Supervision GROUP

EDITION: MAY 2023

THE TRUSTEE

The SMSF newsletter that keeps you informed and in control.

INSIDE THIS EDITION

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Welcome

Thanks for joining us for this edition of the Trustee Newsletter.

As this financial year concludes, there are some very important issues that you need to consider.

Now is the time to have conversations about contributing more to Super to save personal tax and boost your savings. If you have an adviser, please call them to discuss your contribution options. I emailed all non-advised clients last week with an invitation to set up a contribution meeting. I can't say that I was bowled over with replies, I hope you are not leaving it till the last minute. If you want to have a conversation about contributions and the tax savings, please book now to avoid disappointment. Advised clients are welcome and I will collaborate with your adviser to supply a valuable report.

If you are in pension phase, now is the time to plan your final pension withdrawals so that you can meet your pension minimum requirements and keep your tax-free status. If you haven't met your pension minimum an email reminder has been sent to you. We will welcome your call if you need some further guidance on pension minimums.

The team has significantly improved our lodgement performance from last year. I want to thank the team for their amazing effort to produce the highest completion percentage for many years. I also want to thank you, for supplying the information that we need so that we can get on with the job. We have grown our team of SMSF experts this year and next year we look to expand even further with an even better, more settled team.

Being able to provide you with quality SMSF information and consulting is what we aim to provide. Our role is to add value on top of compliance with our combined 80 years of SMSF experience. We see it as complimenting the advice you already have. If you don't have an adviser, we urge you ask Supervision for a quality partner to help guide you through difficult times.

Since our last Trustee Newsletter, we have continued to grow in new and transfer SMSF business. We welcome everyone that has joined Supervision if this is your first Trustee Newsletter, please reach out to me if anything here gets you excited. Conversations are free, you just never know what impact a simple question can have.

For instance, many property investors are calling to complain about the high interest rates that their SMSF is currently paying. Some as high as 10%. We know that rates of 6-7% can be achieved depending on your circumstances. We urge everyone in that position to go back to their mortgage broker to see if refinancing is possible. If you are paying what you consider significantly higher than "normal" rates, it is a sign that your lender wants you to look elsewhere, so please get in touch with your SMSF finance broker today or call Supervision for an introduction.

Thanks again for your support, we appreciate you and we want you to be engaged and super successful. This edition has some important information about the proposed changes to Superannuation ($3 Mill) and my comments about them. For those that feel they will be affected, we will be ready to answer your questions in the coming weeks and months.

Christopher Homer
Director

Feature Article – Proposed Superannuation Tax Changes (Better Targeted Superannuation Concessions)*

The latest budget and subsequent release have provided more detail about the current proposal to tax Superannuation Members Balances over 3 million dollars. It is not the first time that large Superannuation balances have been targeted to raise revenue for the federal government.

The new measures plan to tax members an additional 15% on the difference between the starting balance and ending balance if your member balance exceeds $3 Mill at the end of the year. The balance includes unrealised gains (changes in market value) instead of what is traditionally considered earnings- realised gains and income. The tax is payable regardless of your SMSF being in either accumulation or pension phase. The taxpayer will have the opportunity to pay the new tax personally or from the Superannuation fund.

The new measures are not legislated and may never come to fruition in its current form. This article is to provide you information on what has been announced and provide the basis for your vote at the next election.

Here is how it works:

Calculate Earnings

Earnings = Total Superannuation Balance (Current Financial Year) – TSB (Previous FY) + Withdrawals – Net Contributions

Calculate Portion of earnings - funds above $3 Mill

$$\textbf{Portion of Earnings} = \frac{\text{TSB (Current Financial Year) - \$3 Mill}}{\text{TSB (Current Financial Year)}}$$

Total Tax Liability

Tax Liability = 15 percent X Earnings X Proportion of Earnings

Your members balance will be tested for the first time on the 30th of June 2026 to see if it exceeds $3 Mill. Notices of assessment will be issued to individuals in the 2026-27 Financial year.

The ATO can see all of your Superannuation accounts to determine your Total Superannuation Balance. Your TSB is available on MyGov.

Example where tax in payable:

Warren is 52 with $4 Million in Superannuation at 30th of June 2025. He makes no contributions or withdrawals. By the 20th of June 2026 his balance has grown to $4.5 Million.

Warrens calculated earnings are:
$4.5 Million - $4 Million = $500,000

Warrens portion of earnings above $3 Million are:
($4.5 Million - $3 Million) / $4.5 Million = 33%

Therefore, his tax liability in the 2025-26 is:

15% X $500,000 X 33% = **$24,750**

What if Warren contributed $27,500 to his Super during the year?

Warrens calculated earnings are:
$4.5 Million - $4 Million - $27,500 = $472,500

Warrens portion of earnings above $3 Million are:
($4.5 Million - $3 Million) / $4.5 Million = 33%

Therefore, his tax liability in the 2025-26 is:

15% X $472,500 X 33% = **$23,388.75**

What if your Super balance goes down?

You are able to carry forward earnings losses. Here is how it works:

At June 30th 2025, Dave has a total TSB of $7 Million. In the 2026 Financial year (following year) he withdraws $400K and makes no contributions. At 30th of June 2026 his balance is $6 Million across all of his Super accounts.

Dave's earnings are calculated as:
$6 Million - $7 Million + $400K = -$600,000

His portion of earnings above $3 Million is:
($6 Million - $3 Million) / $6 Million = 50%

The earnings loss attributable to excess balance is $300K. Dave can carry forward the $300K to offset future excess balance earnings. In the 2026-year Dave does not have to pay any additional taxation because there is a loss earnings not a gain.

On the 30th of June 2027, Dave's fund improves its earnings and increased his balance to $650,000. He carries forward the earnings losses from 2026 of $300K, so his earnings reduce to $350K.

Therefore, his tax liability for 2026/27 is:

15% X $350,000 = **$52,000**

Things to Remember:

- This change relates to the individual members balance, not the balance of all the SMSF members combined.

- Unrealised gains are counted in this calculation, so if you increase the value of your portfolio on paper but don't sell anything, you still must pay this tax.

- You only pay tax on the percentage of your balance over $3 Mill not the whole amount.

What is the major impact?

- Planning around this tax will be difficult because it is levied on the ending balance which can't be predicted.

- Also, withdrawals will be added back in the calculation, so withdrawing money prior to the end of the financial year will not reduce your liability to this tax.

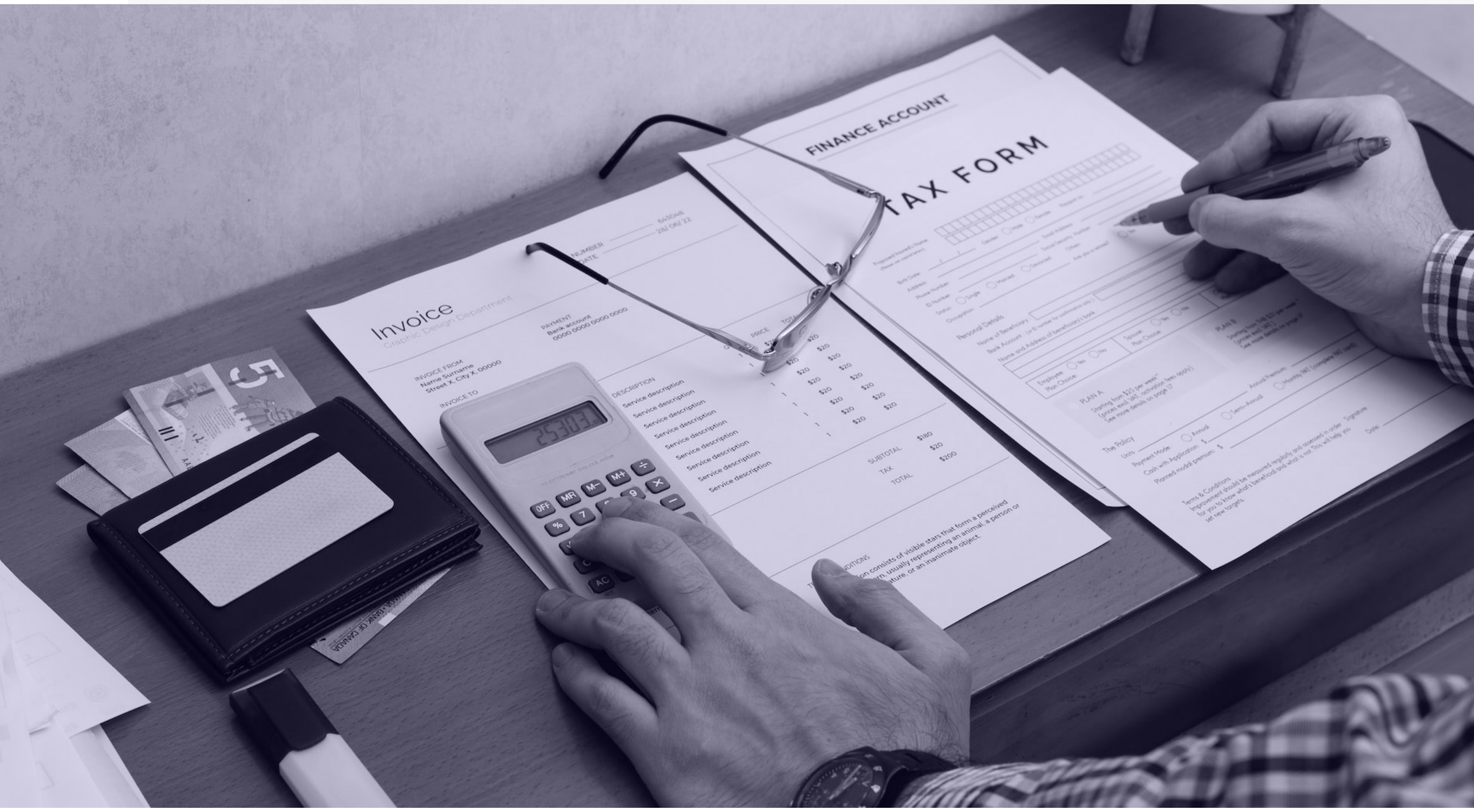
- Taxing unrealised capital gains is unprecedented and will lead to distortions and possible forced sale of assets to pay the tax.

- Investment behaviour may need to change - Cashflow will become even more important especially with large assets that can't be sold in part (like a property). If the asset value takes off but doesn't produce enough cash inside of the Super fund, the individual will need to fund the tax bill.

- Adds another layer of complication for large SMSF's that already deal with $1.6 Million pension caps and Division 293 tax.

- Brings into tighter focus the disadvantage of uneven member balances when you are in a relationship.

** "Better Targeted Superannuation Concessions", Australian Government – The Treasury, PDF Download 2023*



What Is My Concessional Contribution Limit This Year?

The answer to this is – “it depends”. Although everyone (under the age of 75) starts out with $27,500 as the maximum, this **may not** be your personal limit. You may have a wildly different limit depending on your circumstances. Please read the article about our contribution meetings below. Planning contributions each year is getting more complex, so some time is required to calculate your maximum contribution limit.

SMSF Property Investors

Interest Rates

We have been swamped by calls from SMSF property investors about the interest rates that SMSF are paying on LRBA's. We have been told that interest rates have risen to 9-10% and more.

We urge anyone that has an SMSF loan, to work with your mortgage broker to reduce your rate and save your SMSF thousands of dollars.

Refinancing your LRBA

If you have an old loan, the lender may not want you as a customer anymore. If that is the case, you may need to refinance. The cost to refinance may be well worth it if interest savings are significantly lower with a new lender. There are some new entrants into the SMSF lending space, but there are not multitudes of options to choose from.

The lowest interest rate may not be the only criteria to judge the right lender. Terms (flexibility) conditions and costs all pay a part in determining what is the right loan for you. There is no perfect loan, just the right loan for you.

If you don't have a mortgage broker or you are struggling to get their assistance, please reach out to us, we will be able to put you in touch with great brokers. Your financial adviser may have a broking option also.

Time to abandon ship?

Just because your interest rate is rising and cashflow is getting tight, does not mean that now is the right time to sell your SMSF property. We can't predict the price of property but if supply of housing continues to retract (especially in WA) and demand remains the same or increases, prices can't go anywhere but up.

You need to weigh up the long-term capital gains (increase in value) and possible rental increases against the cost to hold that asset. There is some prediction and crystal balling that is required, but history can be a great guide. If you don't have a financial adviser, don't forget to reach out because we have a great support network available.

Additional contributions to Superannuation to make up the shortfall may be tax deductible and save you tax. The tax savings **may** be the same as negative gearing outside of Superannuation.

Why Is Total Superannuation Balance (TSB) Important?

With all the changes that are either planned or legislated in Superannuation, one trend is becoming clear.

How much money you have in Superannuation is highly important.

Your TSB (Total Superannuation Balance) is the amount that you have in Superannuation on the 30th of June each year in all Superannuation products. So, if you **have two Super accounts** as an example.

1. SMSF $250K plus
2. Australian Super $150K

= Your Total Superannuation Balance (TSB) is $400 K.

One important example of when your TSB matters is your ability to contribute unused concessional contributions from previous years. If your balance is under $500K (and you meet the age and working criteria) you can use unused concessional contribution limits in the current financial year as a deduction.

The Government provides this opportunity to encourage people with lower Superannuation balances to contribute more. It is a form of means testing to assist those with less and removes assistance to people who don't need help.

Its not only unused concessional contribution limits that are impacted by the TSB. How much non concessional contributions is determined by your TSB. Also, the proposed $3 Million dollar tax is based on your TSB.

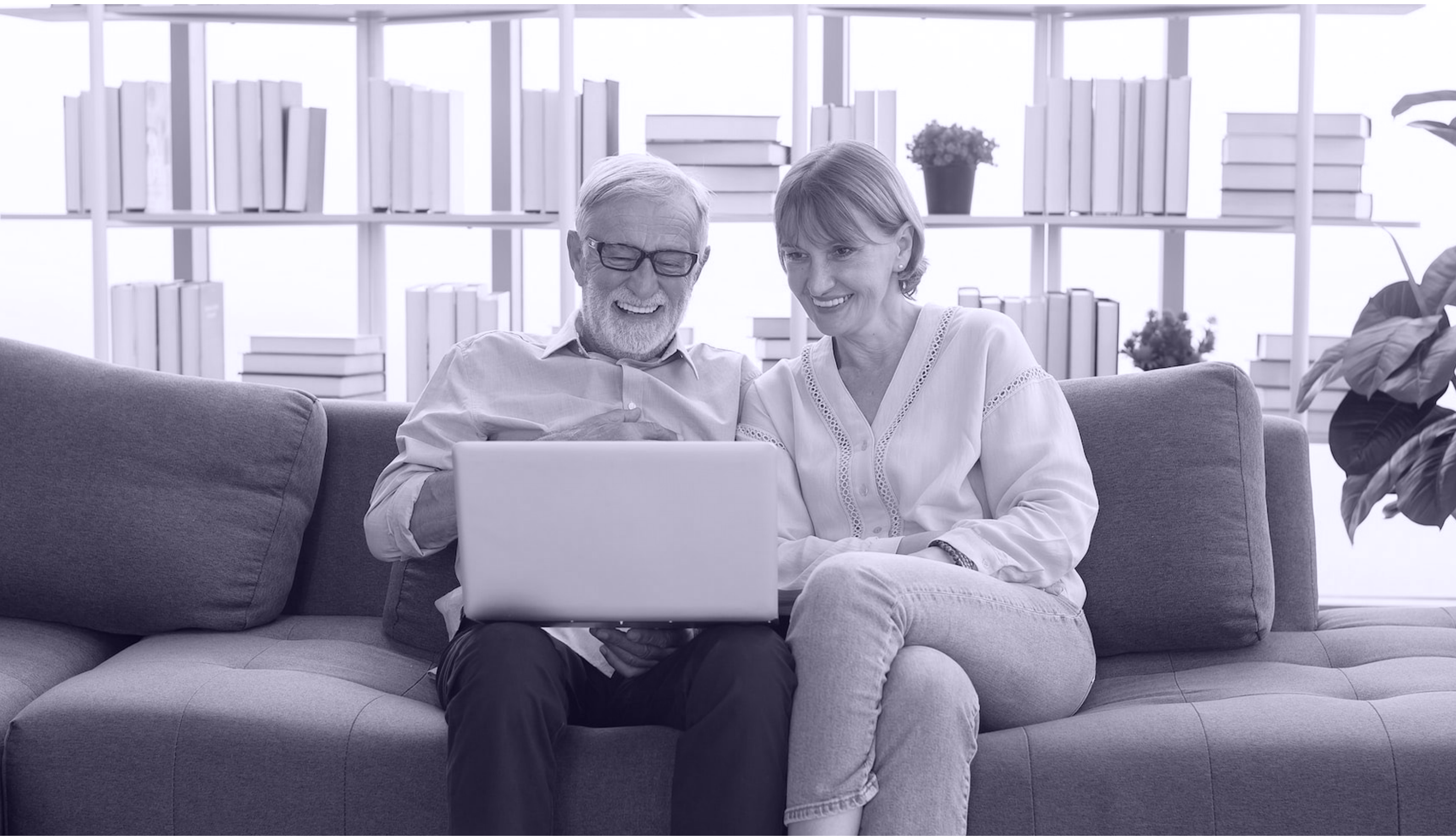
What can be done? The case for evening up balances

If you are in a relationship, balancing your Superannuation balances between you and your partner is a legitimate strategy to reduce your liability to certain additional taxes. It may also give you the ability to contribute more.

Typically, in an SMSF, one member will have more than the other. As an example, Bev has $600K and Bill has $150K. The total SMSF balance is $750K. Because Bev has a balance over $500K she will not be able to take advantage of unused concessional caps. If members balances were evened up ($375K each member) both members would be able to use the unused concessional contribution limit to reduce their personal taxation. To even up your balances, you can use spouse splitting each year, or consider a recontribution strategy (over 60 years of age)- if you have access to withdraw your Superannuation money.

These strategies rely on having a great relationship with your partner, as you move your balance to your partner. Once that move is made, that money is theirs or yours. If that worries you, the fact remains that Superannuation is subject to the family law court if a financial separation takes place. So even now, if you think your member balance belongs to you, it could be reduced or lost in a financial separation, so you may as well team up to improve your overall position.

If you are reading this article and your member balances are getting out of kilter, we recommend that you speak to your adviser about the advantages of evening up member balances, not just for today's tax advantages, but for future tax reductions. It is crystal clear that the size of your individual member balance is how the Government decides if you qualify for incentives or gets whacked with higher taxes. It may take time to even up your balances so doing the work now may save you in the future.



Concessional Contribution Tax Planning

Supervision has developed a contribution calculation tool

that can quickly demonstrate tax savings on different amounts contributed into Superannuation.

Because everyone has a different contribution limit based on several factors, coming up with the most tax effective amount to contribute is not easy. With this calculator we can reduce the time it takes so that you have more time to consider your options.

To calculate how much you can contribute to Superannuation and claim a tax deduction, we need to:

1. Check if you are eligible to contribute – based on your age and working status
2. Check all of your Superannuation accounts to update your TSB (Total Superannuation Balance)
3. Check your salary sacrifice & wages for Superannuation already contributed (if any)

We can't recommend putting more money into Superannuation is the right thing for you, but we can show you the numbers. Armed with the numbers, you can speak to your financial adviser or personal accountant to determine if it is right for you and if you have the cashflow.

If you participate in a meeting with us, we will be able to provide a written report that shows you the tax impact of different contribution amounts. Your SMSF will be able to pay for the meeting. The cost is $250/Member or $350/Couple. If the report does not show tax savings of over $1000, the meeting will be free.

Typically, anyone with income between $48K - $250K can create an overall tax benefit by contributing into Superannuation. How much depends on your circumstances.

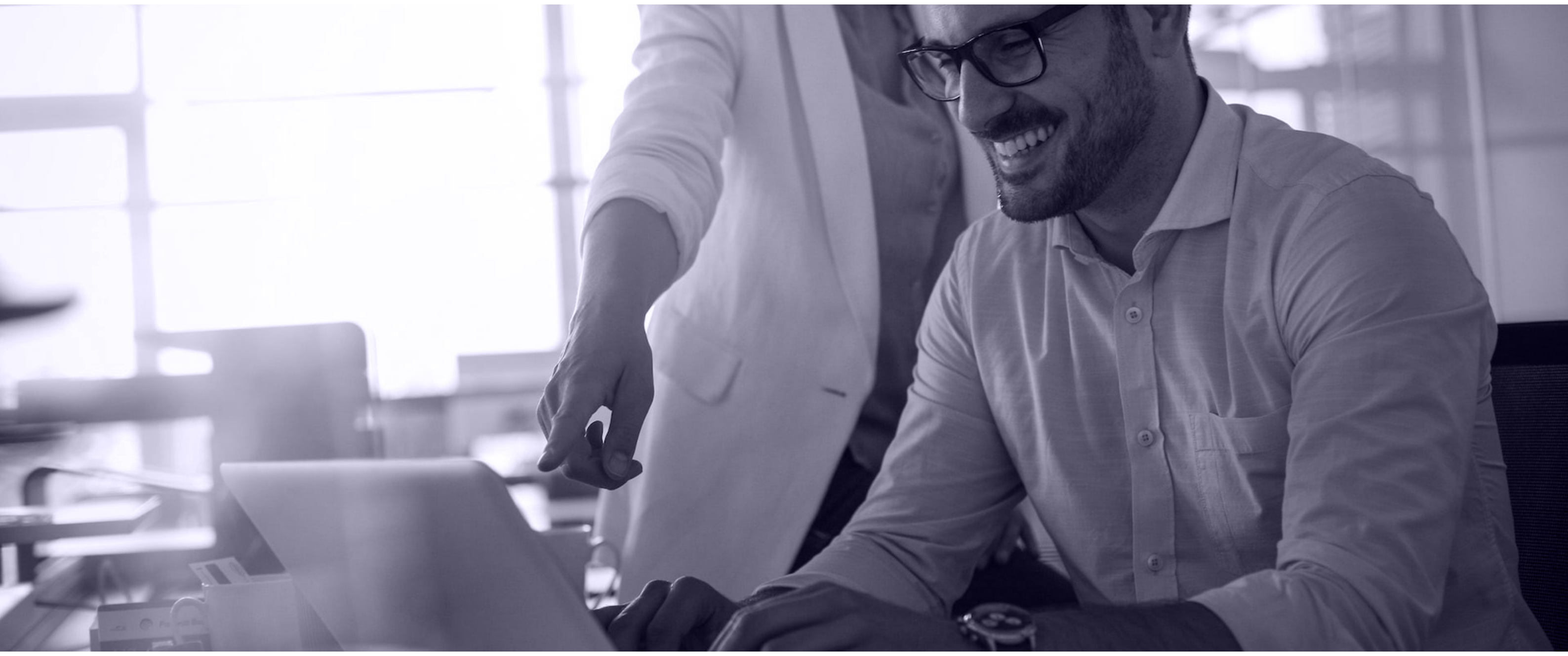
Book today to avoid disappointment.

Property Investments Valuations

The valuation of your SMSF property investment is required every year. Supervision provides a property valuation report for all residential properties free of charge. We are not able to provide commercial valuations unfortunately as an automated platform doesn't exist and every commercial property is different.

In years past, properties could be valued once every three years as prices were relatively stable. With COVID impacting rent and property prices in general across the country, Auditors are now insisting on valuations every year. Accepting our property valuation – residential only- is your call but is the quickest way to value your property. If you don't think that the valuation we provide (CoreLogic) is valid, please ask your friendly real estate agent to provide one for you. You will find they use the same system as we do.

Payments of Superannuation – Every Payday



The recent budget has set a target of the 1st of July 2026 for all Superannuation Guarantee (SG Contributions, employer contributions) payments to be made every payday.

For Employers

This change means there will be more demands on your cashflow. Your business may need to change its invoicing and payment collection to suit your wage cycle if cashflow is already an issue. It may lead to discussions about changing the timing of your payroll. Whilst the change will impact you in the short term, if you can improve your cashflow to meet this challenge it will have a positive knock on to improve other parts of your business. Successive changes like STP (Single Touch Payroll) and Super stream (ATO electronic monitoring of Superannuation) will give the ATO the ability to monitor compliance.

For Employees

If you are an employee, the proposed changes mean that your Super will hit your Super fund when your wages are paid to you. This gives you the ability to catch non-payment of your Superannuation quicker, eliminating long periods of work without Superannuation (unless you get paid every 3 months!!!). It may mean that your Superannuation is invested earlier leading to more money in retirement. Very marginal gains, but gains none the less.

FAQ's With Shish

Hi, its **Shish** back again. It has been a busy time, but we have achieved a lot this year. My role is to review your SMSF returns each year and guide you through the annual audit process. Hopefully you enjoy my insights.

Superannuation and your Tax File Number

If you don't supply your TFN:
Your super contributions won't attract concessional tax rates, and you may pay significantly more in tax.

Is it compulsory to provide your TFN to your super fund? It's not compulsory, but there are drawbacks if you don't.

If you don't supply your TFN:
• Your super contributions won't attract concessional tax rates, and you may pay significantly more in tax.
• You can't make personal after-tax contributions to your fund. (If you do, your super fund is obliged to return the funds to you within 30 days.)

Editorial

Did someone say, "Superannuation Changes"?

If you read this publication regularly, you will pick up that we always promote the positive aspects of Superannuation and tend to downplay changes as a fringe issue. This is because when all things are considered, Super still represents the most tax effective way to save for retirement (outside the family home). It is fit for purpose, and we usually encourage people to ignore the noise and their keep heads down, focused on the main game – building your Superannuation. We only rail against early release schemes and proposals like raiding Super to buy your first house.

Australia has a progressive taxation system which taxes higher income earners at a higher rate than lower income earners. This system has produced a first-class country with high standards of living. Without this system, the wealth gap between higher and lower income earners would be bigger than it is today. Australia continues to be a destination country for new settlers and any proposed changes to Superannuation will not impact any of the above in the short to medium term.

However, we must be very careful how we view and judge the accumulation of wealth and how we deal with its redistribution. "Fairness" depends on where you sit. In a democracy that sits with the majority. Majority rule however does not mean you can do anything you like to

a minority, especially when the minority have not broken any laws, but used the system as it is designed.

This Government is determined to sell their new Super tax (on the high rollers) as impacting only a tiny percentage of the Australian population which sounds great, unless it's you that is affected. It also fails to mention how inflation and natural growth will put more people into this new tax bracket in the future. It may be a 'limited' tax now, but what will happen when more people are captured?

In the media debate so far, we haven't talked about how we can increase Superannuation for lower-income earners, instead the language leans towards wealthy people taking advantage of the Australian taxpayer. In my opinion, it is not productive to think about the problem in this way. Increasing tax to those that can afford it is acceptable, but don't hide behind words like "fairness" or paint success as some fraud on the public. That narrative gives people with low levels of financial literacy the excuse to disengage and reinforces their preconceived idea that Super is a rich man's game, and they could never participate in that system. This result would be the opposite of what Super was intended to do for everyone and what it has already achieved.

A change in perspective

Most current working Australian's have had the opportunity to contribute to Superannuation, many their whole professional lifetimes. Even now after all this time, Australians are not investing enough time into understanding how Superannuation works or how to make it work better for them. I speak to people every day who don't understand how to maximise their contributions and take advantage of the legitimate tax breaks designed for them to be self-sufficient.

There has been ample time for Governments to confirm with its constituents that the Super system is robust and is destined to replace the old age pensions moving forward. If such an expectation was built, any tax concessions (reduced tax rates for saving) given to individuals would not be seen as a drag on current federal income, but as forgone revenue today for a much greater saving into the future. Taxing at the high end may make lower balance members feel better, but these measures do nothing to address growing inequity in Superannuation balances or lift lower balances to dignified levels.

If you have successfully sacrificed consumption today (and over your lifetime) to put more money into Superannuation and invested well, then you should receive the benefit in your lifetime under the rules that everyone abides. You shouldn't get taxed more because you succeeded, as the Government of the day defines what excessive wealth is.

To make sure that Super is used for its purpose and not as a wealth transference device, increase the tax rates for unspent Super to non-dependants. A tiered inheritance tax rate depending on the amount inherited can be easily drawn up. Amounts over $3 Mill could be taxed at 30-40%. Less for a lower amount. The result would be a progressive tax on people that did not contribute to the Super they have inherited. Call that tax what you want, but at least that is fair on people that have been self-sufficient and catches revenue to reduce tax-free wealth transference to those who did not earn it. It would also encourage people to spend their Superannuation in their lifetimes.

The people will decide.

Whilst we are not excited about the delivery of this new tax proposal, at least you have the opportunity vote against it and stop it from being implemented. You can't say that for previous governments.

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