

Covid-19 Early release measure

As a general rule, superannuation benefits may only be accessed once members turn 65 or reach their preservation age (between 55 and 60 depending on when they were born) and retire.

However, some financially distressed superannuation members may be able to access up to \$10,000 of their super balance in 2019/20 and a further \$10,000 in 2020/21 under a new temporary early release condition.

ELIGIBILITY

An individual is eligible to apply for early release if:

- ✓ they have been financially affected by the Covid-19 situation, and they
- ✓ are unemployed, or
- ✓ are eligible to receive a Job Seeker Payment (previously known as Newstart Allowance), youth allowance for job seekers, parenting payment, special benefit or Farm Household Allowance, or
- ✓ on or after 1 January 2020:
 - were made redundant, or
 - had their working hours reduced by 20% or more (including to zero), or

- for sole traders, their business was suspended or there was a reduction in their turnover of 20% or more.

It is important to remember that the purpose of the withdrawal must be to assist individuals to deal with the adverse economic impact of Covid-19.

At this stage, it appears that the following individuals may NOT be eligible (unless they are unemployed or entitled to a Job Seeker Payment (or similar)):

- ✗ Controllers of companies and trusts who do not receive a wage and are paid dividends or distributions instead.
- ✗ Individuals who are employed by their own company or trust and their work hours have not reduced.
- ✗ Employees who have taken a pay cut but their work hours have not reduced.

We are awaiting clarification from Treasury.

AMOUNT

As noted above, eligible individuals can apply for up to \$10,000 before 1 July 2020, and for another \$10,000 between 1 July 2020 to 24 September 2020.

Individuals should carefully consider how much they wish to apply for as only one application is permitted in each financial year. If an individual applies for less than \$10,000 prior to

1 July 2020, they cannot make another application in the 2019/20 year. They will only be able to apply for another amount of up to \$10,000 from 1 July 2020.

TAX & CENTRELINK TREATMENT

The payment is tax free – it doesn't count as income and is not included under any income or means tests. It does not need to be declared in the individual's Income Tax Return, nor to Centrelink or DVA.

APPLICATION AND PAYMENT PROCESS FOR SMSF MEMBERS

Applications can be made from 20 April 2020 and individuals will be able to apply directly to the ATO online via myGov – they don't apply directly to the super fund (a manual option will be available for those that can't transact online).

The individual will need to self-assess that they meet the eligibility criteria and they will be asked by the ATO in the relevant application form to confirm that they have been financially impacted by Covid-19.

Once the ATO has processed the application, they will provide the individual with a determination – the individual will need to provide a copy to the SMSF who will then be authorized to make the payment.



The ATO expects to get the determinations to members within 1-2 days of the application being made. Funds will be required to make the payment as soon as practicable after receiving a copy of the determination from the ATO.

It is important that SMSF Trustees wait for that determination from the ATO and do not make the payment earlier, otherwise it could be an illegal benefit payment and taxed at the individual's marginal rate, as well as cause a compliance breach for the fund.

What documentation will SMSFs require?

SMSFs will need to prepare similar documentation to a standard benefit payment but with adjustments made for this specific condition of release.

For members of SMSFs administered by Heffron, we will prepare the fund documentation to evidence the withdrawal of monies under this new condition of release at no cost.

What member account in the SMSF can the payment come from?

This measure is for those members who have not met a full "condition of release" (such as retirement or age 65), and as such hold benefits in accumulation phase and/or have a Transition to Retirement Income Stream.

The lump sum payment will need to be made from the member's accumulation account. If the member only has a Transition to Retirement Income Stream that is not in retirement phase, they should rollback (commute) the amount requested to accumulation prior to making the application.

OTHER OPTIONS

In addition to this new early release rule, individuals may also be able to access some of their super benefits under the existing severe financial hardship and compassionate grounds rules or depending on their age, commencing a transition to retirement income stream. Refer to Heffron's "What if I require early access to my super" factsheet for further details.