# Deferred Contribution Allocation - contribution reserves

A deferred contribution allocation strategy, often referred to as contribution reserving, enables a member to bring forward the timing of a contribution into the current financial year but still allocate the value of the contribution to the next financial year for the purposes of contribution caps. In this fact sheet we will outline how this strategy works from a tax and caps perspective and the required documentation the SMSF needs to prepare.

## Is an unallocated contribution held in a 'reserve'?

Both the ATO and APRA have confirmed that monies held in suspense accounts used to record contributions pending the allocation to members are not reserves. With a specific focus on SMSFs, the ATO's position is contained within SMSF Regulator's Bulletin 'SMSFRB 2018/1 – the use of reserves by self managed superannuation funds'. Importantly for SMSFs this confirmation by the ATO ensures that these suspense accounts are not considered reserves for the purposes of satisfying the Superannuation Industry (Supervision) Act 1993 (SISA) trustee covenant requirements. As such the primary requirement is to ensure that all contributions are received and allocated in accordance with the SISA rules.

In SMSFRB 2018/1 the ATO raise concerns that SMSFs may implement strategies using reserves, including suspense accounts, to circumvent restrictions imposed by both super and tax laws. Specifically, the ATO are concerned trustees may be using these strategies to circumvent the link between the transfer balance cap, an individual's total superannuation balance (TSB) and certain contribution measures. Scrutiny may be given to an arrangement where contribution reserving is used to alter the TSB and allow contributions to be made that would not otherwise be allowable.


An SMSF's trust deed must allow for contribution reserves/unallocated contributions, or at the very least for contributions to be allocated in accordance with the law. It is therefore important to recognise what the law requires. It is a requirement of SIS Regulation Division 7.2 that a trustee must allocate a contribution to a member's account within 28 days after the end of the month in which it is received.

Thus a contribution can be made in June of a financial year and allocated to a member in the next financial year as long as the allocation is made within 28 days following the end of the month in which the contribution is received i.e. a June contribution must be allocated by 28th July.

Importantly, contributions subject to a deferred allocation are recognised when they are made for tax deductibility purposes and if they are concessional contributions are treated as taxable income to the SMSF in the year of receipt (year 1). However, the amount then count towards the appropriate contribution cap in the following year (year 2). This position is confirmed in Taxation Determination 2013/22 – Income tax: 'concessional contributions' – allocation of a superannuation contribution with effect from a day in the financial year after the financial year in which the contribution was made.'

## Example of how this strategy works:

- The member makes a personal contribution at any time during the year, prior to 30 June 2023, of $27,500 and intends to claim a tax deduction for it.
- The same member then makes a further contribution of $27,500 between 1 June 2023 and 30 June 2023. They intend to claim a tax deduction for this amount too.
- The trustee must resolve to accept the contribution into a reserve to be allocated within 28 days following the end of the month which it is received.
- Within 28 days following the end of the month the contribution is received (in year 2), the trustee needs to resolve to allocate the amount to the member's account.
- The overall effect of this is that the member obtains a tax deduction of $55,000 and the SMSF pays tax at 15% on the $55,000 contribution in the year of receipt.
- The member can have $27,500 counted towards their concessional contribution cap in year 1 and $27,500 in year 2.
- As stated above, with the deferred amount, the SMSF needs to resolve to allocate it to an unallocated contribution 'reserve' account (in year 1).
- In practice all contributions are allocated to the member account at the time of receipt to ensure the fund's income is reported correctly and to allow matching for deductibility purposes.
- The member must then apply for the contribution to be reallocated by the ATO.

## What forms and paperwork needs to be in place for this strategy?

This strategy can be used for both concessional and non-concessional contributions.  The ATO only have a formal process for concessional contributions.

In order to correctly notify the ATO that you are using this strategy and have made concessional contributions in one year and they should not be allocated to your cap until the next financial year, there is a form 'NAT 74851 Request to adjust concessional contributions'. The form should be lodged with the ATO either before or at the same time as the SMSF annual return and personal income tax return are lodged. This should avoid an excess concessional contribution assessment being raised by the ATO.

As stated above in the example, the following documentation should ideally be in place for this strategy:

- Trustee resolution showing the fund has considered the governing rules and allocated the contribution to a reserve rather than a member account in year 1
- Receipt of the contribution
- Trustee resolution showing the allocation from the reserve to a member account in year 2
- Personal deductible contribution notice and acknowledgment where required
- NAT 74851 Request to adjust concessional contributions

This strategy would be undertaken where you want to make a larger concessional contribution and bring forward your deduction for contributions made.

For non-concessional contributions, the member must write to the ATO and request the contribution be allocated to the next year.

## Strategy risks

The most significant risk associated with this strategy is that once a contribution has been allocated to the following year, the member needs to be aware that any further contributions made that year (year 2) may be subject to excess contributions.