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When is an Actuarial Certificate Not Required?

The concept of when an actuarial certificate is not required might seem simple and obvious however just like most things in the SMSF industry there are a lot of “ifs” or “buts” that apply. Let us breakdown the most common circumstances of when an actuarial certificate is not required, including those ones that catch quite a lot of our clients out.

Full retirement phase

We need to put on our ‘Captain Obvious’ hat for a moment and cover the most well-known circumstance of when an actuarial certificate is not required. Where an SMSF is in full retirement phase for the entire financial year, the fund will need to use the Segregated Method when claiming Exempt Current Pension Income (ECPI) and an actuarial certificate will not be required.

It is important to note that even if a fund meets the criteria of having Disregarded Small Fund Assets entire financial year. (i.e., they are not eligible to use the Segregated Method), this will not apply if they solely support retirement phase for the entire financial year. The fund will still need to use the Segregated Method when claiming ECPI.

All unsegregated assets supporting non-retirement phase

Now this circumstance may seem straightforward, however there is a specific scenario that seems to confuse quite a few clients. Where you have a fund that has deemed segregated periods and the periods outside of the deemed segregated periods (i.e. the unsegregated periods) are solely supporting non-retirement phase, an actuarial certificate is not required. Now that might sound a little tricky to get your head around so let’s run through a simple example.

Consider a one-member fund that is eligible to use the Segregated Method. The fund starts off the year entirely in non-retirement phase and then on 1 January 2024 it moves into full retirement phase and no further non-retirement phase (accumulation) balances arise, that is no further contributions or transfers in. Does the fund require an actuarial certificate for the 2024 financial year? Some of you may have guessed "yes" as the fund has a mixture of non-retirement phase and retirement phase assets however the answer is "it depends". As the fund is eligible to use the Segregated Method and is solely supporting retirement phase from 1 January 2024 – 30 June 2024, the Trustees could choose to use the Segregated Method for that period and claim all earnings as 100% tax exempt. If the Trustees chose to do this then as the unsegregated period of 1 July 2023 – 31 December 2023 is solely supporting non-retirement phase, it will be fully taxable, and an actuarial certificate would not be required.

Alternatively, if the Trustees chose not to use Deemed Segregation and instead, treated the fund has unsegregated for the entire financial year then an actuarial certificate would be required when claiming ECPI. This is because there would be a mixture of unsegregated retirement phase and non-retirement phase assets and the tax exempt percentage will be applied to all earnings throughout the entire financial year.

Immediately commencing a retirement phase income stream with a contribution

Now if we had to vote which circumstance would be the most misunderstood of when an actuarial certificate is not required, it would be this one. Where you have a fund that is entirely in retirement phase and on the date it receives a contribution, if that contribution is immediately used to commenced a pension, an actuarial certificate is not required. This is because no accumulation account exists for a full day and the fund will be eligible to claim ECPI under the Segregated Method. It might help you to think that these transactions all take place at 9am (the contribution and the pension commencement). If this is the case, then the non-retirement phase (accumulation) balance had no time to earn any taxable income, because it was immediately converted to retirement phase (pension).

Partially commuting and withdrawing lump sums

This scenario is very similar to the previous point. Where you have a fund that is solely supporting retirement phase and on the date a member partially commutes some of its retirement phase money back into accumulation phase. If the member then immediately withdraws the full amount out of accumulation so that there is no accumulation balance existing for a full day, then an actuarial certificate will not be required. The Fund will be eligible to claim ECPI under the Segregated Method. As above, think of the partial commutation and accumulation withdrawal happening within a second of each other, there is no time for any taxable income to be earned.

Non-retirement phase TRIS

This one might seem simple and straightforward to some of our clients, but it is definitely one that has caught a few people out before. Where you have a fund that has a mixture of accumulation and non-retirement phase Transition to Retirement Income Streams (TRIS), or the fund is solely paying non-retirement phase TRIS', then the fund will be fully taxable and an actuarial certificate will not be required. Remember, for tax purposes, a non-retirement phase TRIS has the same treatments as non-retirement phase (accumulation) accounts.

Choosing not to claim ECPI under the Unsegregated Method

Yep, you read that correctly. Claiming ECPI under the Unsegregated Method is a choice! If the Trustees identify that the cost of obtaining an actuarial certificate outweighs the benefit of claiming ECPI under the Unsegregated Method, then they can choose to not claim ECPI under the Unsegregated Method and treat the earnings relating to the unsegregated assets as fully taxable. An actuarial certificate will therefore not be required.

Something that might help you to remember all of these rules at once is this: An Actuarial Certificate is only required, to support claims for exemption from income-tax (from unsegregated assets) in the tax return. If the only non-retirement phase balance(s) existed for less than an entire day, then it's as if they didn't exist at all.

If you are still unsure as to whether your SMSF requires an actuarial certificate or not, give us a call on 1800 230 737 or email act@act2.com.au to discuss.

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