

THE TRUSTEE

The SMSF newsletter that keeps you informed and in control.



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Welcome

In this edition of The Trustee, our topic of focus is “Master your Super”. Named after the awesome book by Darren Kingdon “Master Your Super and drive your SMSF to big profits”.

I was lucky enough to get my personally autographed copy in the mail a few weeks ago and is a great addition to my personal library of books on investment. This book and some of my learnings are the focus of this edition of Trustee. I urge you to grab your own copy (just google the title), it is rich with information and practical tips.

Congratulations to all of the newest SMSF clients that have come on board recently. Its been a busy start to the new financial year and we are encouraged by the upswing in new business.

Even though these are challenging times at the moment, the mood is different to the GFC. We haven't started to get enquiries from clients wanting to set up an SMSF to buy

gold bullion – just yet, but don't worry we will let you know if this starts happening!!!

If you would like guidance to use any of our online facilities, simply give us a call and speak to one of our team. In this edition of The Trustee I have included a handy tip on viewing your current contribution limits.

Remember, if anything in this publication gets you excited to act, that is fantastic as this is its aim. However we recommend that you seek the advice of your licenced financial adviser before you act. If you do not have a financial mentor, we can help guide you to an appropriate adviser.

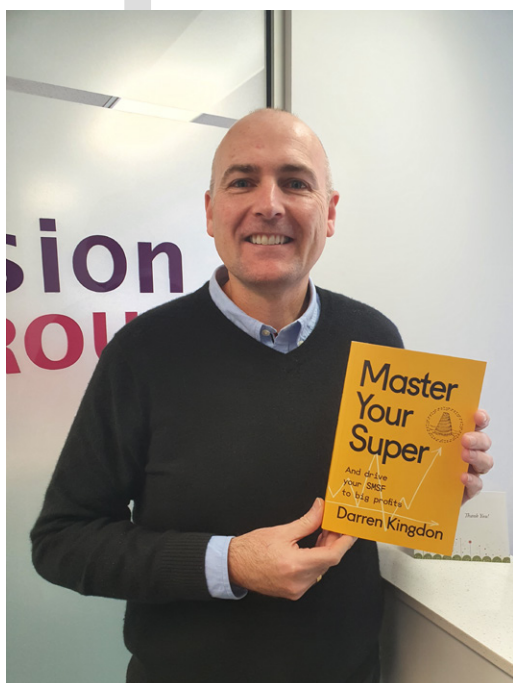
Enjoy the edition,



Christopher Homer
Director

Book Review – Master Your Super and Drive your SMSF to Big Profits

During many of my client discussions it is apparent that a lot of you wish to know more about SMSF investing in shares. The section of the book that really stood out for me in terms of how we should be thinking about SMSF investment patterns in shares, is outlined below.



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Page 131

Rookie Trading Errors to Avoid
(abridged excerpt)

“Experienced share market investors follow a number of simple rules to improve their share market returns and limit their downside risks with a long-term time horizon in mind. They “never let a good crisis go to waste,” as Winston Churchill once said.

Some behaviours of what not to do:

1. Not Diversifying (or not diversifying quickly enough)

- If you only invest in only one or two shares, then it's possible your portfolio could lose 50 percent of its value very quickly. If you can spread your risk by

holding at least twenty high-quality companies, perhaps with some liquid ETF's, then your asset base is more likely to rise over the longer term, even if a few shares perform badly.

2. Speculating on companies that lose money

- There is a litany of companies listed on the ASX that generate little to no revenue (let alone profit), selling “stories” to attract retail investor capital (e.g., pot stocks, tech stocks). If you buy “story companies” with almost no revenue, chances are you’ll learn the hard way that the share market can be cruel in separating people from their money.

3. Paying too much and/or missing the boat

- It’s important to remember no company is a “buy at any price”, as returns are directly linked to the price paid. Patient investors generally wait for cheaper entry points. Conversely, avoiding shares on the basis that you feel you have “missed the boat” can also mean you have excluded yourself from the best performing companies.

4. When the bargain hunt backfires

- It’s often a mistake to think that if a company has fallen \$10 per share to \$5 per share, it’s only a matter of time before it returns to \$10 per share. Normally the reverse is true in that losers tend to keep falling, while risers keep delivering.

5. Buying patchy companies

- Remember, a company’s share price will generally follow dividend rates and profits higher or lower over the medium to long term.

6. Selling Winners too early

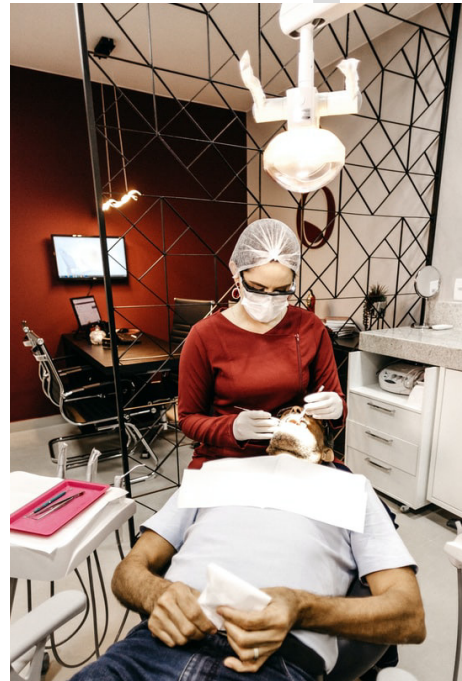
- If a company keeps performing well, there’s nothing to stop its stock rising indefinitely; you just have to accept a few bumps on the road.



Business Real Property

Business Real Property Purchase in SMSF has been popular for a long time.

Why has it been popular and what do you need to consider if you want to maximise its effectiveness?



Business Real Property is a property in which 100% of its use is to run a business. There can be no other activity taking place other than business in that property.

For example, a residential house that has been converted to a Vet Surgery, is considered "Business Real Property" as long as all of the building is being used as a Surgery and no one is living in other rooms. Surgeries and workshops are one of the more popular business real property purchases that occur inside of SMSF's.

It is possible for an SMSF to purchase a business premises leased out to related parties. Related parties are any people related to you or other entities owned or controlled by you.

For small business owners, buying your own business premises can be difficult to finance. Using Super money to purchase your business premises may lead to some really great outcomes for business owners.

Advantages

- Owning your own premise can provide business owners certainty when it comes to leases. Whilst the duty of the SMSF is to collect “market” rates of rent from your business, it is possible for your business to sign lease agreements which gives you certainty over tenure.
- The rent that your business pays, goes to the owners SMSF. This means that any money received by the SMSF that is over and above any repayments and expenses will build cash reserves for the owner/s.
- Many small business owners don't always prioritise their own Superannuation when financial demands are so high, so rent paid to the SMSF is a type of “forced” contribution to Superannuation without affecting cashflow of the business or the owner personally.
- If the investment strategy of the SMSF is to hold the property until the members of the SMSF turn their accounts into pensions, any property sales post retirement will be 100% tax free. There is some complexity if you have amassed a large balance, but the tax advantages are enormous within Superannuation compared to personal or company taxation.
- You can still own the premises and collect the rent from another business even after your business wants to wind up or move on. Leaving your SMSF with a steady stream of income to fund your retirement.



- Assets purchased by an SMSF are protected from creditors. Unless the SMSF has purposely transferred or contributed assets to defeat creditors, the property belongs to the SMSF and can't be forcibly sold to cover debts or liabilities of the business. As the SMSF is the owner of that property and is not mixed with your personal assets.

Disadvantages

- Whilst the premises owned in Super is protected from creditors, it can't be used as equity or security for business borrowings which may limit your capacity to inject capital into your business.
- The asset is held in Superannuation and not accessible personally until you reach preservation age (58-60 years of age).



Business Real Property

is one of a couple of assets that can be legally purchased from personal ownership. This means that if you already own your business property in your personal name, it can be transferred into your SMSF and your SMSF pays you for it. Market rates apply to this transaction, but it is an effective way to use your Super to buy an asset that has income and growth capabilities in the tax effective environment of Superannuation.

The Government created this ability to help small business owners put enough into Super. Small business owners should do some research on how this can advantage them both in business and with their Superannuation. We acknowledge that the Sole Purpose of Super is to provide for the retirement savings of the members and no other auxiliary purpose should exist. Business real property is allowed as an exemption as long as controls are put in place to maintain arm's length dealings.

Owning your business premises in your SMSF can be an excellent strategy when;

- The property your business resides becomes available.
- The business premises' is a fantastic investment opportunity both in terms of Capital Growth & Income in line with what you want to achieve with your Super. Ask yourself "Would other businesses pay for the opportunity to enjoy this location and facilities"? "Why is this asset going to appreciate in value over time"?
- You want to increase the level of certainty for your business to keep the lease by having a related party own it.
- You would prefer for your business to pay "market" rent to your SMSF instead of a third-party landlord.

“MY PORTFOLIO” Bring Forward Concessional Contributions - How to

Did you know that you may be able to contribute more than 25K this year and save personal tax?

You may have noticed that your annual limit of contributions has not changed, your annual amount is higher. That is because from the 2019 financial year you can “carry forward” concessional contributions that are unused. What a bonus for those with surplus cash they want to contribute to Super.



All of this information is already being stored for you. To see if that is the case for you please login to “MY PORTFOLIO” in Super Gateway. On the executive dashboard you will see a section on contributions. To view more detail, click on the ‘contributions’ tab at the top of the page. Once there you will see all of your members details and the history of your current year’s contributions & limits. Each member is separated by a tab.

You will have the following columns on the contributions page for each member:

Caps = \$25K Concessional & \$100K Non-Concessional

Cumulative Available Used Cap = Unused Amount/s that are carried forward from previous years

Contribution Made (to this Fund) = The amount you have contributed to the SMSF so far this year

***Contribution Made (to other Funds)** = The amount you have contributed to other funds

Contributions as Allocated = Total of all Contributions made

Amount above Caps = Any amount that is over the Cap

Available = Amounts that can be contributed

** Warning - If you contribute to other Super accounts (not SMSF), you need to give Supervision the amounts so that we can keep it up to date for you.*

Unfortunately, the government has made contribution rules more complicated and you may need some help to confirm your entitled amount. If you are unsure of your obligations, please book a meeting with the team to discuss how much you can contribute to your SMSF in this 2021 financial year. That meeting could save you thousands in tax alone.

SMSF Tax Return Deadlines

Supervision is currently sending 2020 tax return information request to clients. We are sending them in line with our schedule. It's our goal to be able to complete your SMSF without having to ask you any questions or request any documents. We are working our way to that end point, but from time to time we need your support to complete the finer details of your SMSF. We thank you for your help in advance.

In the last couple of years, the ATO have been removing the ABN of SMSF's from their website if they have overdue tax returns. This has had an impact on the ability of SMSF's to make contributions

and receive benefits like the recent early release provision. To avoid this, we respectfully request that you supply information to the team as quickly as you can.

Your cooperation will mean that we can complete the schedule in a timely manner, and everyone will be a winner. If you have been sent an email and haven't responded for any reason, please call our office today so we can help you collect the information that you need.



SMSF Investment Strategy Builder – Our Online Solution

You may have been asked recently to go to our website and complete an online form called “The Investment Strategy Builder”. Its new and different from what you are used to, so this article has been provided to explain why it is now a requirement.



For many years, Supervision has been completing template investment strategy documents for clients. Whilst some people created their own SMSF Investment Strategy themselves or with help from their financial adviser, in the main, our template document would meet compliance requirements each and every year with your Auditor.

Last year, the ATO wrote to many SMSF parties expressing their concern about the weakness of templated (generic) investment strategies. Basically, they warned clients to update their investment strategies to better reflect their SMSF's activities or be subject to fines. The ATO's main target was SMSF's with single assets but the standard was

being set for all SMSF's. The ATO had assumed that because the SMSF had one asset only, members were dangerously financially exposed. Whilst the sentiment has merit, the ATO does not always have the full view of a client's circumstances and a lot of anxiety was created for little gain.

Auditors across Australia since then have been pushing SMSF's to supply investment strategies that reflect the actual activities of the SMSF. In a nutshell, the words match the actions of the SMSF mentioning specific assets or plans.

As your SMSF administrator/accountant, we don't have a say in what you invest in or know your long-term investment outlook or plan. What we have done however is give you the ability to create your own "investment story" documenting how you have selected your investments and your view on the longer term.

We hope to continually update our online form so you can create a document that covers your compliance requirements whilst creating a blueprint for action and review. If you haven't used the online builder yet, we encourage you to have a go to see what is required and to document your plans for the future. Its free for all Supervision clients and their Financial advisers.



Important Information about the Investment Strategy Builder – How To

The screenshot shows the 'Investment Strategy Builder' page on the Super Vision Group website. The page has a navigation bar with links for Accounting, SMSF's, Bookkeeping, Business Systems, Insurance, Finance, and Investments. The main heading is 'Investment Strategy Builder' with a breadcrumb trail 'Home / Investment Strategy Builder'. Below the heading, there is a paragraph explaining the importance of the investment strategy document. A progress bar indicates 'Step 1 of 11' is complete. The section 'SMSF Details' is visible, with a form field for 'SMSF Name *'. A small note at the bottom of the form states: 'Please refer to your SMSF's Trust Deed to enter the exact name if you are not sure. Your SMSF name is correctly displayed in "My Portfolio".'

Here are some tips on the more “difficult parts” of the SMSF investment strategy builder. The builder can be found here <https://supervision.com.au/investment-strategy-builder/>

Diversification of SMSF Assets: This section asks clients to select the current level of diversification of the SMSF. There is no right or wrong answer here, but your answer must reflect your current diversification status. If your SMSF is not diversified but you have your reasons, this will be okay. Don't forget to use “other” if your circumstances are not covered by the points already provided. “Other” allows you to type in your own requirements without any interpretation.

Insurance Requirements: In the acknowledgements section, clients have been confused especially when they have selected no insurance. This section demonstrates that the Trustee understands the financial impact that insurance can make regardless of the

members decision on insurance. It shows the competence of the Trustee rather than comment on the original decision to have or not have insurance.

Percentage Based Ranges: This section details the Trustees desire to keep their investments in a strict percentage band. Percentage based return bands are a double edge sword. On the one hand they offer excellent guidance to Trustees on how they should allocate capital across the breadth of the SMSF. On the other, if the actual percentage moves out of the documented range, then technically the SMSF is in breach of its obligations.

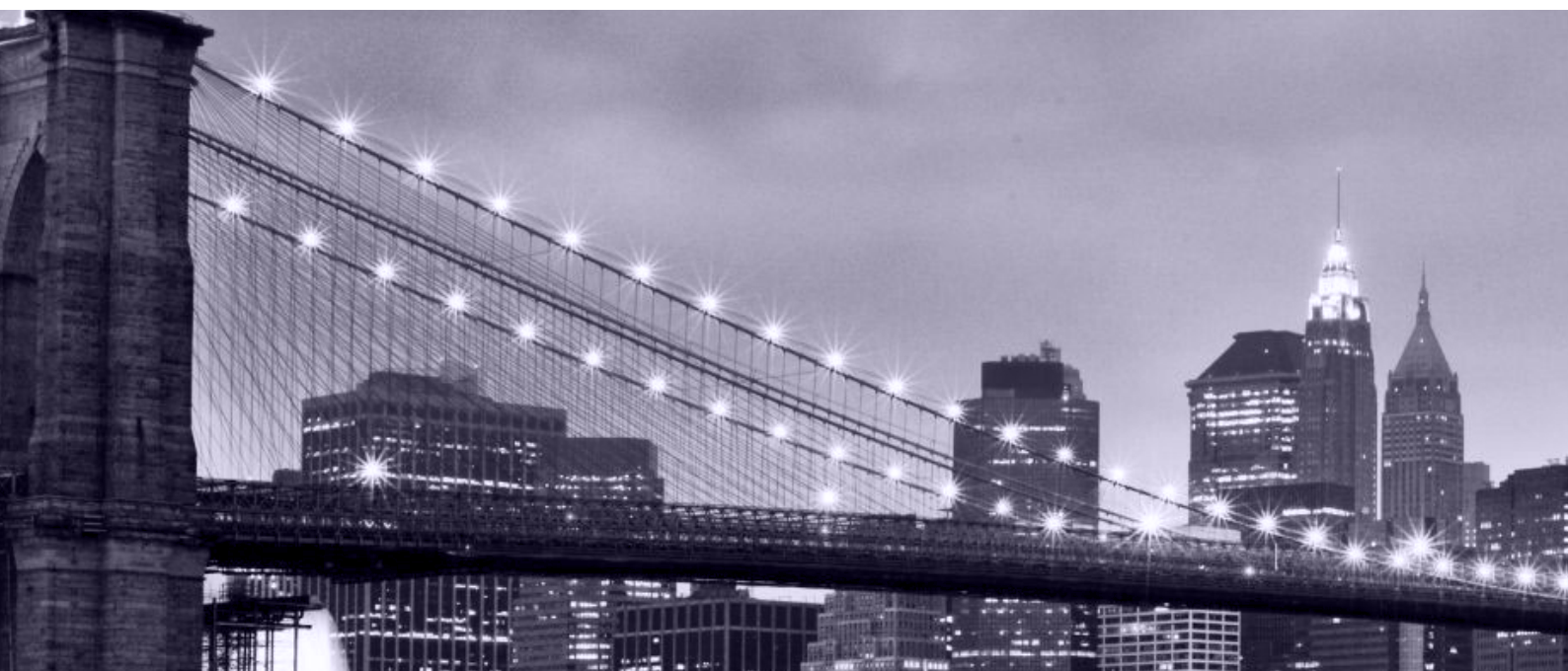
To mitigate a potential breach, Trustees have in the past created ranges that are

very wide and cover a large percentage band for example 0-100% or 20%-70%. As you can imagine, those examples have no meaning whatsoever and the ATO have already instructed Auditors not to accept these ranges.

Our view is that unless you are able to monitor your percentages on a day by day basis, you should consider selecting the non-percentage-based ranges option, especially when some listed securities can swing wildly in volatile markets. This will also remove the need to update your strategy if all you have decided is to move money aggressively from one investment class to another in the face of shifting markets.

Acknowledgement of Risk for Specific

Assets: This section asks Trustees to acknowledge any assets that fall outside of the “traditional” asset classes (Cash, Term Deposits, Shares or Direct Property). This section has been built to allow clients with these assets to demonstrate they understand the risks associated with these types of assets and what they have done to mitigate the risk. This section is really important if you own one or more of the assets listed. Again, there is nothing wrong with holding these assets as long as you have purchased and held these assets in line with compliance requirements.



Introducing The Cashflow Mechanic

As the saying goes 'Cash is King', and understanding what can affect the available 'Cash' is where our Cashflow Mechanic can significantly change the performance of a business. Without 'Cash' our stress levels are increased, we begin to worry about when we can pay our staff or suppliers. This stress impacts not only our performance in business but also impacts our relationships with friends and family. Many business owners who experience 'Cash Stress' begin to focus on the wrong areas in their business, instead of focusing on growth, customer and employee satisfaction they spend much of their time juggling money and speaking to creditors. In extreme cases business owners look to short term funders to 'plug' up the hole created by the lack of available cash as a quick fix, which leads to bigger problems down the track.



Meet Pamela Taylor – The Cashflow Mechanic

Pam has been working with business owners to improve their business performance for over 20 years. She previously has owned her own sole trader business and more recently worked as a director of a company employing in excess of 15 bookkeepers providing support and guidance to businesses in a variety of industries. Pam has been on both sides of the fence, she has experienced the highs and lows of owning her own business, she understands the importance of having someone in your corner to assist you in understanding the business financials and the steps required to improve them.

If you or anyone you know needs a cashflow mechanic, please contact our office and ask to speak to Pam.

The Team behind Supervision SMSF

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Disclaimer: The information in this publication is provided to our clients to update them on SMSF possibilities. It is not a substitute for specific financial advice and is general in nature only. It does not consider your personal circumstances. If you intend acting upon any of the information provided in this publication, please seek independent financial advice before taking any action that affects your financial wellbeing.