

Joint Committee on Corporations and Financial Services
Inquiry into the Structure and Operation of the Superannuation Industry
ANSWERS TO QUESTIONS ON NOTICE

TREASURY

Australian Taxation Office

20 November 2006

Topic: Inquiry into the structure and operation of the superannuation industry

Question on Notice 1, Hansard Page: CFS 35

Senator Sherry asked:

Ms Vivian—As at June 2006, the average total asset per self-managed super fund was about \$653,000. In answer to a question on notice from Senator Sherry, we said that \$200,000 is often regarded as being the level of viability. That answer was based on the 2003-04 year and I think it showed that about 40 per cent of self-managed super funds had assets under \$200,000. In the last year this figure has shifted to about 34 per cent of funds.

CHAIRMAN—It has fallen.

Senator SHERRY—That answer was in reply to a question at estimates, not at this committee, so neither the chairman nor the other members of the committee would be aware of the answer you gave me. Could you update that information and provide the answer on notice to this committee?

Ms Vivian—Certainly.

CHAIRMAN—So the percentage of funds that are below the 'efficiency threshold', for want of a better term, is falling?

Ms Vivian—Yes. So maybe you could draw the conclusion from that that these funds are in an accumulation phase. I have looked a bit more closely at them because it is a concern whether these funds are at risk. From memory, about 50 per cent of the funds were set up before 2002, so they have been set up for some time. A very high proportion of them use a tax agent; it is higher than the average for self-managed super funds. We are certainly having a closer look. When I have talked to people and looked across the audits we have done, I have tried to see whether there have been any more compliance risks or contraventions occurring in funds with over \$200,000—and I do not have any evidence to say yes or no. They seem to be part of the norm in terms of what is reported. But this year we are going to have a closer look at some of them to see if there are any particular risks there. I suppose what we do see when we look at them is that they have quite a few contributions coming in, either personal or from employer contributions and, on that recent stat, most of them are in an accumulation phase; very few are paying out pensions.

Senator SHERRY—In the information that you provide on notice, could you also update the average fee. I think in that information you gave me there was a fee for the range of balances, which is always useful.

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Answer:

- (a) The latest Tax Office data indicates that for the 2004-05 year the number of SMSFs with less than \$200,000 in assets is 90,118. This represents 35% of the total SMSFs lodged.
- (b) For SMSFs with less than \$200,000 in assets the average management expense in the 2004-05 year was \$895. This figure does not include expenses incurred when establishing an SMSF as these expenses are of a capital nature and are not tax deductible. Costs incurred when establishing a fund are not specifically reported in either the income or regulatory return.
- (c) Since providing some management expense information to this committee on 20 November 2006 our data has been updated and we have also detected an error in some of the calculations. The table below represents the latest management expense information available for funds with assets of less than \$200,000 in the 2004-05 year.

Income	Funds	Average management expenses
Zero	5,632	\$155
\$1 to \$5,000	22,991	\$692
\$5,001 to \$10,000	19,212	\$933
\$10,001 to \$50,000	37,130	\$1,092
Over \$50,000	5,153	\$1,050

* this data was extracted on 27 November 2006

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Question on Notice 2, Hansard Page: CFS 37

Senator Murray asked:

I have a question—and I am sure I know the answer—on the same point that the chairman was pursuing. Has the ATO done any work to establish how frequent the multiplicity of SMSFs is with respect to close family? In other words, do you know, out of the growth rate in SMSFs, how many in fact represent the problem that the chairman outlined—that is, that extended families are forced to create more than one fund because of present regulation?

Ms Vivian—No, we have not done any work on that. It would be difficult because you would have to make some guesses about names. I am thinking about whether we could even provide anything that gave you an indication. I think one of the issues would be that we would not be necessarily aware of all the family relationships in the fund—unless they were to call it Smith family No. 1 and Smith family No. 2 or something along those lines.

Senator MURRAY—Would it be difficult or costly to do some snapshot research? In other words, would it be difficult to take a slice of 500 funds and establish on a random basis how many—

Ms Vivian—It would be costly if we had to contact them. I am happy to take it on notice and see if we can do a snapshot based on registration information. But, as I said, I would couch it as indicative only, because all we could search for would be similar sorts of names.

Answer:

Tax Office SMSF registration processes do not capture links between family members. Therefore, any attempts at data matching would be extremely unreliable.

A survey could be conducted, but this would be a costly exercise given that a statistically representative sample of SMSFs would need to be determined and contact would need to be made with the trustees of the funds. An initial estimate of the cost of conducting such a survey is approximately \$20,000.

Currently close to 89% of SMSFs have two members or less. Below is the estimate of the membership sizes of SMSFs as at 30 June 2005:

1 member	-	20.3%
2 member	-	68.6%
3 member	-	5.5 %
4 member	-	5.6%

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Question on Notice 3, Hansard Page: CFS 38

Chairman asked:

You indicate in your submission that 75 per cent of those rated as high risk were found to have medium to serious compliance issues. The question was: what proportion of funds do you class as high risk, do you have a class of funds that you regard as medium risk and, if so, have you done any analysis on the level of compliance issues that they face?

Ms Vivian—I do not have the break-up here between high risk and medium risk. Given that in the last year our active compliance work has been at about 1.2 per cent, it has been focused on the high-risk areas of the self-managed funds. So the areas that we have been particularly looking at are trustees, unauthorised early access, personal use of fund assets, breaches of in-house asset rules and acquisitions of assets. I can come back to you with a break-up of the 75 per cent mentioned in the speech. I would need to confirm what the break-up of that would be in terms of your question.

Answer:

As at February 2006, the most recent available data, the proportion of funds classified as high risk was approximately 3.4%. The proportion of funds classified as medium risk was 22.4%.

Compliance issues faced by these funds generally include:

- whether the in house asset rule has been complied with
- acquisition of assets from related parties
- lending to members or relatives
- borrowing by the fund
- whether the sole purpose test has been satisfied

Medium risk funds may have similar compliance issues to high risk funds, such as personal use of fund assets or breaches of in-house asset rules, where the issue is significant. However a fund will be generally classified as high risk as opposed to medium risk because there are a greater number of potential compliance issues for that fund. For example, if there was information indicating that a fund may have breached the in-house asset rule this may result in the fund being rated as medium risk. However if there were indicators that the fund may also be lending to members and that one of the trustees is a disqualified person then the fund would be rated as high risk.