# Examples of segregation

**09 June 2015**

The following examples consider self-managed superannuation funds (SMSFs) which contain only account-based, allocated, term allocated (market linked) and transition to retirement pensions.
These examples are based on our experience with segregated assets in the industry from talking to clients and reading the legislation. They represent our interpretation of what constitutes segregation. There are limited resources available from the Australian Taxation Office (ATO) which explain and provide examples of segregation in an SMSF. These examples have not been verified by the ATO.

## Fully segregated assets

1. All monies in the fund are pension assets – the fund implicitly contains segregated pension assets as all assets are solely backing pensions.

   For example, all members in the fund are entirely in pension phase at 1 July and make no contributions or transfers in to the fund during the financial year. The fund is 100% tax exempt and no actuarial certificate is required.

## Segregation between members

One group of members have their own pool of assets and another group have their own pool of assets.

1. If each pool of assets is solely supporting pension liabilities or accumulation liabilities, each pool will be either 100% tax exempt (solely backing pension) or entirely taxable (solely backing accumulation). In these instances no actuarial certificate is required.

   For example, four member fund (Mum, Dad and two adult children). Mum and Dad are entirely in pension phase and have their own pool of assets. Their two children are in accumulation phase with their own pool of assets. No actuarial certificate required as each pool of assets is completely separate and solely backing pension or accumulation.

The ATO have confirmed that a fund solely in pension phase should use the segregated method to claim ECPI and will not require an actuarial certificate.

2. If each member or group of members have their own pool of assets and one or more of these pools contain pension and accumulation liabilities, an actuarial certificate will be required for each 'unsegregated' pool of assets. That is, any pool of assets which is not solely in pension phase or accumulation phase is an unsegregated sub pool within the SMSF and will require an actuarial certificate to claim an exemption from income tax.

   For example, Mum and dad have their own pool of assets as they wish to invest in a conservative/balanced portfolio of assets and their two adult children have their own pool of assets which they wish to invest in a growth strategy. Mum and Dad have a combination of pension and accumulation liabilities within their pool of assets but no particular assets are allocated to each account. The adult children have all their monies in accumulation phase.

   In this case the adult children's pool of assets is solely backing accumulation phase and will be entirely taxable. Mum and Dad's pool of assets is backing both pension phase and accumulation phase, so this pool of assets is unsegregated between the accounts. An actuarial certificate is required to claim an exemption from income tax on income earned on Mum and Dad's unsegregated pool of assets.

## Segregation between accounts

All pension assets in the fund are pooled together and are completely separate from all accumulation assets. There are separate pension and accumulation bank accounts. Each pool of assets is solely backing pension phase or accumulation phase and so is 100% tax free or 100% taxable.

For example, if we consider a two member fund. At 1 July the fund has shares and a bank account. Member One commences a pension on 1 July and allocates some of the shares to their pension account, they also set up a separate bank account to hold some cash relating to the pension. Member Two remains in accumulation phase with their monies in the original bank account. If Member One makes contributions or transfers-in they will put these into the original bank account (which is now the accumulation bank account). All dividends received from the segregated shares go into the pension bank account and all pension payments are made from the pension bank account.

In this case the shares and the pension bank account are solely backing pension phase and are therefore 100% tax exempt. The original bank account is solely used for accumulation phase monies and is 0% tax exempt. No actuarial certificate will be required for this fund.

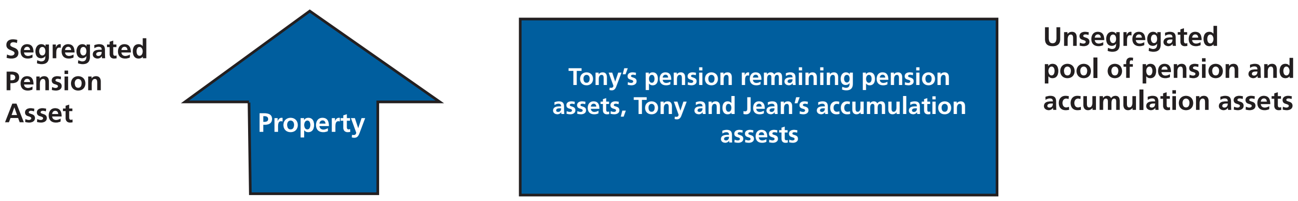

## Partial segregation

This is where some assets in the super fund are segregated and some assets are not. The fund will therefore have a combination of segregated and unsegregated assets within the fund. Care needs to be taken in these situations to ensure that the segregated assets remain separate from the unsegregated pool of assets at all times.

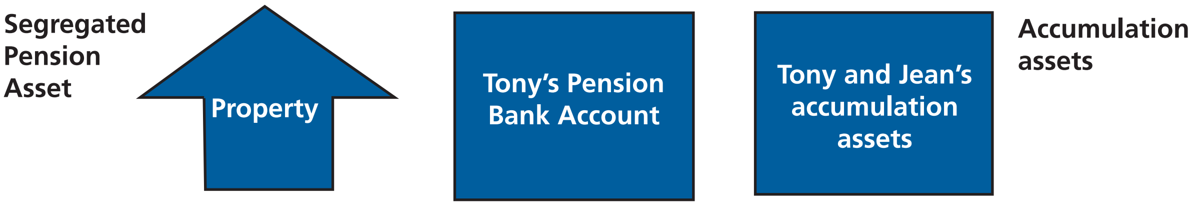
## Property

Consider a fund where a pension member segregates a property which is an asset of the fund to their pension (or to a pension pool). This will allow any capital gain incurred on the sale of this asset in the future to be 100% tax exempt.
For example, Tony and Jane have an SMSF, Tony commences a pension on 1 July with his entire accumulation balance of $500,000. A property worth $400,000 at 1 July is segregated to this pension. Jane has $100,000 in accumulation at 1 July. The entire property is solely supporting the pension for the entire financial year and any earnings on this property are 100% tax exempt under the segregated method. The remaining pool of assets which backs both Tony's unsegregated pension liabilities ($100,000 at 1 July) and Jane's accumulation liabilities ($100,000 at 1 July) will require an actuarial certificate to claim an exemption from income tax using the unsegregated method.

Any earnings on the property should fall into a new pension bank account so these are not mixed in with the un-segregated pool of assets. If this does not happen then the fund may need to keep track of nominal sub-accounts to ensure bank accounts remain segregated.



An alternative approach would be to move Tony's $100,000 in cash at 1 July into the new pension bank account, leaving Jane's $100,000 of accumulation in the original bank account. The fund is now fully segregated and no actuarial certificate would be required. Any accumulation monies coming into the fund should go into the original bank account (now the accumulation bank account) and any pension payments or income should come from or go into the pension bank account.




## Shares

Shares are easy to segregate as each unit is separate and its value (and therefore income/losses) can be easily determined. Particular shares can be allocated to members, groups of members or particular accounts.

For example, Sam commences a pension on 1 July with his entire accumulation balance, Susan remains in accumulation phase. When commencing pension Sam segregates 12,000 BHP shares to his pension account (this represents only part of his total pension starting balance).

The shares are solely supporting Sam's pension and are 100% tax exempt. The remaining assets in the fund are pooled together and an actuarial certificate will be required to claim an exemption from income tax on the income earned on these pooled assets. Again, any income (dividends etc) from the shares should be directed into a separate pension bank account, alternatively the fund could maintain nominal sub-accounts in each bank account to keep the segregation intact.


Phone: 1800 203 123
act@accurium.com.au
www.accurium.com.au