THE TAX INSTITUTE

SMSF 3-Year Audit proposal

Treasury has released a Consultation Paper *Three-year audit cycle for some self-managed superannuation funds* to obtain feedback on the proposal the change the SMSF audit cycle for funds described as "good compliers".

The motive for the proposal appears to be to reduce the administrative burden on the sector by rewarding good-record keeping and compliance. If passed into law, certain SMSFs could self-assess their eligibility to adopt the reduced audit cycle. It appears however, that there will still be a requirement to have all years audited, albeit in the one year.

The Consultation Paper lists the Eligibility Criteria as:

1. Good recording keeping and compliance: SMSFs will have to meet eligibility criteria of timely submission of SARs and three consecutive years of clear audit reports to move from an annual audit cycle to a three-yearly audit cycle; and

2. Key events: A SMSF on a three-yearly audit cycle will be audited in every year in which a key event occurs, with such audits covering all years since the previous audit.

The Eligibility Criteria, and the self-assessment aspect of this proposal, makes it more complicated than would be expected in a move to "reduce red-tape". By way of example, if a SMSF qualifies in one year for adoption of a 3-year audit cycle and, then, in Year 2, a member commences an income stream (an example of a "Key Event"), the fund must be audited in that year. Thereafter, subject to still satisfying the Eligibility Criteria, the Fund can again move to a 3-year cycle.

On the other hand, if your client book comprises mostly accumulation funds that have a good compliance history, the adoption of a 3-year audit cycle may deliver the purported administration savings. Even so, there are several proposed "Key Events" that may interrupt a 3-year audit cycle including; the addition or removal of a member; the acquisition of an asset from a related party; the commencement and maintenance of a LRBA.

Suggested questions for the membership

1. Do you support the proposal to move certain SMSFs to a 3-year audit cycle?
2. Please provide the reasons for your answer
3. Within your client book, what percentage would you expect to qualify for self-assessment to adopt the 3-year cycle?

   (The adoption of a 3-year audit cycle is not mandated. It is an option for funds that exhibit certain profiles.)
4. What impact would a change to a 3-year audit cycle for your SMSF clients have on your practice?

Interested members are encouraged to contact The Tax Institute's Tax Policy and Advocacy team.