

Removal of Tax Credits (RITC)

Frequently asked questions – Adviser use only

June 2024

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ATO notice summary

AMP received [guidance](#) from the Australian Taxation Office (ATO), that from 1 July 2024 Super Funds and IDPS operators will no longer be able to claim a Reduced Input Tax Credit (RITC) on behalf of members for Advice Fees collected by the platform. As the implementation date is coming up, we'd like to give you some updated information to help you through this change.

Please note, RITC applies to both North products and Wealth products. Wealth communications are being delivered separately (where applicable).

1. What is RITC?

RITC stands for 'Reduced Input Tax Credit'. It's a rebate of the Goods and Services Tax (GST) payable for certain Fees charged through the Platform. Funds and IDPS Operators are currently able to claim a RITC from the ATO on the GST applicable to Advice fees.

2. What's changing?

On 13 December 2023, the ATO published a notice to Super Funds and Investor Directed Portfolio Service (IDPS) platforms signalling a change in their approach to claims made by funds for GST on Advice Fees.

Platforms and IDPS operators will no longer be able to claim a RITC on the GST applicable to Advice Fees from 1 August 2024. You can read a copy of this notice in the Appendix section (Q20) of this document.

3. Where can clients read the ATO notification of RITC changes?

Clients can find a copy of this notice, and FAQs related to the SEN, on our dedicated client site, at northonline.com.au/client updates.

4. Which products are impacted?

This change will impact a number of Wrap products including MyNorth/North Super, Pension and Investment products.

5. When are we notifying clients?

We notified clients via a Significant Event Notice (SEN) between 6-31 May 2024. They received the notification based on their communication preferences, and a copy is available in North Online > Statements and Correspondence.

6. How are North clients impacted?

Clients will no longer receive the benefit of the RITC which is a 75% reduction of the GST payable on Advice Fees. This means clients will pay the full amount of the fee they agreed to with their Financial Adviser.

If the agreed Advice Fee is \$110 they'll pay the full \$110 from 1 July, whereas prior to 1 July, they would have paid \$102.50, due to the full value of the RITC being passed onto them.

Note: a RITC is also applicable for other platform fees (Account, Admin, and Trustee fees). There are no changes to these fees.

7. Does removing the RITC reduce the Member/Client Advice Fee (MAF)(CAF) paid to the financial adviser?

No, the removal of the RITC doesn't reduce or increase the Advice Fees paid to Financial Advisers. The full advice fee amount (including GST) will continue to be paid to the Adviser's AFSL.

8. What do Advisers need to do?

We recommend Advisers review any documents they have issued to clients (such as fee schedules and consent forms) to make sure that these are still accurate in light of the removal of RITC on Advice Fees.

Whilst GST is still applicable on Advice fees, the 75% rebate of this tax is no longer applicable.

9. Do Advisers need to create a new advice fee agreement based on the ATO change?

We recommend you review your Advice fees and discuss the impending change with your clients.

10. What do clients need to do?

Clients need to be aware of this change and understand how this impacts the Advice fees they're paying.

While clients don't need to do anything, they should contact their Financial Adviser or seek out material relating to the removal of RITC on the ATO website.

Please refer to the example given in Q13 for a detailed breakdown of how Advice Fees are increasing.

11. When will Advice Fees increase as a result of removing the Reduced Input Tax Credit?

All Advice Fee payments made by clients from 1 July 2024 will no longer include the RITC. This will mean clients will begin to pay the full amount of their agreed Advice Fee from this date.

12. Can clients claim a Reduced Tax Income Credit as part of their Tax Return?

Most financial advice services acquired by clients would not be eligible for a Reduced Tax Income Credit; but there may be exceptions. Clients should contact their Financial Adviser or the ATO if they believe they could be eligible.

13. Do Platform fees have a RITC component? Is this also changing?

Yes, Platform fees still have a RITC component; this is not changing as a result of the ATO's updated guidance.

Clients will still receive a 75% reduction in GST for these fees.

Example: \$15 account fee

Fee Paid \$15

Base Fee \$14.63 (Fee not inclusive of GST)

Base Fee + GST = $\$14.63 \times 10\% = \16.10

Base Fee $\$16.10 \times 0.9318 = \15

14. What happens to advice fee activities in 'save to resume' not submitted prior to 1 July 2024? **NEW**

RITC won't be applied to any 'save to resume' advice fee activities saved prior but submitted after implementation 1 July 2024.

15. Are there any changes to data in our systems? **NEW**

No, there are no other changes to data in MyAMP (Client Portal), ClientHub (Salesforce), IRESS and COIN.

16. Is there a grace period? **NEW**

No, there is no grace period and there are no claw backs. The change is effective from 1 July 2024.

17. Will the tool tips be updated in North Online? **NEW**

Yes, we will be updating the relevant tool tips to remove references to RITC in North Online from 1 July 2024.

References to RITC have been removed on the following North Online IDPS / Super & Pension pages:

- Creating a new account (IDPS and Super/Pension)
- Maintain Account (IDPS) > Account Details > Adviser remuneration
- Maintain Account (Super/Pension) > Account Details > Advice fees > Fixed term or Ongoing advice fees
- Maintain Account (Super/Pension) > Account Details > Advice fees > One-off Advice Fees

Example:

Remuneration type	Initial	Subsequent	Notes
Contributions	0.00%	0.00%	0.00 - 4.40% (inclusive of GST)
Regular savings plan		0.00%	0.00 - 4.40% (inclusive of GST)

The below RITC wording has been removed from tool tips:

"Please note that the actual fee charged to the client account is lower as the GST is reduced by the impact of the Reduced Input Tax Credit (RITC)."

NOTE: ALL OTHER TOOL TIP WORDING REMAINS THE SAME.

Example:

Monthly fee

The monthly advice fee is based on the dollar and percentage values entered (estimated using the current account value). Please note that the fee charged to the client's account is lower as the GST amount is reduced by the Reduced Input Tax Credit (RITC).

Monthly fee ⓘ

\$0.00

Monthly \$ \$0.00
Monthly % \$0.00

18. Do these changes affect system advice fee caps? **NEW**

There is no change to the Maximum Advice Fee payable to Financial Advisers. This means that the amount the adviser receives will not change if their client has reached the member/client Advice Fee Cap.

Example: Previously if a Client had reached an initial Advice Fee cap of \$10,000 it would result in a maximum deduction of \$9,318.18 pa from the clients cash account the difference was paid for using the RITC. From 1 July 2024 the amount client will be charged the full \$10,000 pa in this scenario.

19. Will the PDS be updated to reflect these changes? **NEW**

Yes, the PDS will be updated from 1 July 2024, and we'll provide notification that a new PDS is available.

20. Appendix – ATO Notice

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Eligibility of super funds and investor-directed portfolio services investment platforms to claim reduced input tax credits on adviser fees

Purpose

The purpose of this document is to notify superannuation funds and investor-directed portfolio services (IDPS) investment platforms (collectively referred to as Funds) of certain matters relevant to claims for reduced input tax credits (RITCs) in respect of adviser services fees.

With changes to the regulatory environment and increased scrutiny of adviser fee arrangements^[1], there has been a move towards greater transparency of arrangements involving the payment by Funds of fees for adviser services.

Having recently reviewed some examples of current arrangements, the Commissioner now has a better understanding of the relevant contractual arrangements, including:

- who is liable for the adviser services fees
- the services provided by the advisers
- what the fees are paid for, and
- the circumstances under which Funds make a payment of adviser services fees.

Under arrangements of the kind set out in this document, the Commissioner's view is that Funds are not eligible to claim RITCs for the adviser services fees, as Funds are not the recipient of a supply for which the fees are consideration. This view is consistent with the Commissioner's existing guidance in Goods and Services Tax Ruling GSTR 2006/9 *Goods and services tax: supplies*, including in relation to tripartite agreements.

We recommend that Funds:

- review their arrangements for the payment of adviser fees to ensure RITCs are not being claimed when there is no entitlement, and
- consider the application of the compliance approach set out in this document to past periods.

This document is focused on arrangements where a member or investor engages a financial adviser to provide them with personal advice. It does not consider arrangements where Funds engage an adviser to provide non-ongoing, simple advice to its members, where a fee is collectively charged to all members (referred to as intra-fund advice).

Recently reviewed arrangements

Broadly, the arrangements we have recently considered have the following features:

- An individual (or other entity) engages an adviser to provide them with personal financial advice, under an agreement between the member and the adviser. The advice relates to the individual's interest (or prospective interest) in the Fund.
- The individual completes a request that authorises the Fund to pay the adviser services fees to the adviser, by deducting the amount from the individual's interest or the assets held for them in the Fund. The fees may be for initial or one-off financial advice or ongoing adviser services provided to the individual in respect of their interest in the Fund.
- If the Fund does not pay the fees (whether at its discretion, because the conditions for payment are not met, or there are insufficient funds or assets held for the individual), the individual remains liable to pay the adviser.
- While the adviser may also provide other services to the investor such as providing instructions to the Fund on the individual's behalf or accessing information and reporting on the individual's investment in the Fund, the adviser is not involved in executing any of the underlying transactions.
- The adviser may be required to be registered with the Fund and agree to certain terms and conditions, including self-assessment about the subject matter of the advice, in order to receive payment from the Fund.

Under such an arrangement, there is only a supply of financial advice by the adviser to the individual. While some tripartite arrangements may result in the one set of acts giving rise to 2 supplies to 2 different entities^[2], it is the Commissioner's view that the provision of advice or other services by the adviser in these kinds of arrangements does not result in a second supply to the Fund. The adviser is not under an obligation to the Fund to provide advice to the individual and nor is the advice provided in satisfaction of any obligation owed by the Fund to the individual. The Commissioner considers the arrangement between the adviser and the Fund is best described as an administrative arrangement to provide payment.^[3]

To the extent that the adviser may make some supply to the Fund under a pre-existing framework or agreement relating to the payment of those adviser fees (for example, under the terms of registration with the Fund), the payment of the adviser fees by the Fund is not consideration for that supply. As such, the Fund is not the recipient of a supply for which the adviser services fees are consideration. The adviser services fees are only consideration for the financial advice (and related services) supplied by the adviser to the member.

Accordingly, the Fund is not eligible to claim RITCs for GST paid on the adviser services fees on the basis that the Fund is not making a creditable acquisition of the adviser services or of any other supply for which the fee is consideration.

ATO expectations – what Funds should do

Entitlement to RITCs will depend on a Fund's particular facts and circumstances. From our observations, the arrangements described in this document are common across the industry.

Funds should review their current contractual arrangements given many arrangements have evolved due to changing regulatory requirements and the move towards greater transparency between advisers, members and Funds. If a Fund has received a private ruling in the past, they should check whether the scheme of that ruling accurately reflects their current contractual arrangements.

After Funds have reviewed their circumstances, if a Fund is unsure whether they are entitled to RITCs based on current facts and circumstances, we encourage them to seek advice or request a private ruling from us for their specific circumstances.

Compliance approach

The Commissioner recognises that, through past binding private advice, the ATO may have contributed to some Funds considering they were entitled to claim RITCs for adviser services in the circumstances described in this document. In accordance with Law Administration Practice Statement PS LA 2011/27 *Determining whether the ATO's views of the law should be applied prospectively only*, the ATO is taking a prospective compliance approach to this issue.

We will therefore not devote compliance resources to review RITC claims for adviser services fees paid under arrangements of the kind described for tax periods that end before 1 July 2024.

However, this compliance approach does not apply to a Fund if:

- they change their prior treatment by now seeking to claim RITCs for past or future tax periods in relation to these arrangements
- there is evidence of avoidance, fraud or evasion, or
- they otherwise take inappropriate advantage of the prospective compliance approach.

If a Fund asks us to issue or amend assessments, or seeks our view (for example, in a private ruling) on their eligibility to claim RITCs for adviser services fees, we will do so in line with the Commissioner's views of how the law applies to their arrangements, including as set out in this document.

Commissioner of Taxation

13 December 2023

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