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Labor versus Liberal: The key election policies impacting SMSFs

Feature Articles | By Miranda Brownlee | 10 May, 2019 | 14 minutes read

With the federal election now just days away and superannuation and tax among the key election issues, what is each major party promising and how will it impact the SMSF sector?

LABOR POLICIES

Removal of refundable franking credits

Labor's plan to pull ahead with its proposal to remove refundable franking credits, despite a recommendation by Standing Committee on Economics not to proceed with the policy, following the completion of its inquiry.

The policy is intended to apply from 1 July 2019 and based on estimates by the Parliamentary Budget Office, will deliver $60,000 additional revenues in 2020/21 and 1.2B Australian Prudential Regulation Authority (APRA) regulated funds in the 2018/19 financial year.

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The Financial Services Council has estimated that around 2.6 million Australians in APRA-regulated funds will be negatively impacted by Labor's franking credit policy.

Industry and retail superannuation funds will generally be able to offset any franking credits received against the tax payable in such financial year. However, Colonial First State Investment manager of retirement income, Ben Fordham said the proposed change would target single with a larger proportion of members in retirement phase would also be adversely affected.

For example, a combination of a greater proportion of retirement phase members, a lower inflow of contributions and a lower rate of investment income would mean that a fund with a large proportion of retirees could result in a fund being in an overall net refund position in a particular month, he said.

In the SMSF context, SMSFs with member balances below $1.6 million, pension phase members only and in pension recipients will likely see the greatest impact from the policy.

While shadow treasurer Chris Bowen has framed the policy as one that will target the wealthy, analysts by Superannuation Guardian have commented.

Following the introduction of the variable Superior cap, any excess pension balance above $1.6 million had to be transferred to an accumulation interest in the fund.

Given that investment earnings from assets supporting an accumulation interest are taxable, the existence of a large proportion of such assets in the fund may have sensible income to use to meet pension payments rather than those credits being refunded, which means the policy may have impact on those with larger balances, according to the analysis by Superannuation Guardian.

Labor has announced a pensioner guarantee for the policy which will enable every recipient of an Australian Government Pension or Australian Government Allowance, including those who do not have individuals receiving the Age Pension, Disability Support Pensioners, Carer Payment, Parenting Payment, Newstart and Sickness Allowance.

It has also announced that SMSFs with at least one pensioner or allowance recipient before 28 March 2019 will be exempt from the changes.

CEM Capital advisor Peter Dwyer says SMSF professionals and clients should be careful about overreacting to the proposed franking credits tax early, with Labor still yet to win the election and their ability to pass the policy through both houses still very uncertain.

"What's said in the lead up to an election is not necessarily what gets legislated, and they've finally got to get it through the Senate, which is a very, very, very,