

THE TRUSTEE

The SMSF newsletter that keeps you informed and in control.



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Welcome

Thanks for joining us for another edition of the Trustee. Since the last edition, the team have been working towards 2020 deadlines and also helping clients with 2021 items.

To complement our accounting team, Angela Gaffney has joined Supervision to work with you on Binding Death Nominations and Estate Planning. Angela has decades of experience in large accounting firms helping SMSF Trustees create effective estate plans.

Our goal with this new offering is to guide you through the estate planning process step by step. Angela will work closely with you to give you confidence that your financial wishes are respected. We now have the solution for lingering doubts on estate planning topics. Please call our office today to book a meeting, spots are limited. Alternatively, Angela may call you to discuss your binding death nominations, please book a meeting during that phone call.

It's also that time of the year where you can catch up with the team to discuss any unfinished 2020 business or any current 2021 issues. Edwina, Satoko, Pina & I are available to discuss any administrative or tax related issues you need to cover before the end of the financial year. Here are the most important things you need to consider at this time of year.

1. Pension Minimum Drawings (if you have a pension)
2. Starting or commuting Pensions
3. Contribution Amounts/Salary Sacrifice & Required Deductibility
4. Your Investment Strategy & Document
5. Any Estate Planning Issues – Binding Death Nominations
6. Insurance Coverage requirements
7. Any Frustrating documentation requests or administrative issues
8. How to Use Supervision's Online Services including "My Portfolio"

If any of the above are resonating with you, it's time to get racing and book some time with us.

For clients of Sondergaard Accountants, joining us for the first time, we want to extend a very warm welcome to you. In this newsletter we explore some technical topics we have collected

from clients and what has been raised in the media as topical. We provide these articles for your general information.

If you have an adviser, we are pleased for you to discuss the topics with them. If you don't have an adviser, Supervision will be able to work with you to get the advice that you need. SMSF's with advisers are more likely to be more successful because the best advisers provide objectivity to your investment strategy and align it with your tolerance for risk. Please reach out to Supervision if you need to speak to a licenced financial adviser.

We hope you enjoy the edition as much as we had making it.



Christopher Homer
Director



What Are In Specie Contributions?

In specie contributions are superannuation contributions made by transferring the ownership of an asset into Super (SMSF) instead of cash.

An in-specie contribution can include the transfer of:

- a. shares,
- b. managed funds and
- c. business real property.

Benefits of an in-specie contribution includes:

- The asset ownership is transferred and does not spend any time out of the market.
- Savings in buy/sell transaction costs.
- Transfer of business asset or business real property into a self-managed superannuation fund (SMSF) can assist business continuance and family succession planning.
- Additional superannuation contributions from SMSF members can be used to pay out the outstanding loans on contributed business real property.
- Income earned by transferred assets are added to superannuation fund returns, which are taxed concessionaly in superannuation. The tax payable may be lower than your personal marginal tax rate.
- A personal tax-deductible contribution may be available.

How it works

An in-specie contribution is valued at market value and can only be made if the individual receiving the contribution is allowed to contribute under the superannuation rules. While an in-specie contribution can be sold within a superannuation fund like any other investment, the proceeds of any sale will need to stay within the SMSF until a condition of release has been met.



What is important to understand?

- CGT generally will apply to the in-specie contribution, even if the beneficial owner is a single member fund. An eligible individual may be able to claim part, or all of the amount contributed as a personal tax deduction. You should seek tax advice to review your individual capital gains strategy and timing.
- Stamp duty varies on a state-by-state basis. Transferring a Business Real Property into your SMSF in WA can be stamp duty free but only if documentation has been completed properly. Legal fees apply in the preparation of such documents.
- There is no obligation on a superannuation fund to accept an in-specie contribution. Your SMSF Trust Deed would need to allow for in specie contributions, however most deeds recently created, will allow for these types of contributions.
- For SMSFs, a person who is a related party of the fund can make an in-specie contribution provided the asset contributed is permitted by superannuation law (listed securities, widely held trusts or business real property). Transfers

of residential property from a member are not permitted.

- An in-specie contribution made to a SMSF must not be used for personal use.
- You will need to complete paperwork, such as Application forms, Off Market Transfers or a Contract of Sale documentation, so may also incur additional costs such as legal expenses or stamp duty.
- The government may change legislation in the future, so don't delay in seeking professional advice if that is a strategy you would like to undertake.

What types of in specie contribution are common?

The most popular in specie contributions are transferred listed shares. These transactions occur frequently on different parcels of personally held shares. The largest dollar value but less frequently transferred assets are Business Real Property, where personally owned business property is transferred to the ownership of the SMSF. Sometimes the property is transferred bit by bit to fit within the contributions cap for members.

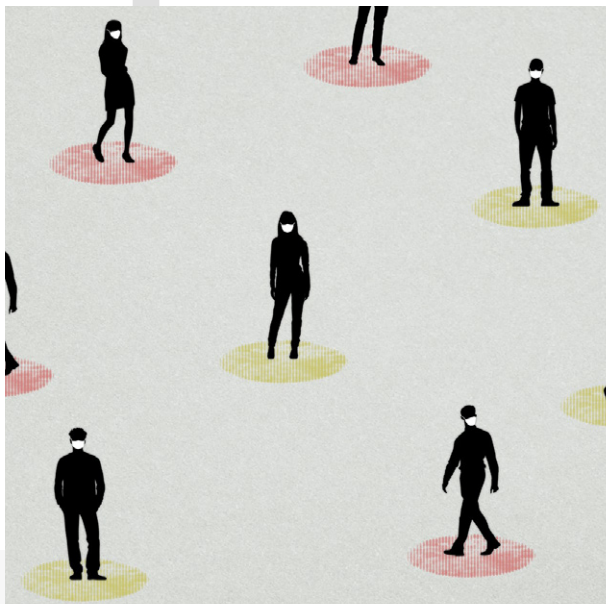


Update on 6 Member SMSF's

The much talked about amendment to the **Superannuation Industry (Supervision) Act 1993** to increase the maximum number of allowable members from four to six in self-managed superannuation funds is currently before the senate. This means that the Upper House is yet to pass the legislation. When the legislation passes, we will communicate this to you in this publication.



LRBA Covid Relief Measures



As a result of **COVID-19**, some SMSFs have sought relief from their LRBA loans.

This could be because:

- Rent relief has been offered to the SMSF's tenant(s)
- Reduced income generally
- Reduced contributions

LRBA relief could include:

- A refinance to better terms
- A freeze in principal and/or interest payments
- Reduction or waiver of interest
- Capitalisation of interest
- Extension of the term of the loan
- Writing off the loan in part or full

In 'normal times', any modification to related party LRBA loan terms (such as those listed above) could potentially cause issues for self-managed superannuation fund (SMSF) trustees.

As part of the ATO administrative concessions introduced in response to COVID-19, the ATO has stated that temporary repayment relief may be offered for related party LRBAs. The repayment relief must reflect similar terms to what commercial banks are currently offering for real estate investment loans as a result of COVID-19.

What relief can be offered?

The ATO has stated what relief can be offered under this measure:

If the repayment relief reflects similar terms to what commercial banks are currently offering for real estate investment loans as a result of COVID-19, the ATO will accept the parties are dealing at arm's length and the NALI (Non-Arm's Length) provisions do not apply. For example, these terms currently include temporary repayment deferrals for most businesses of up to 6 months, with unpaid interest being capitalised on the loan.

The COVID-19 rent relief measures will be tested when 2021 Audits take place. If you have given rent relief to third or related parties, you will be required to provide rationale behind the relief. There is no standard format, but minutes and resolutions that detail the conversations that took place will go a long way to satisfy the Auditor that the Trustees were acting at arms length. Other communication (letters and emails) between the parties of the lease will reduce the likelihood of additional auditor questions. Because COVID-19 affected different businesses in different ways, each relief will be measured on the evidence put forward to determine compliance.



Property Assets – Reducing Document Requests?



When SMSF's have property, we ask for documents to satisfy Auditor's requirements. The things that we require are as follows:

1. Rental Income Statements
2. Rental Expense Invoices or summary of payments
3. Lease Agreements – Amendments & Changes in Terms
4. Valuation updates (3 years minimum or annually if requested by the client)
5. Proof of Ownership – Title Search (Supervision complete for you)

During the year, you can reduce the amount of documentation required by requesting your property agent or manager provides a copy of all your property documents to "mail@supervision.com.au"

If your agent forwards those documents to that email address, it removes the requirement to remember to file and forward at a later date.

There is another way - Auto forward

Depending on your email application (outlook, Gmail, etc) you can easily set up a rule where emails coming from a certain sender can be automatically forwarded to Supervision (mail@supervision.com.au). A quick google search will reveal a step-by-step instruction on how to set up auto forwarding on your inbox of choice. Once mastered, you can use this technique for different emails coming to you including automatically filling.

Reminder – Tax Planning SMSF Review Meeting

Please start
calling the office to
book your **SMSF**
review meeting.



This meeting will suit the following SMSF Trustees;

- People that feel they are not getting the most out of their SMSF investments
- People that feel the administration of their SMSF is difficult to deal with
- People the have an itch they haven't scratched and they just need to take action
 - What happens to the SMSF if we die?
 - Should I reset my pension?
 - How can I login to view my portfolio online?
 - How much do I need in retirement?
- People that want to understand how much tax they are paying and how to reduce it
- People delaying retirement because they are unsure of how to commence a pension

If you have a financial adviser, we are happy to have the meeting with your adviser as well - the more the merrier.

Feature Spotlight

Why the hype about Investment Strategies?

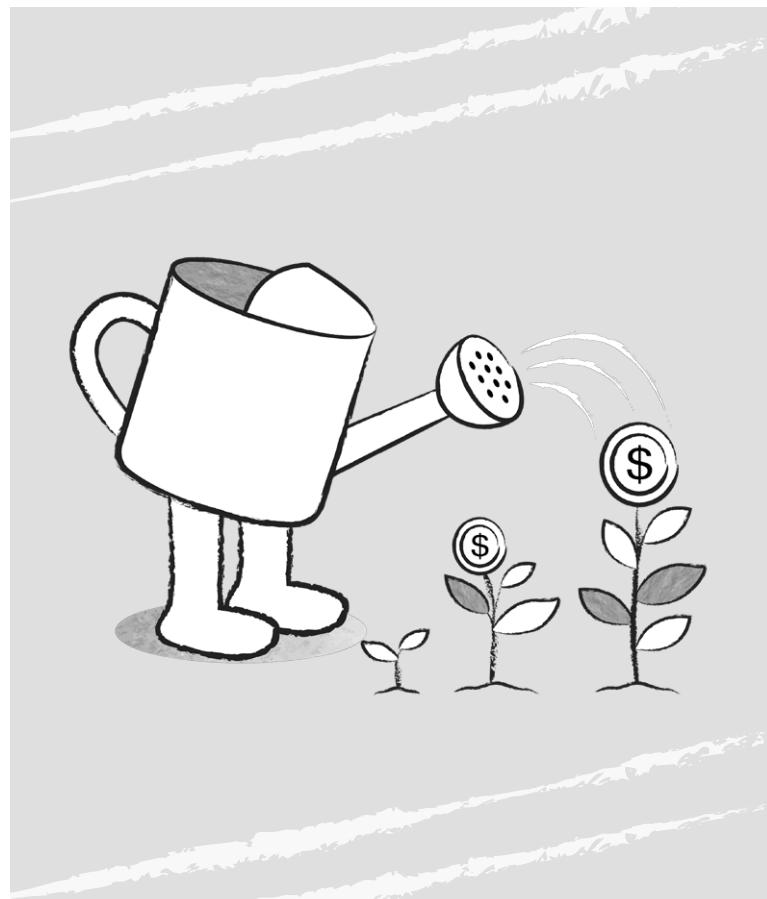
We have been banging on about investment strategies for the past few editions of this publication. We are often asked why the spotlight is descending upon a document that had up until now been created from a generic template?

Simply, the ATO have put pressure on SMSF Auditors to examine how well SMSF Trustees are protecting and increasing members benefits. In particular, how SMSF's with one single asset or very low diversification levels are acting in the best interests of its members.

Here is what the legislation says.

Regulation 4.09(2) of the Superannuation Industry Supervision (Regulations) 1994 requires Trustees of superannuation funds to: Formulate, review regularly and give effect to an investment strategy that has regard to the whole of the circumstances of the entity including, but not limited to, the following:

- a)** the risk involved in making, holding and realizing, and the likely return from, the entity's investments, having regard to its objectives and expected cash flow requirements;
- b)** the composition of the entity's investments as a whole, including the extent to which they



are diverse or involve exposure of the entity to risks from inadequate diversification;

- c)** the liquidity of the entity's investments, having regard to its expected cash flow requirements;
- d)** the ability of the entity to discharge its existing and prospective liabilities;
- e)** whether the trustees of the fund should hold a contract of insurance that provides insurance cover for one or more members of the fund.

We believe that the concerns raised by the ATO (concerning single asset or poorly diversified asset bases) should be closely considered and

discussed by SMSF Trustees. If you only have one asset or asset class, then it is logical to assume that the Trustee is taking significantly more risk producing investment returns for members. One slip and the investment return of the SMSF is compromised.

That is not to say that having an SMSF with one single asset is against the law or even a bad move financially. In this scenario, the investment strategy needs to reflect the additional risk that a one asset SMSF provides and how that risk is worth taking for the members.

Time frames are also important. Some short-term investment decisions can look poor but can prove to be a major winner over a longer time horizon? Only when the assets are realised, do we truly understand if the strategy has worked financially.

Investment Strategy success also depends on members requirements. Some members may not rely solely on their SMSF for Superannuation benefits (they have other Super), or the members may have significant assets outside of Super that will meet retirement income goals. For these members, the SMSF plays only one part of the members plans. This is fine, but the Auditor needs to know this is the case, so your investments strategy must reflect this fact.

The investment strategy document is about telling a story about why certain investments have been made and whether the Members are happy with the levels of risk the Trustee is taking to provide an outcome. As long as the outline of the plan and the actions of the Trustee match, then the investment strategy is compliant. The investment strategy document is not based on outcomes but on the process.

From time to time every investment class, will encounter problems. Take the most recent stock market downturn caused by COVID-19. Listed share portfolios dropped by 30-40% in the space of weeks. Your investment strategy's job is to provide instruction to Trustees when these types of events occur and how the Trustees will either pre-empt or respond. Property in Perth has experienced stunted growth over the past 5-10 years but there are signs that the market is starting to move.

Good investment strategies break down, short term, medium term, and long-term investment goals. This is because, Trustees have different pressures created by long term trends and short-term crisis. Long term low cash interest rates are a threat to overall SMSF returns if the Trustee decides to invest the majority of the SMSF in cash over the long term. Alternatively, cash is a viable short-term solution in a highly volatile market where capital can be lost.



Genius lies in being able to understand the difference and how to act to balance the best out of both scenarios.

With the above in mind, the Trustee must invest in line with the member's risk tolerance. There are some Trustees that any type of risk is not worth taking. For those deeply in pension phase with enough capital to last a lifetime, they do not need to take risk to maximise returns. It is not wrong for the Trustee with these types of members to forgo income and capital growth assets to protect the members capital in the longer term. The Trustees must act in the best interests of the members at all times, so if the current investment strategy is meeting members requirements, then it is completely legitimate to invest without the need to grow your capital.

For other members who require income and growth to reach their retirement income goals, then it is incumbent on the Trustee to take enough risk to meet these goals.

As you can see there are no right or wrong answers, only what is right for the member. This is why not one investment strategy template can cover everyone's investment strategy. We agree with the ATO that rigid one size fits all templates are dead. You can create your own bespoke investment strategy document using our **"investment strategy builder"** on our website at any time.

Please speak to your adviser about the impacts of your investment strategy and what you need to do to keep your investment strategy updated and helping you reach your investment goals.



Reminder ESA Codes: smsfdataflow

Supervision uses the latest SMSF technology for their SMSF clients. As part of your compliance information, we provide you with an ESA (Electronic Service Address) code. This code is what your employer uses to connect your employer contributions to your SMSF.

When your employer uses this ESA code, every time your Superannuation Contributions are made to your SMSF, they are automatically forwarded to our accounting software fully accounted for in the name of each member.

smsfdataflow

This code is listed on an employer contribution letter sent to you upon establishment of an SMSF.

Through our year end checking process, if we find that smsfdataflow is not being used by your employer we will remind you to forward this code to your employer. It is a requirement for your employer to use single touch payroll which includes this code.

Each time you change jobs, please don't forget to give your employer an updated employer contribution letter.



Editorial Content – “The Great Reset”

For many people, COVID-19 will **change their lives forever.**

Like the last great pandemic, life never got back to “normal”.



You may have already heard of the “**great reset**” in all forms of media. The term relates to the topic of the World Economic Forum which refers to the urgent need for countries to co-operate with each other to create a better world in response to COVID-19. For people already finding life tough, it may be proof positive that the game is rigged and only the elite have benefited whilst they have suffered. For others it points to an opportunity to do something different to improve their lives after a wakeup call provided by a virus.

It is a fact that certain sectors of the economy have created additional wealth during the pandemic whilst others have suffered. Just because this is the result, does not mean that these companies have played an active role in creating this scenario or increased its impact. Economic “winners” & “losers” happen all the time, acceleration to this process is added during a crisis.

Australia has been extremely resilient during the past 12 months, but we need to make sure that we remain aware of the issues that were present before COVID-19. Good handling of the pandemic will not absolve poor management in other areas after immediate dangers subside. How will Australia diversify

its export markets? Will the Government legislate higher employer contribution levels? Is compulsory Superannuation a non-negotiable?

But as someone with an SMSF knows, **your retirement and future financial security starts and ends with you**. You are not waiting for the Government to provide additional SG Contributions from employers; you already salary sacrifice to meet your contribution goals. As an SMSF Trustee, you have taken responsibility and risk, so you deserve the rewards also. Taking control over your Super is still the number one reason people love SMSF’s. The self-discovery required to make an SMSF work is what makes SMSF’s truly unique.

“Resets”, “New Year’s Resolutions”, “Rebirth”, “Reinvention”, “Reincarnation” are not new, they are a central theme in all cultures, generation after generation. We believe at Supervision that now is the best time to make decisions that will benefit you or your family in the future. Repurpose the terminology to suit yourself and give it your own meaning. Seize the present moment to reset your goals to take your Super to the next level.

See you in the next edition of “**The Trustee**”

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