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Client Discussion Paper

Top 5 ways to trip up with SMSF annual returns

The ATO has compiled, over many years worth of annual return data supplied by self managed superannuation funds, what it says are the top five errors committed by SMSF trustees when lodging their annual tax return.

Knowing where other SMSF trustees have tripped up in the past can go a long way tp make sure you don't commit the same mistake.

1/. Bank account not unique to the SMSF

An SMSF will need a bank account in its own name to manage the SMSF's operations as well as to accept contributions, rollovers of super and income from investments. This account is also used to pay the fund's expenses and other liabilities.

The account must be separate from a trustee's individual bank accounts and any related employers' or advisers' bank accounts. This will protect your fund's assets and ensure super payments can be made to your SMSF.

Note that there is no need to open a separate bank account for each member, but you must keep a separate record of their entitlement, referred to by the ATO as the "member account". Each member account shows:

- contributions made by or on behalf of that member
- fund investment earnings allocated to them
- payments of any super benefits (lump sums or income streams).

2/. Providing an incorrect electronic service address

An electronic service address (ESA) allows your SMSF to receive electronic remittance advice and contributions if you have members receiving super from employers (other than related-party employers). Your fund needs to be able to receive the contributions and associated SuperStream data electronically.

SuperStream is a data and payment standard that applies to super contributions made by employers to any super fund, including SMSFs. To receive SuperStream data you need an ESA, which is a special internet address. An ESA consists of alphanumeric characters with a combination of upper and lower case characters and is case sensitive. It's not an email address or the contact details of an SMSF messaging provider.

3/. Not valuing assets at market value

An SMSF's assets need to be calculated at market value as at 30 June to prepare your fund's accounts, statements and annual return. The ATO sates that the safest way to do this may be to follow the ATO's valuation guidelines, as it generally accepts the valuations arrived at by following these principles.

Some assets must be valued in a particular way – these are summarised in this table. Accurate asset valuation is important to ensure a fund retains its complying status. Penalties may apply for inaccurate valuations as these can affect member balances.

4/. Trying to lodge with zero assets

An SMSF is not legally established until the fund has assets set aside for the benefit of members. The ATO won't accept an annual return from an SMSF that has no assets or no closing member account balances, unless the return is for the year in which the fund is wound up.

If this is an SMSF's first year and it has no assets set aside, the ATO can be asked to either cancel the fund's registration or flag the SMSF's record as “Return not necessary”.

5/. Lodging a return without auditor details

An approved auditor examines an SMSF's financial statements and assesses the fund's compliance with super law. An audit must be completed before an annual return can be lodged. It is necessary to appoint an auditor at least 45 days before the SMSF annual return is due to ensure the audit is completed in time.

A return lodged without auditor details will be suspended by the ATO and not even recognised as a lodgment. This will of course negatively affect the complying status of the fund until the return is lodged with the required information.