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SMSFs with more than $5m surge by 30pc

Exclusive

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The number of SMSFs that have more than $5 million stuffed in the low-tax vehicles has jumped by 5000 in the past five years, increasing the share of rich nest-egg owners by a third, new data from the Australian Taxation Office reveals.

Figures released by the ATO on Friday show self-managed super funds with $5 million or more of assets accounted for 3.6 per cent of all SMSFs at the end of the 2020 financial year. That is up from 2.7 per cent at the end of fiscal 2016.

That means roughly 20,000 SMSFs were sitting on savings of at least $5 million in June 2020, up from about 14,800 five years ago. Due to the significant asset price inflation in the past 12 months, that figure is likely to have ballooned further.

The figures show there are now almost 600,000 SMSFs in Australia, managing a total of $822 billion on behalf of 1.1 million members.

"The overall number of SMSFs reporting total assets in excess of $5 million is slightly less than 20,000 based on the number of outstanding lodgments at the time the data was extracted," a spokeswoman for the ATO confirmed. The figures are "based on SMSF returns that have actually been lodged for the 2020 income year and not on the total number of registered funds".

While the average assets per SMSF were $1.3 million in mid-2020, working out to roughly $696,000 per member, the top end of the sector has fallen under increasing scrutiny given the system's generous provision of unlimited tax concessions.

Recent figures from the ATO's top 100 SMSFs, published via FOI documents obtained by *The Australian Financial Review*, showed 27 individual SMSFs had savings greater than $100 million in the 2019 financial year. That was an increase from the 22 a year earlier.

Total assets held across the top 100 SMSFs increased from $8.71 billion in 2018 to $9.64 billion in 2019. These funds, likely held by the wealthiest Australian families, receive generous tax concessions, including taxed earnings at a low rate of just 15 per cent in accumulation and for all savings in excess of $1.7 million cap on pensions for individuals and $3.4 million for couples.

Treasury's recently released Retirement Income Review, chaired by former IMF director and senior Treasury bureaucrat Michael Callaghan, found the wealthiest superannuation savers with balances exceeding $5 million have tucked away a collective $90 billion in their accounts and are receiving more government support – in terms of tax concessions – than the support received by all low-income households combined.

The government's latest Intergenerational Report showed that while concessions on superannuation contributions would hold steady at 1 per cent of GDP over the next 40 years, tax concessions on the earnings of super assets would double from 1 to 2 per cent of GDP by 2060. Together, concessions will account for 3 per cent of GDP.

In 2016, then-treasurer Scott Morrison introduced the cap for tax-free super accounts, sparking a rebellion among the Liberal Party's well-heeled base.

While excessive funds can be left in accumulation accounts, taxed at a concessional rate of 15 per cent, holding investments in the super system is still far more advantageous for tax minimisation.

If the investments were held outside of super, they would attract tax applied at a marginal rate. For a wealthy Australian, this would likely be a rate of 45 per cent, plus the Medicare levy.

Super concessions now cost the federal budget $36 billion in forgone tax annually – about three times the amount usually spent on the JobSeeker, formerly Newstart, payment. The Intergenerational Report found super concessions will surpass the cost of the aged pension by 2040.

The Grattan Institute estimates half of these tax concessions flow to the wealthiest 20 per cent of households.