund doesn't set aside specific assets to support retirement-phase income streams.

Instead, the fund calculates the 'exempt proportion' of income based on the proportion of the fund's total liabilities that are current pension liabilities. Generally, this will be the proportion of the fund's total account balances that are retirement- phase income streams. This exempt proportion is averaged across the period of the year the fund used the proportionate method. It's determined by an actuary who provides an actuarial certificate.

The exempt proportion is then applied to the fund's total assessable income for the period to determine the amount that is ECPI.

A fund can't use the proportionate method to calculate ECPI during periods when fund assets are segregated current pension assets.

Disregarded small fund assets

From the 2017–18 income year onwards, you will need to consider if your fund holds disregarded small fund assets as this may affect how you calculate ECPI.

A fund is deemed to have disregarded small fund assets when:

- the fund is paying at least one retirement phase income stream during the income year
- a fund member has a total super balance over $1.6 million immediately before the start of the relevant income year and that member is receiving a retirement-phase income stream from any source including the small fund or another super provider
- after 1 July 2021, the fund is **not** in 100% retirement phase at **all** times of the income year.

In these circumstances, the fund's assets are disregarded small fund assets and won't be segregated current pension assets.

From the 2021–22 income year, if a fund is in 100% retirement phase at all times of the year, the disregarded small assets rule does not apply. The fund's assets are segregated current pension assets.

What is '100% in retirement phase'

If all the interests in a fund are retirement-phase income streams (that is, there are no accumulation accounts or transition to retirement income streams being paid), it's considered that all the fund's assets are held 'solely' to support retirement-phase income streams. This is called being '100% in retirement phase'.

Which method should a small fund use

A fund may be required by law to use a particular calculation method in some circumstances. Where there is no required method, the trustees can decide which ECPI method is appropriate for their fund.

The following sections and the **ECPI method checklist** will help determine the correct method for your fund.

Fund is 100% in retirement phase for the entire income year

From the 2021–22 income year, if a fund is in 100% retirement phase at all times of the year, the disregarded small assets rule does not apply, and the fund's assets are segregated current pension assets. The fund is required to use the segregated method to calculate ECPI for the entire year.

For the 2017–18 to 2020–21 income years, if a small fund is in 100% retirement phase at all times of the year but meets the disregarded small fund assets criteria it must use the proportionate method to calculate ECPI.

Fund is 100% in retirement phase at any point in an income year

This section is applicable only for the 2017–18 to 2020–21 income years inclusive.

For any portion of any income year where a fund is in 100% retirement phase and doesn't have disregarded small fund assets, ECPI is calculated using the segregated method.

A fund may need to switch its method for calculating ECPI if it becomes 100% in retirement phase within an applicable income year it has used the proportionate method.

This may happen if one member is receiving a retirement-phase income stream and another who has been in accumulation phase starts a retirement-phase income stream part way through the income year.

In this case, the fund will claim ECPI using the proportionate method for the first part of the income year. For the second part, when the fund is 100% in retirement phase, it will need to use the segregated method.

Fund is 100% in retirement phase at any point in an income year

This section is applicable for the 2021–22 and future income years.

For any portion of any income year where a fund is in 100% retirement phase and doesn't have disregarded small fund assets, the fund must use the proportionate method to calculate ECPI for the entire income year.

If the fund does not make a choice, they will be in deemed segregation and must use the segregated method to calculate ECPI for the period they are in 100% retirement phase.

This choice is not a formal election and does not have to be submitted to the ATO. However, it is expected that trustees will keep a record of any choice they make and the details of the calculation they use.

Fund does not have segregated current pension assets

From the 2017–18 income year, a fund must use the proportionate method to calculate ECPI for all members for the entire income year when they:

- hold disregarded small fund assets
- have no segregated current pension assets.

From the 2021–22 income year, if a fund is in 100% retirement phase at all times of the year, the disregarded small assets rule does not apply, and the fund must use the segregated method to calculate ECPI for the entire year.

This change only limits a fund to using the proportionate method for the purposes of calculating ECPI. It doesn't limit a fund from segregating its assets to accommodate member investment choices, nor does it reduce the amount of ECPI a fund can claim. It just means the amount is calculated using the proportionate method.

When you can choose the ECPI calculation method

The fund may choose to use the segregated method or the proportionate method to calculate ECPI for the income year when:

- a fund is paying a retirement-phase income stream
- the fund isn't 100% in retirement phase (for example, if some assets are supporting accumulation interests)
- the fund doesn't have disregarded small fund assets.

If a fund which is 100% in retirement phase receives a contribution or rollover, it ceases to be 100% in retirement phase as the contribution or rollover will be in an accumulation interest. However, the fund doesn't automatically need to switch to the proportionate method.

The segregated method allows a fund to segregate assets to support retirement- phase income streams and segregate other assets to support other interests such as accumulation accounts.

As long as the fund actively segregates the assets, such as by holding the contribution or rollover in a sub-account or separate bank account (following Taxation Determination TD 2014/7), the fund can continue to use the segregated method.

The fund is only required to use the proportionate method if it doesn't segregate its assets. The member account balances at the time of the switch should be recorded for the purpose of obtaining an actuarial certificate covering the period the proportionate method is used.

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Actuarial certificate requirements

The actuarial certificate is used to calculate the amount of ECPI which can be claimed.

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Using the proportionate method

Funds using the proportionate method will need an actuarial certificate for each year they claim ECPI, regardless of the type of retirement-phase income stream being paid.

For the 2017–18 to 2020–21 income years, funds must use the proportionate method if they have disregarded small fund assets, and obtain an actuarial certificate that certifies the proportion of exempt income. This applies even if the fund is 100% in retirement phase.

Using the segregated method

A fund using the segregated method won't need an actuarial certificate to claim ECPI if, at all times during the income year the only retirement-phase income streams paid were:

- allocated pensions
- market-linked pensions
- account-based pensions.

This applies even where one of the income streams begins part way through an income year. It also applies if the fund hasn't previously claimed ECPI under the proportionate method or the segregated method.

A fund using the segregated method **will** need an actuarial certificate to claim ECPI if it paid any retirement-phase income streams other than those above. Generally, these are older style income streams started before 20 September 2007. The fund will need to obtain an actuarial certificate covering all the retirement-phase income streams it pays.

Combination of methods used in an income year

For any periods of an income year a fund isn't 100% in retirement phase, and the fund's assets aren't actively segregated, the proportionate method must be used. The fund **will** need an actuarial certificate for that income year.

An actuary will calculate the exempt proportion for the periods of the income year that the fund's assets weren't segregated. The exempt proportion the actuary calculates can be applied to the income earned by the fund during this period or periods to make up part of the fund's total ECPI for the income year.

Only one actuarial certificate is required for the period or periods the proportionate method is used, even if a fund changes methods multiple times in an income year. An actuarial certificate isn't required for the period or periods of the income year the segregated method is used.

Our compliance approach for 2016–17 and prior income years

We understand there have been instances where an approach or practice not consistent with our position may have been applied by some funds to calculate ECPI.

In some cases, a fund that's 100% in retirement phase for part of an income year may have obtained an actuarial certificate using the proportionate method for the entire year, with the exempt proportion calculated by the actuary applied to a fund's income for the full income year.

We consider this issue to be low risk. We don't intend to specifically review ECPI calculations in the 2016–17 income year and prior, which were made using the proportionate method for the entire income year, despite the fund being 100% in retirement phase for part of the year.

This compliance approach doesn't affect our position regarding the operation of the law – that fund assets in these instances are segregated for part of an income year. We will maintain this position if formally requested through the relevant advice and guidance channels we provide even if advice or guidance relates to the 2016–17 income year and prior.

When claiming CGT relief, a fund will still be considered to have switched from the segregated method to the proportionate method where the fund ceased being 100% in retirement phase and the fund didn't actively use the segregated method.

From the 2017–18 income year, we expect funds to calculate ECPI and obtain actuarial certificates in line with our position. This means, where a fund uses the proportionate method for part of an income year an actuarial certificate is required to claim ECPI for that period.

SAFs should now complete the labels in the Fund income tax return. For help, see the **Fund income tax return instructions**.

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Completing labels in the SMSF annual return

Read examples to help you complete the relevant labels in the SMSF annual return.

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SMSF examples

The examples are based on the following background information:

- The SMSF has a range of investments, mainly Australian shares and managed funds. The portfolio is regularly revised to ensure the fund isn't overweight in any particular share or fund, due to uneven price movement on the ASX – this results in some capital gains and capital losses, and there are capital gain distributions from the managed funds themselves.
- The SMSF has 2 members. As at the start of the financial year, they have fifty-fifty ownership of the assets.
- The SMSF received $35,000 in dividends, with franking credits of $15,000 from each of the 4 companies invested in, for a total of $200,000.
- The SMSF earned interest of $200; ordinary trust income of $20,000, with imputation credits of $2,000 from their managed funds; foreign income of $10,000, with a foreign tax credit of $500; and capital gains, all discount, of $4,000:
- The total income of the fund was $234,200.
- The expenses are negligible and can be ignored.
- The tax payable, prima facie, is $35,130.

The following additional assumptions are made in relation to these examples:

- The fund has all necessary actuarial certificates where required; for example, where the proportionate method is used. These certificates show a 50% split of income (if the percentage shown on the certificate was different, the calculations in the examples would need to be adjusted to reflect the percentage shown on the certificate).
- There was no non-arm's length income.
- There were no contributions.
- The pensions met all the requirements under the Superannuation Industry (Supervision) Act 1993.

The examples show the calculation of taxable income or loss and the amount due or refundable where only some of the assets of an SMSF are held to support retirement-phase income streams.

Example: assumes the assets aren't segregated

The fund has 2 members who have met their preservation age but are not yet 60. One draws a pension of $36,000 from 1 July; the other is still in accumulation phase within the fund. The assets are not segregated.

This would be shown on the SMSF annual return as follows.

Section B, Item 11 Income – assumes the assets are not segregated

Field	Value
Net capital gain (label **A**)	$4,000
Gross interest (label **C**)	$200
Net foreign income (label **D**)	$10,000
Franked dividend amount (label **K**)	$140,000
Dividend franking credit (label **L**)	$60,000
Gross trust distributions (label **M**)	$20,000
Assessable contributions (label **R**)	$0
Gross income (label W)	**$234,200**
Exempt current pension income (label **Y**)	$117,100
Total assessable income (label V)	**$117,100**

Section D, Item 13 Income tax calculation statement – assumes the assets are not segregated

Field	Value

Taxable income (label **A**)	$117,100
Tax on Taxable income (label **T1**)	$17,565
Tax on no-TFN-quoted contributions (label **J**)	$0
Gross tax (label **B**)	$17,565
Subtotal 1 (label **T2**)	$17,565
Subtotal 2 (label **T3**)	$17,565
Complying fund's franking credits tax offset (label **E1**)	$62,000
Refundable tax offsets (label **E**)	$62,000
Tax payable (label **T5**)	$0
Tax offset refunds (label **I**)	$44,435
Supervisory levy (label **L**)	$259
Amount due or refundable (label S)	**$44,176 (refund)**

You should also include ECPI in Section **A** label **10A** of the SMSF annual return.

Example: assumes the assets are segregated

The fund has 2 members who have met their preservation age but are not yet 60. One draws a pension of $36,000 from 1 July, and the other is still in accumulation phase within the fund.

The assets are segregated. The pensioner is assigned all the shares, and the non-pensioner has all the other assets (as the pension member has all share assets segregated to provide for their benefit, it's assumed the value of the remaining assets is equal to this amount).

This would be shown on the SMSF annual return as follows.

Section B, Item 11 Income – assumes the assets are segregated

Field	Value
Net capital gain (label **A**)	$4,000
Gross interest (label **C**)	$200
Net foreign income (label **D**)	$10,000
Franked dividend amount (label **K**)	$140,000
Dividend franking credit (label **L**)	$60,000
Gross trust distributions (label **M**)	$20,000
Assessable contributions (label **R**)	$0
Gross income (label W)	**$234,200**
Exempt current pension income (label **Y**)	$200,000
Total assessable income (label V)	**$34,200**

Section D, Item 13 Income tax calculation statement – assumes the assets are segregated

Field	Value
Taxable income (label **A**)	$34,200
Tax on Taxable income (label **T1**)	$5,130
Tax on no-TFN-quoted contributions (label **J**)	$0

Gross tax (label **B**)	$5,130
Subtotal 1 (label **T2**)	$5,130
Subtotal 2 (label **T3**)	$5,130
Complying fund's franking credits tax offset (label **E1**)	$62,000
Refundable tax offsets (label **E**)	$62,000
Tax payable (label **T5**)	$0
Tax offset refunds (label **I**)	$56,870
Supervisory levy (label **L**)	$259
Amount due or refundable (label S)	**$56,611 (refund)**

You should also include ECPI in Section **A** label **10A** of the SMSF annual return.

Example: assumes the assets aren't segregated and the fund paid a pension for part of the year

This example uses the same 2 members as previous examples. However, in this case, the pension started on 1 October. We assume the 2 dividend payments are for equal amounts ($100,000 before 30 September and $100,000 after this date).

The assets aren't segregated. Some shares were sold in November to provide cash for the pension, and a capital gain of $10,000, discountable, was made. The managed fund conceded that its capital gains were all made in the last month of the reporting period (June).

The income for this example will be different to that in the first 2 examples, due to the additional $10,000 capital gain realised.

The SMSF will show the following amounts at the specified labels on the SMSF annual return.

This would be shown on the SMSF annual return as follows:

Section B, Item 11 Income (assumes the assets are not segregated and the fund paid a pension for part of the year)

Field	Value
Net capital gain (label **A**)	$14,000
Gross interest (label **C**)	$200
Net foreign income (label **D**)	$10,000
Franked dividend amount (label **K**)	$140,000
Dividend franking credit (label **L**)	$60,000
Gross trust distributions (label **M**)	$20,000
Assessable Contributions (label **R**)	$0
Gross income (label W)	**$244,200**
Exempt current pension income (label **Y**) (see Note 1)	$91,575
Total assessable income (label V)	**$152,625**

Section D, Item 13 Income tax calculation statement (assumes the assets aren't segregated and the fund paid a pension for part of the year)

Field	Values
Taxable income (label **A**)	$152,625
Tax on taxable income (label **T1**)	$22,894

Tax on no-TFN-quoted contributions (label **J**)	$0
Gross tax (label **B**)	$22,894
Subtotal 1(label **T2**)	$22,894
Subtotal 2 (label **T3**)	$22,894
Complying fund's franking credits tax offset (label **E1**)	$62,000
Refundable tax offsets (label **E**)	$62,000
Tax payable (label **T5**)	$0
Tax offsets refunds (label **I**)	$39,106
Supervisory levy (label **L**)	$259
Total amount due or refundable (label S)	**$38,847 (refund)**

You should also include ECPI in Section **A** label **10A** of the SMSF annual return.

Note 1: As the assets are not segregated, the amount shown here is 75% of the ECPI that would be calculated for the pensioner if the pension had been payable for the full year.

If assets in a fund aren't segregated and a member starts an income stream, the ECPI deduction for that year is the amount of income attributable to the pensioner apportioned from the start date of the pension – that is, if the pension started on 1 March, the ECPI deduction would be 25% of the income attributed to the member (assuming no contributions or special income was received).

Example: assumes the assets are segregated and the fund paid a pension for part of the year

This example is the same as the previous example, except that the assets are segregated.

This would be shown on the SMSF annual return as follows:

Section B, Item 11 Income (assumes the assets are segregated and the fund paid a pension for part of the year)

Field	Value
Net capital gain (label **A**) (see Note 2)	$4,000
Gross interest (label **C**)	$200
Net foreign income (label **D**)	$10,000
Franked dividend amount (label **K**)	$140,000
Dividend franking credit (label **L**)	$60,000
Gross trust distributions (label **M**)	$20,000
Assessable contributions (label **R**)	$0
Gross income (label W)	**$234,200**
Exempt current pension income (label **Y**) (see Note 3)	$100,000
Total assessable income (label V)	**$134,200**

Section D, Item 13 Income tax calculation statement (assumes the assets are segregated and the fund paid a pension for part of the year)

Field	Value
Taxable income (label **A**)	$134,200

Tax on taxable income (label **T1**)	$20,130
Tax on no-TFN-quoted contributions (label **J**)	$0
Gross tax (label **B**)	$20,130
Subtotal 1 (label **T2**)	$20,130
Subtotal 2 (label **T3**)	$20,130
Complying fund's franking credits tax offset (label **E1**)	$62,000
Refundable tax offsets (label **E**)	$62,000
Supervisory levy (label **L**)	$259
Total amount due or refundable (label S)	**$41,611 (refund)**

You should also include ECPI in Section **A** label **10A** of the SMSF annual return.

Note 2: Where a pension is started with segregated assets, the ECPI deduction is equal to all income attributed to the assets funding the pension.

Note 3: Where the above pension is started part-way through a year, no apportioning of income occurs if the assets are segregated, and the income is all received after the start date.

Where income is received before the start of the pension the income received doesn't form part of the ECPI deduction.

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Tax losses

If an SMSF has income tax losses (not capital losses) reduce the amount of the loss by the net ECPI amount.

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SMSF income tax losses

The net ECPI amount is ECPI less any expenses that were incurred in deriving ECPI (such expenses can't be claimed as a deduction).

Any remaining tax losses can be offset against assessable income of the SMSF. Once the assessable income is reduced to zero, any further losses can be carried forward to the next financial year.

Example: SMSF has income tax losses

AXY SMSF earned $30,000 in interest and paid $200 in bank fees, while 30% of the SMSF's assets were held to provide for the SMSF's current pension liabilities. It has $10,000 in tax losses carried forward from the previous year.

This would be shown on the SMSF annual return as follows:

Section B, Item 11 Income – Example 5

Field	Value
Gross interest (label **C**)	$30,000
Assessable contributions (label **R**)	$0
Gross income (label W)	**$30,000**
Exempt current pension income (label **Y**)	$9,000 (30% of $30,000)
Total assessable income (label V)	**$21,000**

Section C, Item 12 Deductions and non-deductible expenses – Example 5

Field	Value

Interest expenses within Australia (label **A1**) (see Note 4)	$140 (70% of $200)
Tax losses deducted (label **M**) (see Note 5)	$1,060 ($10,000 less $8,940)
Total deductions (label **N**)	$1200
Taxable income or loss (label **O**)	$19,800
Total non-deductible expenses (label **Y**)	$60
Total SMSF expenses (label **Z**)	$1260

Section E, Item 14 Losses

Field	Value
Tax losses carried forward to later income years (label **U**)	$0

Note that you should also include ECPI in Section A label **10A** of the SMSF annual return.

Note 4: The remaining bank fees of $60 (30% of $200) can't be claimed as a deduction because they were incurred in earning the ECPI.

Note 5: Tax losses carried forward must be reduced by net ECPI before they can be offset against assessable income.

For more information, see How capital gains and losses are treated when a SMSF has ECPI.

How expenses are treated when an SMSF has ECPI

Generally expenses which a SMSF incurs can't be claimed on the SMSF annual return.

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Expenses

This means these expenses must not be included as part of the deductions claimed in the SMSF annual return.

Expenses incurred in gaining or producing exempt or non-assessable non-exempt income or expenses of a capital, private or domestic nature aren't allowable deductions.

Generally, if an expense is incurred which relates to both ECPI and assessable income, the expense must be apportioned so that only the proportion of the expense for the production of assessable income is claimed.

If the fund is 100% in retirement phase, generally expenses shouldn't be deducted as they will be incurred in gaining ECPI.

Certain deductions can be claimed in full, whether they provide exempt or assessable income. For example, tax-related expenses such as the supervisory levy and death and disability premiums.

Don't include management and administration expenses in the amount claimed at the ECPI label or investment expenses label.

For more information, see TR 93/17 Income tax: income tax deductions available to superannuation funds.

Example: SMSF expenses

AXY SMSF earned $60,000 in interest and paid $500 in bank fees. 80% of the fund's assets were held to provide for current pension liabilities.

This would be shown on the SMSF annual return as follows:

Section B, Item 11 Income – Example 6

Field	Value
Gross interest (label **C**)	$60,000
Assessable contributions (label **R**)	$0
Exempt current pension income (label **Y**)	$48,000 (80% of $60,000)
Total assessable income (label V)	**$12,000**

Section C, Item 12 Deductions and non-deductible expenses – Example 6

Field	Value
Interest expenses within Australia (label **A1**) (see Note 6)	$100 (20% of $500)
Total deductions (label **N**)	$100
Taxable income or loss (label O)	**$11,900**
Total non-deductible expenses (label **Y**)	$400
Total SMSF expenses (label **Z**)	$500

You should also include ECPI in Section **A** label **10A** of the SMSF annual return.

Note 6: The remaining bank fees of $400 (80% of $500) can't be claimed as a deduction, because they were incurred in earning the ECPI.

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How capital gains and capital losses are treated when an SMSF has ECPI

The effects of capital gains and capital losses differ depending on which method was used to calculate ECPI.

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Capital gains and losses

The effects of capital gains and capital losses differ depending on if the segregated or proportionate method was used to calculate ECPI.

If your SMSF has segregated current pension assets, you should ignore any capital gains or capital losses resulting from the disposal of these assets. If the disposal of a segregated current pension asset results in a capital loss, this loss must not be offset against any other capital gain earned by the SMSF.

If you're using the proportionate method, you need to factor in capital gains and capital losses. Capital losses that arise aren't included when you calculate assessable income. If your SMSF has a net capital loss, it can be carried forward each year until it can be offset against an assessable capital gain. The SMSF's capital gain less any capital losses equals the net capital gain.

The net capital gain is added to the SMSF's assessable income before working out how much of income is tax exempt, as per the actuarial calculation for the relevant year.

For more information on how to comply with the transfer balance cap and transition-to-retirement income stream reforms, see Transitional CGT relief.

Example: capital gains and capital losses for SMSFs

Note: This example uses the same facts as **the first example**.

AXY SMSF has 2 members. It has segregated assets set aside for member A that resulted in a capital gain of $10,000 and derived $50,000 of ordinary income. The other assets set aside for member B derived ordinary income of $25,000 and resulted in a capital loss of $15,000.

Therefore, the ECPI is the $50,000 for member A. The $10,000 capital gain from these segregated assets is ignored. The $15,000 capital loss from the other assets is carried forward to future years until it can be set off against an assessable capital gain.

This would be shown on the SMSF annual return as follows:

Section B, Item 11 Income – Example 7

Field	Value
Net capital gain (label **A**)	$0
Assessable contributions (label **R**)	$0
Other income (label **S**)	$75,000
Gross income (label **W**)	$75,000
Exempt current pension income (label **Y**)	$50,000
Total assessable income (label V)	**$25,000**

Section E, Item 14 Losses – example 7

Field	Value
Net capital losses carried forward to later income years (label V)	$15,000

You should also include ECPI in Section **A** label **10A** of the SMSF annual return.

Complete a **Capital gains tax (CGT) schedule 2018** (NAT 3423-6.2018) if your SMSF has one or more CGT events that happen during the income year and either:

- a CGT event happens in relation to a forestry managed investment scheme interest that is held other than as an initial participant
- the total current year capital gain or capital loss is greater than $10,000.

For more information, see **Guide to capital gains tax**.

Transitional CGT relief

In 2016–17, SMSFs could apply for **transitional CGT relief** which provided temporary relief from certain capital gains that might result from members complying with the transfer balance cap rules, or the transition to retirement income stream (TRIS) reforms that began on 1 July 2017.

Transitional CGT relief was only available for 2016–17 and applied to certain CGT assets held by a complying SMSF during the 'pre-commencement period' (9 November 2016 to 30 June 2017).

CGT relief is applied differently depending on the method used to calculate ECPI on 9 November 2016. If:

- you calculated your ECPI using the segregated method, the resulting gain or loss was entirely disregarded
- your fund used the segregated method on 9 November 2016 and switched to the proportionate method during the pre-commencement period or at the start of 1 July 2017, the resulting gain or loss was entirely disregarded
- your fund used the proportionate method throughout the pre-commencement period, the resulting gain could have been deferred (and the resulting loss carried forward under the ordinary rules)
- you changed from the proportionate method to the segregated method between 9 November 2016 and 30 June 2017, you weren't eligible for CGT relief.

CGT relief was only available to an SMSF where a member made changes to reduce retirement phase income streams below the $1.6 million transfer balance cap, or members with a TRIS who were affected by the changes.

Example: SMSF eligibility for CGT relief

Assume that in **the first example**, the AXY SMSF has assets of $2,500,000. Member A (who is receiving a super income stream benefit) has an account balance of $1,700,000, and member B (who is still in the accumulation phase) has an account balance of $800,000.

The SMSF uses the proportionate method to calculate its ECPI and has been doing so for a few years. The property and shares have been held for more than 12 months and are post-20 September 1985 assets. In the 2017 year, the actuarial certificate shows that the fund's exempt proportion is 75%.

Fund asset

Asset	Cost base	Market value
Property	900,000	1,500,000
Shares	500,000	800,000
Cash	N/A	200,000

On 1 June 2017, Member A commutes $200,000 in shares from his retirement phase to the accumulation phase, to ensure he complies with the transfer balance cap.

CGT relief is available for both the property and shares as Member A needed to commute amounts out of retirement phase due to avoid exceeding the transfer balance cap.

Both assets meet the eligibility criteria for CGT relief because the:

- assets were not segregated current pension assets at any time during the pre-start period
- fund held the assets for the entire pre-start period
- fund's 2016–17 exempt proportion was greater than nil.

The fund elects to apply CGT relief to the property and shares, resetting their cost bases to their market values at 30 June 2017. The fund accrues capital gains for both assets that are not disregarded as is shown below.

Accrued capital gains for assets

Asset	Reset Cost Base/Market value	Capital gain	Discounted capital gain
Property	1,500,000	600,000	400,000
Shares	800,000	300,000	200,000
Cash	200,000	N/A	N/A

The fund wishes to defer the liability for the capital gains, so it calculates a 'deferred notional gain' for each asset by applying the 2016–17 exempt proportion of 75% to the discounted capital gains to determine the portion that would not be exempt:

- property – deferred notional gain ($400,000×25%) $100,000
- shares – deferred notional gain ($200,000×25%) $50,000.

The deemed CGT event or events have resulted in capital gains of $150,000. As the fund chooses to defer the capital gains, the capital gains aren't included on the 2017 SMSF annual return.

The fund will need to show that a CGT event has occurred in the SMSF annual return and report the amount on the 2017 CGT schedule. The gains are recognised in the year in which each asset is sold and reported in the SMSF annual return for that year. The gains may be reduced by capital losses made in the same year as well as carried forward losses.

In the CGT Schedule attached to the 2016–17 SMSF annual return, the fund selects 'Yes' at label **8F** – Have you chosen to apply the transitional CGT relief for superannuation funds?' and includes $150,000 at label **8G** – 'Notional capital gain amount deferred'.

The exempt income is 75% of the fund's assessable income of $160,000 – that is, $120,000

This would be shown on the SMSF annual return as follows:

The fund selects 'Yes' (label **G**) – 'Did you have a capital gains tax (CGT) event during the year?'

Section B, Item 11 Income – example 8

Field	Value
Net capital gain (label **A**)	$0
Assessable contributions (label **R**)	$0
Other income (label **S)**	$160,000
Gross income (label **W**)	$160,000
Exempt current pension income (label **Y**)	$120,000
Total assessable income (label V)	**$40,000**

You should also include ECPI in Section **A** label **10A** of the SMSF annual return.

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Non-arm's length income and assessable contributions

Non-arm's length income (NALI) and assessable contributions are excluded when you calculate the SMSF's ECPI.

Last updated 3 July 2024

You still record these income types in the SMSF annual return under the relevant income labels.

Generally, **assessable contributions** are contributions paid to an SMSF either:

- on behalf of a member (such as super paid by an employer on behalf of an employee)
- by a member who has claimed a personal deduction for those contributions.

Generally, income is **NALI** if the:

- parties to a scheme are not dealing at arm's length in relation to the scheme, and either or both of the following applies
  - income derived from the scheme is greater than might have been expected had the parties been dealing at arm's length in relation to the scheme
  - from 1 July 2018, expenses incurred (including nil expenses) in gaining or producing the income are less than those which might have been expected had the parties been dealing at arm's length in relation to the scheme.

NALI also includes:

- income such as private company dividends (unless the dividend is consistent with arm's length dealing),and
- certain distributions from trusts.

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