Five important questions every SMSF trustee should ask their advisor before June 30, 2015

1. As the US and overseas markets come out of recession, should I be directing more investments into overseas markets?

SMSF Association/Morningstar Research recently highlighted that SMSF trustees are increasingly turning towards overseas investments for new investment opportunities. This debunks the myth that SMSF trustees will not look outside Australia for investment opportunities.

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The emerging force for SMSFs investing in overseas assets is through exchange traded funds (ETFs), listed investment companies (LICs) and listed Investment trusts (LITs).

ETFs are funds that are traded on stock markets and typically track a market index. They are "passively managed" with the intention of replicating the movements of their underlying index or market. ETFs are "open-ended" meaning that the number of shares in an ETF are not limited and can respond to demand for shares in the ETF from investors.

The Australian Stock Exchange (ASX) has a variety of ETFs that offer exposure to overseas markets. By buying ASX traded ETFs that track an overseas market (e.g. the US S&P 500 index), or even a region (e.g. the S&P Asia 50 stock index) an SMSF trustee can diversify their portfolio and gain overseas investment exposure simply and at low cost.

Similarly, LICs and LITs will allow an SMSF trustee access to invest in a product that can mirror the return on a broader parcel of assets, most often company shares. Unlike ETFs, LICs and LITs are close-ended, which means that to invest in them, you generally need to buy a share in them on the ASX. LICs and LITs generally invest in a variety of shares in a market, allowing investors to gain broad exposure to international markets through an internationally focussed LIC/LIT.

The ASX website provides some great information in investing in these products: http://www.asx.com.au

2. I read that the Government is considering changing the rules about taxing super. Is this something I need to prepare for?

The Government released its tax system discussion paper on 30 March 2015, titled "Re:think". The discussion paper provides a broad overview of the current tax system and the challenges that it faces in light of changing Australian and international economies.

The paper is the start of the Government's tax reform process and does not make recommendations, only raising issues and asking questions. Options for change will be canvassed by the Government later in 2015, with its final directions for reform presented in a "White Paper" likely in early 2016. So currently, there are no changes that SMSF trustees need to be immediately concerned about.

There are three key issues raised in either the Tax Discussion Paper or the Financial Systems Inquiry (FSI) for SMSF Trustees:

- How will superannuation be taxed going forward?
- Will dividend imputation continue to be part of the Australian tax system?
- Will the proposed ban on Limited Recourse Borrowing Arrangements (LRBAs) become reality?

The tax discussion paper has questioned whether tax arrangements for superannuation are fair, especially in regards to high income earners benefiting from tax concessions and whether they can be improved. These issues were also raised by the Financial System Inquiry.

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The tax discussion paper has also questioned whether dividend imputation is adversely impacting investment decisions and if dividend imputation is continuing to serve Australia well as our economy becomes increasingly open. With many SMSF investors depending on dividends and franking credits to create an income stream in retirement, the future of dividend imputation will be of great interest to many SMSF trustees.

While the tax discussion paper has not directly questioned how superannuation and access to the age pension interact, discussion about the superannuation tax concessions has raised the issue as to whether existing age pension means testing is too generous. The Government has indicated that it might look at reviewing how entitlement to the age pension and peoples' superannuation interact.

The Government is currently considering their response to the Financial System Inquiry Report handed down by former Commonwealth Bank CEO, David Murray, and his panel. A recommendation affecting SMSFs was a proposed ban on borrowing in superannuation, which would preclude SMSFs from using limited recourse borrowing arrangements (LRBAs).

The SMSF Association does not support this recommendation and is proposing a set of alternatives to banning borrowing including stricter financial advice laws for borrowing, banning the use of personal guarantees for LRBAs and tightening related party lending rules. These measures can reduce the risks associated with superannuation fund borrowing without resorting to an outright ban.

3. With the end of financial year coming up are there any changes to my super contributions I should consider?

The end of the financial year always seems to come around faster than it should. Understanding what you could do before and after 30 June 2015 can provide the icing on the cake for your SMSF.

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Here is a checklist of strategies that you should consider before the end of the 2014-2015 financial year:

Increased tax-deductible contributions cap for anyone 50 and above

For anyone who is under age 50 this financial year, the maximum amount of tax deductible contributions that can be made to superannuation without penalty is $30,000. However, for anyone age 50 and above the maximum amount is $35,000. These contributions include amounts you may make as salary sacrifice, Superannuation Guarantee or personal deductible contributions, if you qualify.

Talk to your professional adviser so that your salary sacrifice agreement with your employer allows the maximum to be salary sacrificed.

If you wish to maximise your contributions before June 30 make sure you make your contributions in time so that they are accepted by the fund before the end of the financial year.

If you are older than 65 you will need to meet a work test to contribute to super in most cases. You will need to work for at least 40 hours during 30 consecutive days at any time during the financial year to make tax deductible and non-deductible contributions to super.

Claiming a tax deduction for personal superannuation contributions

If you are self-employed, an investor, in receipt of a pension and receive less than 10% of your income, fringe benefits and other related payments from employment you may qualify for a personal tax deduction to superannuation. If you intend to claim a tax deduction make sure you are eligible to claim a tax deduction and seek advice if you are unsure. You need to notify the fund of the amount you wish to claim as a deduction before the end of the next financial year, that is, before 30 June 2016. Make sure you keep all relevant paperwork to save stress when the time comes to see your accountant or tax agent.

Making after tax contributions to super

You can make after tax contributions to super which could come from your personal savings, transferring personal investments, an inheritance or from the sale of investments. This financial year the maximum personal after tax contribution is $180,000, however, if you are under 65 you can contribute up to $540,000 by "bringing forward" the next two years contributions to this year.

This allows you to make substantial contributions to super and build up your retirement savings. The way it works is that if you are under 65 and make total after tax contributions of more than $180,000 in a financial year the bring forward rule is triggered. This allows you to make non-deductible contributions of up to $540,000 in total over a fixed three year period commencing in the year in which you contributed more than $180,000.

However, if you triggered the bring forward rule in 2013-14 you will be limited to $450,000 of bring forward contributions as the post-tax contribution limit was $150,000 in 2013-14.

Beware of excess contributions tax

Anyone making large superannuation contributions should exercise extreme care with any type of contributions to avoid excess contributions penalties. This can apply to any tax deductible and non-tax deductible contributions made to super.

Even though both excess concessional (tax-deductible) and excess non-concessional (post-tax) contributions can be refunded and taxed at your personal tax rate instead of at a penalty rate, making sure you do not exceed the contribution caps will save you both the money and time of dealing with excess contributions.

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Government co-contribution

If your adjusted income is less than $49,488 in 2014-15 and you earn 10% or more of your income from eligible employment or carrying on a business you may like to take advantage of the Government co-contribution. You can do this by making after tax (non-concessional) super contributions before the end of the financial year.

For every dollar of contributions that are eligible, the Government contributes 50 cents to your superannuation up to a maximum government co-contribution of $500. For 2014-15, the maximum government co-contribution is payable for individuals on incomes at or below $34,488 and reduces by 3.33 cents for each dollar above this, cutting out completely once an individual's total income for the year exceeds $49,488.

For example, if you earn $38,000 in 2014-15 and make an after tax contribution of $1000, the Government maximum $500 co contribution is reduced by $117 to $383.

4. Have there been any changes in the laws or regulations applying to my SMSF that I should be aware of?

Social security and super

From 1 January 2015 the value of your superannuation is taken into account to work out your entitlement to the Age Pension and the Commonwealth Seniors Health Card.

Excess contributions tax

The Government recently passed new law allowing superannuation fund members to refund excess non-concessional contributions (after-tax contributions) made from 1 July 2013 onwards. Prior to this date, excess non-concessional contributions were taxed at the top personal tax rate.

This has been a law change that the SMSF Association has been advocating in support of for many years.

If you are worried about exceeding your non-concessional contribution cap you should speak to your SMSF advisor about the new law.

Administrative penalties

From 1 July 2014 new administrative penalties apply to SMSF trustees for contravening the superannuation laws. For instance, breaching the ban on lending to relatives of your fund could incur a $10,200 penalty. If you don't understand your obligations under this law, it would be good to check with your SMSF advisor.

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SuperStream

From 1 July 2015, all SMSFs will need to comply with the SuperStream data standards. SuperStream is a reform aimed at improving the efficiency of superannuation by standardising how superannuation funds and employers communicate with each other.

These standards require that SMSFs are only permitted to accept contributions and other information from employers electronically. In order to comply with SuperStream, SMSFs will need to give a member's employer the details of the fund's:

- Australian business number (ABN);
- bank account details; and
- electronic service address.

An electronic service address is used to receive electronic contributions messages from your employer. They can be obtained through an SMSF messaging provider. A list of SMSF messaging providers is available on the ATO website: https://www.ato.gov.au/Super/SuperStream/In-detail/Contributions/SMSF-messaging-service-providers/

There is no requirement for an SMSF to meet the SuperStream standards where it only receives contributions that are personal contributions from members or from an employer that is a 'related party' of the fund. For example, where a husband and wife own a small business and make contributions to their SMSF in their names, the SMSF will not need to comply with SuperStream.

5. What do I need to do before the end of the financial year if I am drawing a pension from my SMSF?

If you are in pension phase make sure the minimum pension has been paid to you for this financial year. By not receiving the required minimum pension any income earned on your pension investments in your superannuation fund will be taxed at 15% rather than being tax free if the pension rules are met by the fund.

The minimum amount that you are required to draw from your SMSF for your pension depends on your age and your account balance at the beginning of the income year. As your age increases, so does the minimum amount you are required to take out of your SMSF on an annual basis. The minimum amount is a percentage of the account that is supporting the pension. For instance, if you are aged 66, you will need to take a minimum of 5 per cent of your account balance out as a pension to meet the pension rules.

Payments for your pension must be made at least on an annual basis and cannot be deferred to the following year. For further information speak to your SMSF Advisor.

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About the SMSF Association

The SMSF Association exists to continually improve the quality of advisors, the knowledge of trustees and the credibility and health of the SMSF sector.

Visit our website for more information and to find accredited SMSF Association Specialists **smsfassociation.com/trustees**