

# Disregarded Small Fund Assets (DSFA): The Most Misunderstood Rule in ECPI



## OK – let’s see what we can do to demystify DSFA once, and for all.

In my experience, around 80% of Actuarial Certificate requests come through with the indication that the fund is **not eligible to use the Segregated Method**. Do more than 80% of SMSFs paying pensions really have Disregarded Small Fund Assets? Not by a long shot. This widespread misunderstanding is potentially costing trustees quite a bit of income tax and capital gains tax, depending on their circumstances.

So let’s break down what DSFA is, how to test for it, and what are the consequences of getting it wrong.

## Why Does DSFA Exist?

When the Transfer Balance Cap (TBC) was introduced in 2017/18, the government was concerned that trustees with large balances (i.e. more than the TBC) would use asset segregation as a tax-minimisation tool. The fear was that high-balance members, who can only have a portion of their super in Retirement Phase, might move high-growth assets into Segregated Pension status when convenient, and move them back out when not.

To prevent this, the following rule was created: Funds with high-balance members in pension phase would be ineligible to use the Segregated Method. These Funds are said to have 'Disregarded Small Fund Assets'.

## The DSFA Test

In a given financial year, a Fund has Disregarded Small Fund Assets if, at 30 June of the prior financial year, ANY member of the Fund had:

- A Total Super Balance (TSB) greater than \$1.6 million, AND
- Was receiving a Retirement Phase Income Stream (RPIS) inside or outside of the SMSF.

Both conditions must apply to the same member. If only one condition applies, there is no DSFA.

*So, unless a Fund had at least one member who, just prior to the financial year, was receiving a pension (from anywhere), and had more than \$1.6m in superannuation, then the Fund doesn't have DSFA.*

AND – if the Fund doesn't have DSFA, then the Fund is eligible to use the Segregated Method. So the next time you're asked "is the Fund eligible to use the Segregated Method?" you know that the most likely answer will be Yes, unless you have someone receiving a pension and with more than \$1.6m in super (just prior to the income year).

It is also worth noting that the \$1.6 million threshold for DSFA has NOT been indexed. The TBC itself has been indexed up to \$2 million (\$2.1 million from 01/07/2026), but for the DSFA test, the trigger remains at \$1.6 million. This means more Funds will creep into DSFA territory over time, even though the TBC has risen.

## Working Through Some Examples

Let's look at a few scenarios based on member circumstances as at 30 June 2025:

Example 1:

Bob has \$1.5m in his SMSF and \$500K in an industry fund paying him a pension. His TSB is \$2m, and he is receiving a RPIS.

***The Fund HAS DSFA and can not use the Segregated Method in 2025/26.***

Example 2:

Dave has \$1.5m in his SMSF and \$500K in an industry fund, and that external fund is paying him a non-Retirement Phase TRIS. Dave's TSB is \$2m, but he is NOT receiving a RPIS.

***The Fund doesn't have DSFA so can use the Segregated Method in 2025/26.***

Example 3:

Sue and Steve's Fund: Sue has a \$2.2m TSB but is entirely in accumulation. Steve has a \$1.4m TSB and is receiving a pension from an industry fund.

***Neither member has BOTH TSB > \$1.6m AND a pension.  
The Fund doesn't have DSFA so can use the Segregated Method in 2025/26.***

## The Practical Impact

If a Fund does NOT have DSFA, it IS eligible to use the Segregated Method. This means that if the Fund has periods where all balances are in Retirement Phase, even briefly, those periods can be treated as Deemed Segregated Periods. All income received during those periods is fully exempt, and any Capital Gains events that occur during those periods are fully immunised from CGT.

When administrators or accountants incorrectly flag a Fund as ineligible for the Segregated Method, they effectively deny the trustees the ability to use Deemed Segregated Periods. Depending on the Fund's circumstances, this can result in significantly more income tax and CGT being paid than necessary.

So understanding whether a Fund is eligible to use the Segregated Method, is one of the most important things an SMSF professional can do for their clients as it opens the door for full income-tax exemption and full immunisation from CGT during periods where all balances are in pension. Wrongly stating the Fund is ineligible to use the Segregated Method closes that door and means that only the Unsegregated Method can be used for the entire Financial Year.

### The Simple Version

ALL Funds are eligible to use the Segregated Method — UNLESS they have DSFA. And DSFA only applies if a member had TSB > \$1.6m AND was receiving a RPIS at 30 June of the prior year. Check carefully before you assume a Fund is ineligible

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