JBC Corporate

Income Streaming

Your Self-Managed Superannuation Fund ("SMSF") can pay benefits to a member as an income stream (pension) if the member has met one of the conditions of release.

Starting an Income Stream

An income stream can be described as a series of periodic benefit payments to a member. Income streams from an SMSF are usually account-based, which means the amount supporting the pension is allocated to a member's account.

An income stream is deemed a pension if the payments occur at least annually and, for an account-based pension, a minimum amount is paid to the member each year.

If a member starts an income stream after 1 July 2017 or the income stream was in existence just prior to 1 July 2017, then the SMSF is required to report the value of the income stream via the Transfer Balance Account Report ("TBAR")

Standards for Income Streams

If these standards are not met in the financial year, the income stream ceases for income tax purposes and we consider the SMSF has not an income stream at any time during the year.

Transition to retirement account-based income streams need to meet the same standards as ordinary account-based income streams. Additionally, there is a maximum annual payment limit of 10% of the account balance. These income streams can only be commuted to a lump sum in limited circumstances.

Income streams started before 1 July 2007 such as market linked pensions, which complied with the rules applicable at the time, are deemed to satisfy the new requirements and may continue to be paid under the former rules.

Records to Keep

You must maintain appropriate records while running an account-based pension, including records of:

- The value of the pension at commencement;
- The taxable and tax-free components of the pension at commencement;
- The earnings from assets set aside to support the pension; and
- The pension payments made.

Minimum Payments

You must make payments at least annually and meet the minimum pension payment amounts. The minimum pension payment amount for an account-based pension is a set percentage of the member's account balance at commencement or at 1 July for every subsequent year. The percentage varies according to the member's age and the year the pension is paid.

Managing Assets that Support a Pension

Once the pension has started, you may be able to claim a tax exemption in the SMSF annual return for certain income earned from assets held to provide for super income stream benefits. This is called Exempt Current Pension Income ("ECPI").

It is important to note that from 1 July 2017, earnings from assets supporting a Transition To Retirement Income stream ("TRIS") that is not in retirement phase will not be eligible for ECPI and will be taxed at 15%. This will apply to all TRIS regardless of the date the TRIS started.

- You cannot increase the capital supporting the pension using contributions or rollover amounts;
- You cannot use the capital value of the pension or the income from it as security for borrowing; or
- Before you can commute a pension (for example, into a lump sum), you must pay a minimum amount in certain circumstances.

Ending a Pension

The most common circumstances for a pension ceasing are:

- The pension capital is exhausted;
- The member dies (but the pension may continue if a dependent beneficiary is automatically entitled to a reversionary pension);
- Failure to meet the super pension standards; or
- The pension is fully commuted to a lump sum.

If you stop an income stream due to either failing to meet the super pension standard or you commute an amount to a lump sum, you are required to report the amount to the Australian Taxation Office via the TBAR.

Should you have any questions or require further information on this subject please don't hesitate to get in touch.