Supervision GROUP

THE TRUSTEE

The publication that keeps you informed and in control

INVESTMENT STRATEGY MONTH

INSIDE THIS EDITION:

Est. 2003

WELCOME

Welcome back to "The Trustee". The publication to get you another step closer to your financial freedom.

So, another financial year has passed, what have we learned collectively about SMSF's?

You have found it extremely valuable finding out what personal tax savings can be made if making additional concessional contributions to Superannuation. Unused concessional caps are a game changer for everyone with a member balance under 500K. They allow you to top up Superannuation and save personal tax. If you earn between $50K & $250K in income annually, you will receive a good tax break if you put extra contributions into Superannuation. The report which outlines the actual savings helps to illustrate visually how it works. We urge everyone to put a note in your diary now to make an appointment from May to June for a contribution advice meeting, either with your financial adviser or me if you don't have one. If you want to salary sacrifice, we can help with your preparation today. We have the data and all you need is the report to start saving.

Conversations about SMSF property investment have intensified. Many SMSF's with properties (under a loan) have been burdened with interest rate rises. They are contemplating whether property inside of an SMSF with interest rates of 8 + % are worth it. Encouraged by a recent spike in the value of properties, they are wondering whether the timing is right to sell their property and get into some other investment. Our response is this: "What guidance does your investment strategy give you?"

An investment strategy is a compliance document that needs to be ticked off each year, but it can be much more than that. If the document contains instructions and strategies to cope with short/medium term changes, then as Trustee, you are simply better prepared. Documenting your strategy does not need to be complex nor overly scientific, its function is to provide written explanations of your investment philosophy (e.g., "buy quality assets, hold for long term capital growth"). Building strategies to cope with interruptions to the philosophy will also work in your favour (e.g., "to deal with increased property expenses and protect cashflow in the SMSF, the members will contribute more").

For many, a question about your "investment philosophy" may sound over the top and overly analytical. You may think that all you need to do is find a good investment and "go for it". Understanding your relationship with money (and by extension investing it) is vital to making the right decisions both at the beginning of a purchase and along the way. Are you one that believes in instant results, or do you take a long-term view of capital growth? Do you get unbearably nervous when short term issues arise?

Everyone can get it right, but knowing yourself by digging a bit deeper will increase your chances of success. Also understanding how you can mitigate against the inherent risk that your personality type adds to the mix.

There are no right or wrong answers except for the one that is right for you.

We would like to dedicate August to investment strategy month. A time where all SMSF's reflect on the past year and then come up with a plan for the current financial year. We provide an online solution for you to complete your SMSF investment strategy as a question-and-answer form. You can find the builder here: https://supervision.com.au/investment-strategy-builder/. Reach out to your Financial Adviser or Supervision if you require assistance on working through the document. You may be asked to provide this for Audit anyway, so you may as well go through the process and be prepared.

We wish you the best of health until the next edition, if you need any support, please feel free to reach out to us.

Christopher Homer
Director

FEATURE: LIFE INSURANCE AND YOUR SELF-MANAGED SUPER FUND

Written by Anthony Dermer
- Halcyon Insurance Partners

Life insurances, encompassing Death cover, Total Permanent Disablement cover, Trauma and Income Protection insurance, are essential in protecting your wealth against death and disablement. Most Australians are, however, underinsured which puts themselves and their family at risk of significant financial loss if the unexpected were to occur.

Many SMSF trustees are not aware that they can take out most of the life insurances they need through their SMSF. This is possible because death or disablement, whether permanent or temporary, is considered a 'condition of release' which, once met, allows the insurance payout to be released to the life insured.

While it is essential to consider the pros and cons of any type of insurance ownership structure, one of the advantages of having insurance on your life owned by your SMSF is that the premiums are paid from your fund, rather than your cash flow.

t is vital to have all the necessary information at your disposal when considering the:

- **Type of insurance,**
- **The level of insurance,**
- **The features of the insurance, and**
- **The ownership structure of the insurance.**

To better understand your insurance needs, you need to see how it fits into the bigger picture.

Your financial adviser is best placed to help you with your insurance needs. If you don't currently have a financial adviser to discuss your options, please contact the Supervision team and we will be able to work with you on a suitable solution for you.

There are two ways you can deal with insurance;

1. You can receive personal financial advice which requires an analysis of your financial situation. It also provides an adviser that can work through any claims with you.

2. You can receive general advice which will lay out your options and give you the ability to choose your insurance requirements. This is a process driven service which helps you select the right insurance for your requirements.

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INVESTMENT STRATEGY MONTH

We would like you to dedicate August as Investment Strategy month.
It may not be as exciting as growing a moustache in November but allocating 1 hour or more to reassess your investment strategy and formally discuss it with your fellow Trustees is time well spent.

An investment strategy is not just a document required for Audit.
It is a document that tells you what to do when certain circumstances arise.

Sample Questions:

1. Will my Superannuation have enough cashflow to pay me a pension?

2. What happens if the pensioners want lumpsum payments out of the SMSF?

3. Are my investments diversified enough to meet the requirements of the Members especially if anything negative happens to the one or more investments that I have?

4. Have the Trustees considered the use of insurance in the case of death or severe illness?

5. Do the Trustees understand the risk factors associated with various investments?

6. What can the Trustees do to minimise or manage the inherent risks associated with the investments that it holds?

7. Have the Trustees considered the estate planning issues associated with any of the members incapacity?

8. If a specific asset has been selected (1 Asset that dominates the SMSF's value- usually property) what is the investment time horizon and what factors would change the Trustees strategy with that investment?

Should high interest rates adversely impact returns, what would you do to counter that possibility? If market conditions impact that investment or group of investments, what is the longer-term view?

Investment Strategy documents can be completed online using the investment strategy builder. The form once completed will supply you a ready-made strategy document that can be printed and stored as a record of your decisions.

Please make note of the date that you created your strategy, it will be required for any refresh or quick reviews in future years.

What are the top strategies in SMSF?

Maximising Contributions

- Unused Concessional Contributions
- Downsizer Contributions – Now 55 years and over
- Bring Forward Non-Concessional Contributions
- In Specie Share Contributions
- Spouse Contribution Splitting

Small Business Owners

- Retirement Exemption
- Related Party BRP (Business Real Property)

Investment Property Owners

- Depreciation Schedules
- Loan Offset Accounts
- Refinancing & Interest Rate Reduction
- Accelerated Loan Repayments

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Pensions, Benefit Payments

• Pensions as a Lump Sum – Transfer Balance Cap
• Recontribution Strategy
• Multiple Pensions

Employee Benefits

• Transfer of Personal Shares in SMSF (Bonus Shares)

Tax

• Capital Gains Offsetting
• Franking Credit Tax Offset
• Franking Credits for Pensions

Insurance

• Life and TPD Premium check

To find out more about these strategies and how to use them, please reach out to Supervision for assistance.

Property Question Checklist

Many of you have properties in their SMSF. At the moment you may be feeling pressure in terms of cost. Here is a list of questions that you ask which may impact your investment return.

1. Has the SMSF property got a depreciation schedule?

2. If under a loan, does the SMSF have an offset account? Is the cash equity reducing interest payments? Ask your broker about using an SMSF offset account to reduce your interest costs.

3. Have you checked with your mortgage broker if you can get better loan terms?

4. Should you be making accelerated loan repayments?

5. Are you looking to purchase a second or third property? What is your overall property investment strategy?

6. Have you reviewed the $ Rent?

7. Have you reviewed property management fees and charges?

8. Is your current property valuation updated and based on factual sales evidence?

9. Could any renovation or maintenance of the property increase rental appeal or sale value.

INVESTMENT STRATEGY MONTH

Commercial Property – Valuation & Audit

This year, Auditors are focusing more of their attention on the valuation of SMSF properties- due to ATO directives. One of the problems that you may face (if you have a commercial property) is getting a market appraisal. Some clients may have a favoured real estate agent who will help you each year, but as time drags on, getting an appraisal can become difficult as you can't keep pretending that you are going to sell your property.

You may be questioning why Auditors are getting so strict on asset valuation each year, here are some reasons:

1. Your SMSF's financials need to be based on reality.

a. Large assets like property make up a large percentage of your SMSF.

b. Your financial statements are important reports created to give all stakeholders an accurate picture of your SMSF's position.

c. Auditors need to check the validity of the numbers submitted to them as they are being paid to do that job.

2. The members of your SMSF (you) need to know what the value of your balance is.

a. If the valuation is wildly out of step with reality (either higher or lower) the members are potentially being misled on how much they can hope to recover if their asset is sold.

b. If the property is over-valued, the members may think their retirement savings are in better shape than they are and may not invest more to make more money- leaving them short of their retirement income goals.

c. Under-Valuation can result in the members taking more risk than they need to meet their retirement goals when they may already have achieved their goals.

So how can you satisfy the Auditor without spending big dollars each year on a valuation.

We are currently working with your SMSF's Auditor to find a solution to mitigate the time and expense involved in property valuation. If you are a commercial property owner and you don't have a cheap and efficient valuation at hand, please reach out to Supervision. We may be able to provide an alternative as a solution to this problem.

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FAQ'S WITH SHISH

Hi, its Shish back again. My role is to review your SMSF returns each year and guide you through the annual audit process. Hopefully you enjoy my insights.

SMSF SUPERTEAM ROLLOVER:

As per law from 1 October 2021, you can only rollover into or out of your SMSF using SuperStream and certain release authorities may be processed in SuperStream (see https://www.ato.gov.au/Super/Self-managed-super-funds/Contributions-and-rollovers/Responding-to-release-authorities-issued-to-SMSFs/)

What is required to successfully do a Rollover:

• Fund Name
• Australian Business Number (ABN)
• An electronic service address (ESA). You can get an ESA from certain SMSF software platforms (eg, BGL, Class or SuperMate). The ATO also provide a list of ESA suppliers.
• A unique bank account recorded with the ATO.
• A Unique Superannuation Identifier (USI) which for an SMSF is the fund's Australian Business Number (ABN).
• Member ID

Please also make sure the member detail match perfectly with the ATO data for example full name including any other name , TFN, Date of Birth and so on.

How it gets Monitored:

Payment reference number
A unique payment reference number is generated by Super Stream compliant software. The payment reference number is confirmation that the relevant checks referred to above for a rollover to an SMSF or to an APRA fund, have been completed via the SuperStream system.

What if the rollover is not done via SuperStream :

Breach of Super rule and Audit Contravention Report
Failing to comply with the SuperStream standards where rollover was not completed through SuperStream and was made after 1 October 2021 can easily result in an auditor contravention report (ACR) and Failure to comply with the rules of Division 6.5 of the SISR and thus is a breach of reg 6.17 of the SISR.

HECS Debt & Salary Sacrifice

If you or any of your family members have salary sacrifice or salary packaging arrangements in place and you have a HECS debt, please make sure that your employer is deducting the right amount of HECS repayments during the year.

HECS repayments is based on your ordinary earnings (income). If you salary package or sacrifice to Superannuation, your personal income (and personal tax) is reduced, but your HECS payment requirements does not.

If your employer has not withheld enough to cover the HECS payment (on your ordinary earnings) then you will receive a large tax debt when your personal return has been submitted.

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EDITORIAL: DEALING WITH CHALLENGES

In discussions with our business clients, it has become apparent that business conditions have been excellent in the past twelve to twenty-four months, however there are handbrakes being applied to future growth.

The lack of trained and competent team members is adding to inflationary pressures and restricting the output of all businesses. With unemployment at very low rates, most business owners have mentioned that they could grow their businesses further if they had the additional team to carry out the work.

This problem is most acute in trade related services where the pressure to retain people has led to increased wage demands and less productivity. As employers have increase their workers hourly pay rate, they have decided to decrease the number of hours they are willing to work. In some cases, overall wage costs have remained steady, but the amount of production has reduced as employees choose to work less.

In professional services like accounting, the lack of quality staff has impacted almost every firm. We have also noticed that our alliance partners in banking and share trading platforms are slowing their quick turnarounds times and we are expecting less from their normal delivery times. Businesses large and small are short staffed and there is not much they can do about it.

Without a major economic downturn (resulting in higher unemployment which we do not wish for) we are expecting this situation to continue for some time. For the business owners and the clients that work for companies, producing more for the same cost will be increasingly difficult unless significant changes are made to the way this work is performed.

Small to Medium businesses across Australia must look to innovate to make up for reduced productivity. AI may be touted as the cure for this pain, but ignoring other solutions would be a mistake. Training and developing our own talent straight out of high school may sound downright medieval, but it may not only benefit the business, but also the trainee who gets to start their working life free of HECS debt.

Mindset change would be required to trust the businesses of Australia to give the skillset that is currently solely reserved by universities.

Our challenges at Supervision are the same as every other small/medium business operator who is dealing with this. The accounting industry is facing some additional challenges created by Governments desire to increase the ATO's digital data collection whilst implementing more complex tax concepts that require closer compliance scrutiny. The amount of data that needs to be collected by Supervision and supplied to the ATO would be unrecognisable to people completing the same compliance work 10 years ago.

So, what does that mean for you?

We will continue to work on bringing you educational material designed to make the complex – understandable.

We will also work with you to introduce more data out of your SMSF and the opportunities that they lead to. How can you make decisions if you don't know what is possible?

We will not stop advocating for strong relationships between our SMSF Trustees and their advisers. We see the role of financial advice as highly advantageous for clients for multiple reasons. If you currently do not have an adviser, we would encourage you to speak to Supervision about starting your journey.

Lastly, we want to provide bespoke advice to you when you need it. Dealing with life's challenges and helping you go from A to B to C.

Until the next edition…

Supervision GROUP

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