Self Managed Superannuation

Presented by

Stephen Wai

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Accountants and
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ABOUT US

We are located at 25 Walters Drive Osborne Park

Our firm was previously Sterling Accountants for 13 years before rebranding under the Carbon Business Group banner

Our client base is predominantly SME's from a variety of industries and also Professional Services

About Me

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Experience

13 years working in Public Practice
Predominantly in Self Managed Superannuation & SMEs
Chartered Accountant

Qualifications

Bachelor of Commerce – Accounting
Bachelor of Science – Information Systems
Graduate Diploma of Chartered Accounting

Superannuation Statistics

(Source: APRA Statistics – June quarter 2015)
Snapshot: -

Superannuation Assets totalled $2.0 trillion at the end of the June 2015 quarter.

This was an increase of 9.9% from the previous year.

Total contributions for the 2015 Financial year was $103.9 billion

Number of SMSFs totalled 556,998

Total SMSF Assets worth $590 billion

Total members of SMSFs is in excess of 1,000,000.

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What is all the fuss about superannuation?

15% tax on concessional contributions such as your Superannuation Guarantee, salary sacrificing for employees and tax deductible contributions for the self-employed.

15% tax on all earnings of the fund

For capital gains the fund only pays tax on two-thirds of the gain so it is an effective tax rate of 10%

Once the fund is in pension phase all the earnings are taxed at 0%.

If you are over the age of 60 - these pension payments you receive are also tax free (with the exception of certain public sector funds).

Considering Australia is one of the highest taxing countries in the world, superannuation is a tax effective way to build for your future.

What are the benefits of SMSFs

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As trustee you have greater control over the investment decisions of the SMSF

You have greater flexibility when it comes to investing your assets; retirement income and how it is structured; and the succession/estate planning matters of the SMSF

Ability to purchase property

Can be a cost effective strategy but you will need to also take into account Advisor Fees (if any) and other related costs you incur to manage the SMSF. As a guide you will need at least $150K but preferably $200K before you even consider setting up an SMSF.

Ability to borrow in limited circumstances

What are the disadvantages of SMSFs?

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You will also need the time and skills to manage your own fund and to meet your responsibilities as the trustee for your SMSF i.e. record keeping, meeting your reporting obligations and ensuring the funds assets are invested in accordance with its investment strategy

Greater responsibilities placed on the trustees

The introductions of heavier penalties by the ATO on trustees who do not carry out their responsibilities

Generally a lot more input is required from the trustees so it is important that you have good advisers that can help you

Basic Rules of an SMSF

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An SMSF can only have between one and four members

Each member must be a trustee (or director if there is a corporate trustee) and has to carry out the role of trustee or director

Sole Purpose Test – you can only use the assets in the fund for the sole purpose of providing benefits for the members retirement

You need to create and follow the investment strategy that ensures the fund is likely to meet the members retirement needs

You must keep comprehensive records of the funds taxation affairs and have an annual audit prepared by an approved SMSF auditor

Accessing your super – an SMSF can only pay a member's super when the member reaches their "preservation age" and meets one of the conditions of release such as retirement.

Contribution Limits

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Concessional contributions cap for 2015/2016 year and 2014/2015 year (and earlier years)

Income year	Under 50	50 years to 59 years*	60 years and over*
2015/2016	$30.000	$35,000	$35,000
2014/2015	$30,000	$35,000	$35,000
2013/2014	$25,000	$25,000	$35,000
2012/2013	$25,000	$25,000	$25,000

Preservation Age

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Your preservation age

Your preservation age is not the same as your pension age. Your preservation age is the age you must reach before you can access your super and depends on when you were born.

The following table will help you work it out.

Date of birth	Preservation age
Before 1 July 1960	55
1 July 1960 – 30 June 1961	56
1 July 1961 – 30 June 1962	57
1 July 1962 – 30 June 1963	58
1 July 1963 – 30 June 1964	59
From 1 July 1964	60

Your pension age is used to determine eligibility for certain government benefits, including the age pension. The pension age is currently 65 for men and 60 for women born before 1 July 1935, gradually rising to 65 for women born after 1 January 1949. Pension age is five years earlier for veterans.

Investment Restrictions

Lending money or providing financial assistance to a member of the fund or a member's relative (includes family members renting from the SMSF which is strictly prohibited)

Acquiring property (other than business real property, listed securities) for the fund from members or related parties of the fund. So the SMSF is unable to buy or sell residential property to its members or anyone related to the member.

Entering into investments that are not made or maintained on an arm's length basis – needs to reflect market value.

Borrowing money (or maintaining an existing borrowing) on behalf of the fund except in certain limited circumstances such as Limited Recourse Borrowing Arrangements.

Limited Recourse Borrowing Arrangements (LRBA)

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Source:

ATO Website https://www.ato.gov.au/Super/Self-managed-super-funds/In-detail/SMSF-resources/SMSF-technical/Limited-recourse-borrowing-arrangements-by-self-managed-super-funds---questions-and-answers/?page=2#What_is_limited_recourse_borrowing_

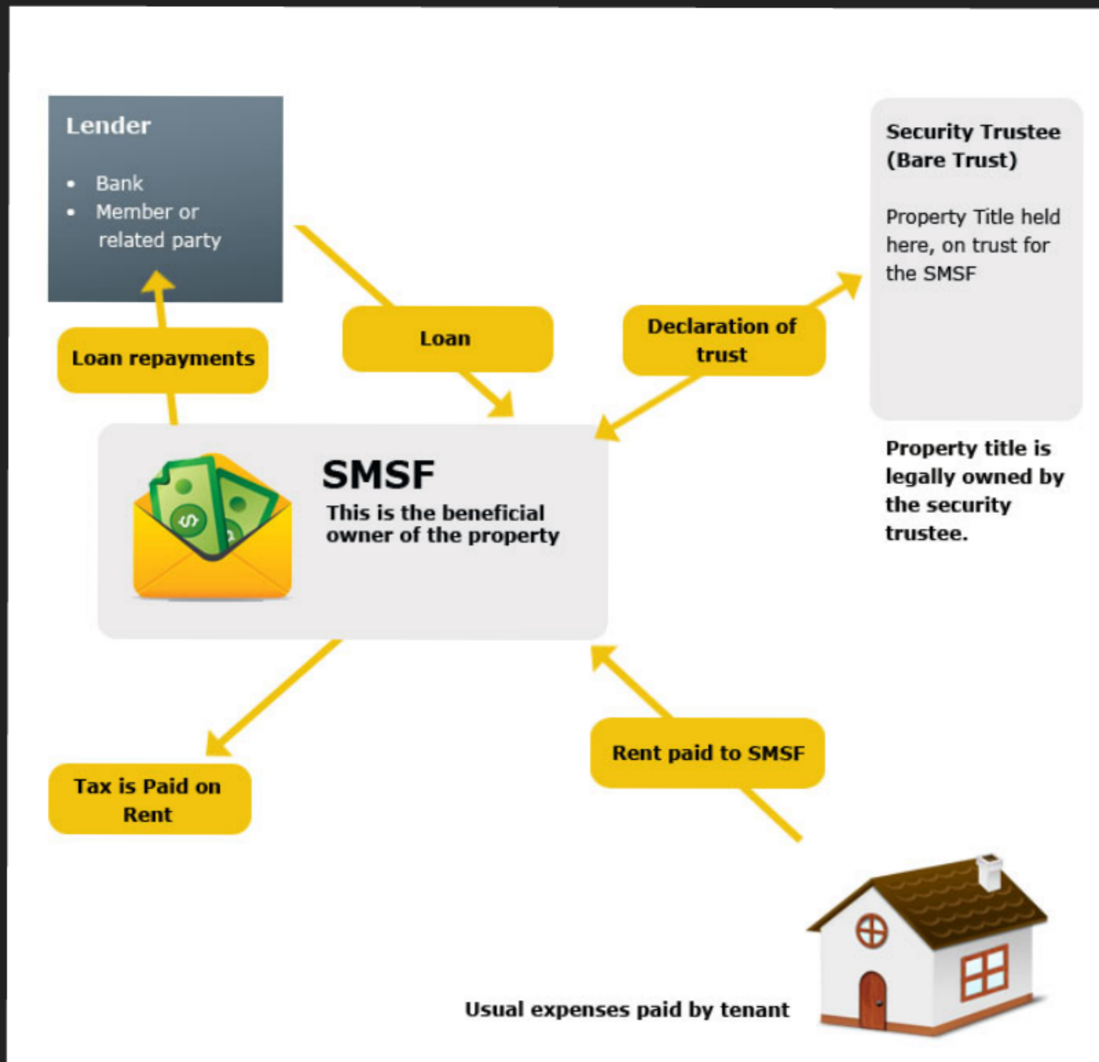
A LRBA requires an SMSF trustee to take out a loan from a third party lender. The trustee then uses those funds to purchase a single asset (or a collection of identical assets that have the same market value such Wesfarmers shares) to be held in a separate trust.

Any investment returns earned from the asset are reported in the tax return of the SMSF

Expenses such as interest, management fees etc are also deductible in the return of the SMSF.

If the loan defaults, the lenders rights are limited to the asset held in the separate trust. This means there is no recourse to the other assets held in the SMSF.

A limited recourse borrowing arrangement



Is limited recourse borrowing right for you?

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How much money in the SMSF do I need to carry out a limited recourse borrowing arrangement?

All banks are different so you will need to research the Loan to Value Ratios (LVR) they offer to SMSFs or speak to a Mortgage Broker who can give you the finer details on this type of information.

Generally speaking, the LVR for an SMSF has historically been between 60% and 70%, so for an SMSF with a cash balance of $200,000 at an LVR of 60% they could possibly buy an asset up to the value of $500,000.

Just keep in mind that as the level of debt increases so too does the risk.

It is also important to note that there is no negative gearing within an SMSF. If the fund makes a loss on the investment – the members will need to top up balance with super contributions.

Borrowing within super is not for everybody so you need to be comfortable with the level of risks involved.

Other Important Considerations

As Accountants we can't give you advice on your existing superannuation and whether you should roll it out into an SMSF.

Before you roll out of your existing superannuation into an SMSF you should talk with a Financial Planner who will be able to give you a thorough analysis of your existing superannuation and other alternatives. It is also an opportune time to work out your Goals & Objectives that you have before you decide to jump into an SMSF.

When you roll out of your existing superannuation you also lose all of the insurances (i.e. Life, TPD and Income etc) that are in place. So it is important you have a plan in place to safeguard your insurance needs.

Before you make any decision regarding your superannuation assets you need to have a plan in mind. Self Managed Superannuation is not for everyone but if used as a strategy that complements your long term goals and objectives it can be a very powerful tool.

What We Do

Core Business Activities

Preparation of Financial Statements and Tax Returns

Strategic tax planning advice and Business restructuring

Virtual CFO/ Board of Advice

Cash flow Projections, and Budgeting

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What makes us different from the ordinary Accountant?

We are a very proactive accounting firm

We are in contact with our clients on a regular basis, rather than the standard 'once a year accountant'

More importantly, we love what we do