EDITION: JULY 2021

THE TRUSTEE

The SMSF newsletter that keeps you informed and in control.

INSIDE THIS EDITION

Welcome

Thanks for joining us for another edition of the Trustee. Since the last edition, the passage of legislation has meant some interesting changes for Self-Managed Superannuation Funds. This issue will focus on these changes and highlight some really important ideas that you may have missed.

Many people read the whole publication or one article in isolation, call me, and ask how it affects them. The answer is almost always– “it depends”. I understand this answer on the surface may frustrate. On another level however, it is the finer details that determine the advantage or otherwise of the particular subject. Your objectives determine the right outcome for you. For the most part, your objectives and motivations are known very well to you but a mystery to us.

Our vision at Supervision is to help our clients grow in knowledge, improve their wealth, and live their dreams. We do that in various ways. We do our best to provide “live” portfolio valuations and transaction matching throughout the year. We also provide

platform solutions to reduce paperwork and provide tools that take the mystery out of documentation requirements like investment strategies. It is clear that Supervision needs to do more when it comes to client engagement and understanding our clients' objectives. We certainly are taking more meetings and spending more one-on-one time with clients especially in the estate planning area, but we need to do more.

I want to address the flow of information between yourself and Supervision. Many clients have provided feedback that many documents have been already supplied or they do not understand the questions being asked. Some clients want less requests for information and others want their portfolio managed on a daily basis. Regardless of your expectations, if your current experience is causing you frustration, we want you to know that we are aware of it and we are doing something about it. We will never walk away from keeping your portfolio up to date- its in our DNA. We believe so strongly that updated portfolio benefits everyone. The trick is to provide that service in the background where it has the least impact on your time.

In the coming weeks, Supervision will be adding more team to its South Perth Office to direct the flow of information between you and our accountants. Personnel changes have already started and will continue to unfold over the next few weeks; it is all part of our restructuring efforts to improve data flow and make our services more customer friendly.

We are still open to feedback on how we direct information to you, so don't be shy if you have some for us.

Please enjoy the content in this edition of "The Trustee" and if anything in this edition arouses your curiosity or moves you to action, please share that with us or your financial adviser. We believe strongly that your SMSF will change your life for the better, not only in retirement but now. If your SMSF is not fulfilling its purpose, don't waste any time, reach out, we can help.

Christopher Homer
Director

Case Study – Unused Concessional Contributions Cap

The level of complexity that is required to keep on top of the current legislation, let alone any new changes, means we need to take extra time while delivering important information.

For example, a few weeks ago before the end of the financial year a client called me to ask what she thought was a routine question. "How much can my husband salary sacrifice before the 30th of June and stay under the limit (cap)?"

In this case the husband had an SMSF member balance under 500K but also has military super which was not supposed to be included in the total Superannuation balance. The Total Superannuation balance of a member determines if they can contribute more or less to Superannuation, so its important to understand how much a member has in Superannuation.

On the surface the client was sure that the military Super did not have a balance, so therefore the SMSF was the sole source of Superannuation benefits for her husband. That is not what an investigation into MyGov revealed. If we had not taken our research further and taken the time to work through the problem according to the client's personal situation, the answer would have been wrong, resulting in excess tax or messy tax amendments.

Everyone's situation and personal circumstances are different, so the application of changes is not straight forward. It takes time and expertise to align the rules

with your circumstances, even for advice that is solely based on tax.

Contributions to Superannuation is one of the fundamental elements of growing your Superannuation wealth, contributing to your SMSF, will help you meet your retirement income targets. I would urge everyone that does not understand how they can maximise their contributions to Super to contact the Supervision team and consider the support of a licenced financial adviser if you don't already have one.

If you have Super outside your SMSF, you also need to use MyGov to update your current Superannuation Balance.

My Portfolio – Updating Contributions and Total Superannuation Balance

As you may have noticed, we are talking a lot about unused concessional contribution amounts recently. You may be wondering why. The main reason is that voluntary contributions to your SMSF is one of the most effective ways to reduce your personal tax. For many years, the level of concessional contributions you could make to Super has been limited. Now as long as you have a balance under $500,000 you can use the left-over contributions of previous years.

This is a **huge advantage** when you are trying to increase your Superannuation balance and reduce your personal tax burden.

Case Study 1

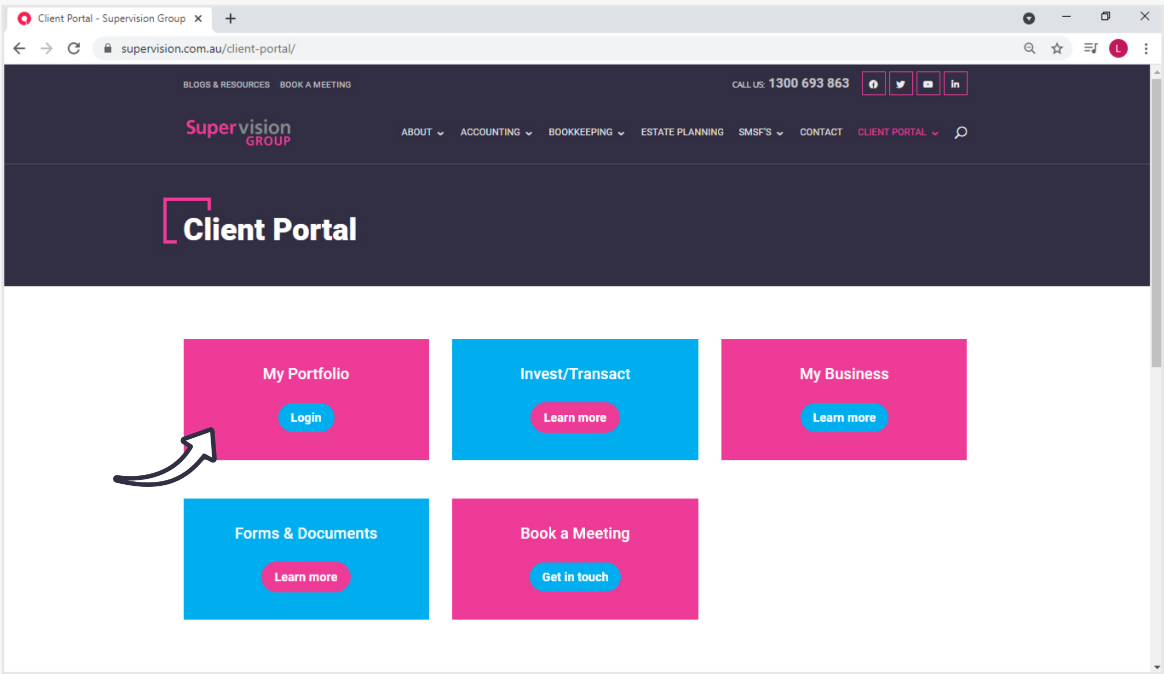
Consider Jeff who is over 60, retired and looking to go back to work for a few years to boost his Superannuation balance as its currently under $500,000. If Jeff has the ability to start a pension in his SMSF (he has met a full condition of release) he could effectively withdraw a pension from his SMSF to live off and salary sacrifice almost all of his salary and wages into Superannuation (depending on his contribution history) to pay little or no personal taxation. The SMSF would pay 15% but personal taxation would be saved and his SMSF would have a large amount of cash to invest and grow.

Case Study 2

Judy is turning 50 and is now paying a lot of attention to her SMSF which is the sole source of her Superannuation. Judy has invested in an investment property for the past 20 years (personally). Since purchasing the property, an increase in value will mean any future sales will attract capital gains tax in her personal name. Judy doesn't quite have $500,000 in her SMSF members balance so she is quite keen to get more money in there. Her current wages are excellent so any taxable capital gains will mean a large tax bill at the end of the financial year. Judy really wants to sell the property now but is worried that she will have a huge tax bill at the end of the year. By working with her adviser or receiving tax advice, she finds out that her unused concessional contributions over the past three years plus her current balance has added up to a large amount - $50,000. Contributing partial sale proceeds from the property sale into her SMSF can completely offset any additional personal taxation that Judy had. Judy achieves two of her desired outcomes.

What is important to understand?

Many of our clients have Superannuation accounts outside of their SMSF. Some may even have two Superannuation accounts outside of their SMSF. These accounts are now important because they impact your ability to contribute to Superannuation. When we update your SMSF, we only report on what is recorded in your SMSF. We have no way of knowing what your contributions to other Superannuation accounts are and what their value is. We urge all of our clients with multiple Superannuation accounts to login to "**MY PORTFOLIO**" and update (edit button) the contributions page to ensure that your information is up to date. All the information that you need to put into "**MY PORTFOLIO**" is in your personal "**MYGOV**" account under Superannuation. You will need to update contributions and valuation of other Superannuation Funds.



Estate Planning

Angela Gaffney is continuing to add massive value to our client's. Angela brings decades of real-life experience working with SMSF Trustees, protecting their wealth for future generations. A particular area of Angela's expertise is estate planning for SMSF's, winding up solvent companies and trusts that have outlived their usefulness and deceased estates.

If you think that estate planning is just about a Will, think again. You may be surprised about the skill, scope and what can be uncovered when talking about estate planning.

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CORPORATE or INDIVIDUAL SMSF TRUSTEE?

"Control is nine tenths of the Law" right? So, who controls your SMSF ("the fund")? What does the Trust Deed state? Ever been confused about who owns what?

You're probably aware that the SMSF investments are made in the name of the Trustee on behalf of the fund.

So, which is better? An Individual(s) or a Corporate Trustee?

There are several merits attached to having a corporate trustee, including:

1. Assets MUST be in the name of the Trustee:

In the case of individual trustees, every time the membership of the fund changes, Eg: the death of a member, it can be costly engaging a Lawyer to prepare a Deed(s) of Appointment to record the change in trusteeship; and then every asset name has to be changed to reflect the new trustee(s) name. Eg: WA Landgate, bank account(s) and share registries for EACH investment.

In contrast, with a corporate trustee, any change of membership changes the underlying control of the company, not the Trustee company name. Hence the change of membership does NOT give rise to a change of name on EACH investment. Instead, it is much simpler to change the underlying directorship of the company by completing the relevant ASIC form.

2. Who owns that Asset?

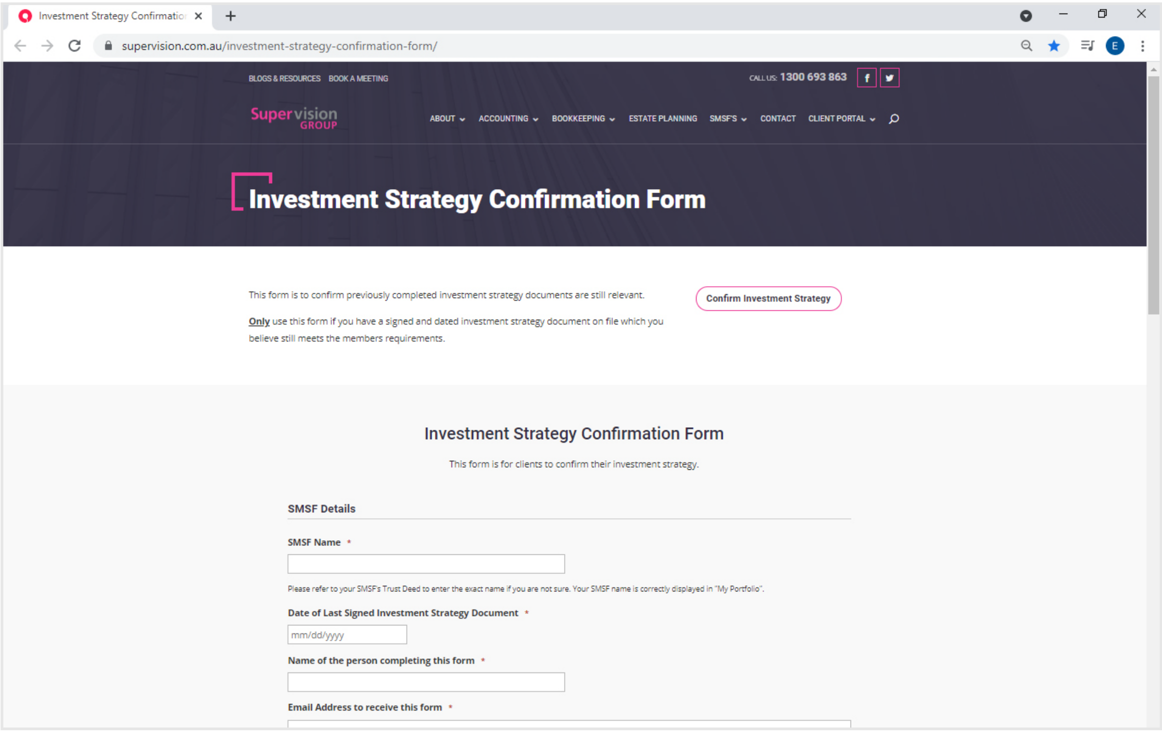
Superannuation law requires the Trustee to keep the fund assets separate & readily identifiable, including separate from the Trustee's personal assets.

When the fund has individuals as Trustees, it can be unclear whether an asset is owned by the fund OR personally. I've seen cases where a trust fund asset, registered in the name of an individual Trustee, has been mistaken for an asset of a deceased member, wrongly inter-meddled with as a Deceased Estate asset and distributed pursuant to the terms of a Will by mistake. If alarm bells are not ringing in your head, they should be because, assuming the mistake is identified, the future professional legal fees, litigation costs, audit fees, taxation implications and family disharmony sorting out the inadvertent mess is preventable by having a corporate trustee.

Many couple individual trustees wait until the first of them die or lose their mental capacity before introducing a corporate trustee. In some cases, there is merit addressing this issue whilst all members are alive and have mental capacity.

If you would like to discuss your circumstances, please contact our office.

Online – What's New?
Investment Strategy Confirmation Form



https://supervision.com.au/investment-strategy-confirmation-form

This year if your Investment Strategy has **not** changed from last year, you can avoid completing the full investment strategy document for this year's tax return. This form should only be used if you completed the full investment strategy builder recently and your strategy has not materially changed since that time.

We have created this confirmation form to allow our clients to quickly get the job done. To complete this form, you will need to remember the date of your last investment strategy. It is always recommended that you read your previous investment strategy and contemplate how you can improve the document.

Although this process is built for speed, we want to change your perception that this document is only required for compliance. It is required for Audit, but if you construct and use this document properly, it should lead to better financial outcomes, which ends up in your pocket in retirement.

If you want to complete your tax return, please **complete your investment strategy builder or the confirmation form** (depending on your circumstances) as soon as possible and send it in to us.

Changes to Super Rules

Increase in SG Contribution %

The annual rate of Superannuation Guarantee payments to employees has risen to 10%, up from 9.5%. Reviewing any Salary Sacrificing arrangements now will ensure you don't unwittingly go over the annual concessional contribution cap due to the increase in Superannuation Guarantee.

Increase in Concessional Contribution Limit

From the 1st of July 2021 till the 30th of June 2022 (2022 Current Financial Year) the annual concessional contribution limit has increased to $27,500 from $25,000. You will see in "MY PORTFOLIO", that the members have an increased cap. Depending on your circumstances however, this base may not be your limit.

Increase in Non-Concessional Contribution Limit

The increase in the concessional contributions cap means the general non-concessional contributions cap is also increasing from 1 July 2021 to $110,000 per year up from $100,000pa.

If you're eligible, you may be able to start a bring-forward arrangement. This allows you to use up to three years of non-concessional contributions caps in a single financial year (3 years x $110,000 = $330,000).

Bring-forward rule extended to age 65 and 66

Eligible people aged 65 and 66 can commence bring-forward arrangements and make up to three years of annual non-concessional contributions caps in a single year. The change was backdated to cover contributions made on or after 1 July 2020.

Temporary reduction in super pension minimum drawdowns

The government has again reduced the minimum drawdown rates by 50% for account-based pensions and similar products in the 2021/22 income year. When you login to "MY PORTFOLIO" you will see how this has been reflected on your pension payment requirements.

Increase in the Total Super Balance (TSB) cap

The total limit on the amount you can contribute to super over your lifetime is called the Total Super Balance cap. From 1 July 2021 this amount is increasing to $1.7 million. Once your super balance exceeds the TSB, you are unable to make any more non-concessional contributions into your super account.

Transfer Balance Cap Increase to $1.7 Million

From the 1st of July 2021 if you are starting a pension for the first time, the maximum amount you can have in Retirement Pension phase will be $1.7 Million per member. This amount has risen from $1.6 Million. If you have an existing pension that commenced before the 1st of July 2021, your cap was $1.6 Million not the new cap of $1.7. If you did not use 100% of the $1.6 Million Cap in previous years you may be eligible to increase your pension holdings in your SMSF, however the amount will only increase by the unused percentage multiplied by $100,000. Indexation has made this difficult piece of legislation even more complicated.

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 (4) to six (6) in self-managed superannuation funds has finally been passed.

The original maximum number of SMSF members of four (4) was an arbitrary number based on the nuclear family of Mum, Dad and two children. As this is not the composition of every family, if you wanted a family SMSF and you had more than two children someone or everyone would miss out.

The ATO's software to add new members does not yet allow for the 5th and 6th members to join your SMSF. Work arounds have been provided, but it may be sometime until automated online systems are in place. If you want to add more members to your SMSF please make sure that you consider all the impacts of having six (6) members in your SMSF.

Having members outside of your immediate family also impacts the ongoing compliance of your SMSF, so please consider the people that are included in your SMSF.

Recontribution of COVID-19 Early Release Amounts

Changes to the law also includes provisions allowing individuals who received a COVID-19 early release of up to $20,000 from their super amount to re-contribute it without the money counting towards their annual non-concessional contributions cap.

The contributions can be made between 1 July 2021 and 30 June 2030 but must not exceed the actual amount accessed early and cannot be claimed as a tax deduction for a voluntary personal super contribution.

ESA Codes: smsfdataflow – Beyond Contributions

ESA codes are used to provide the Government with a way of tracking Superannuation contributions.

From October this year, all Superannuation funds will need to supply electronic means by which they transfer Superannuation entitlements between funds.

This means that if you complete any roll outs of Superannuation to your SMSF, you will require the ESA code. Supervision is ready and uses the latest software equipped to cope with these rule changes.

If the Supervision team have asked you to update your employers' records with an ESA code, please get in touch with your payroll officer and request they use **smsfdataflow** (ESA Code) as part of your contribution payment through their software.

Editorial Content – Putting Super Taxation Into Perspective

Recently there have been articles and speculation in the media about tax reforms required to fix the overly complicated Australian taxation system. Many reviews and reports have been written for Government to consider and implement over the years. Higher GST and swapping tax on Super contributions to taxing retirement income streams are two of the major structural changes that have been raised.

Naturally, younger Australian's trying to build their Superannuation support the removal of contribution tax in favour of taxing pensions. People already retired or speeding towards it are in the opposite camp. Recent changes to tax-free pension income for pensioners with $1.6 or $1.7 Million signalled to aspirational savers that its fine to create wealth and become self-reliant, but if you do it too well, its going to get complicated.

With all the mixed messages, what is the reality of the taxation of Superannuation?

Superannuation was always supposed to be taxed. Not only was it supposed to be taxed on the way in, but also on the way out. Back when I started out in SMSF 17 years ago one of our jobs was to calculate and withhold tax from pension payments. In addition, the income earned inside the SMSF was also taxable.

The Governments task has been to maintain the tax advantage of Superannuation to encourage Australians to tip more money into Superannuation. Australian's love an incentive and saving tax is a national obsession, so its no wonder that Superannuation has grown voluntarily and maintained broad support politically.

Going forward the Government will need to continually monitor the tax advantage of Superannuation to maintain its "concession" to personal tax rates. For individuals that are on taxation rates of around 19%, the incentive to place more money into Superannuation is becoming marginal at best. Recent personal tax rate reductions put more pressure on a flat 15% tax rate in Superannuation. For lower income earners, contributions over and above compulsory contributions are required to boost savings and lead to healthier member balances. Without contributions, it is going to be extremely hard to reach higher member balances.

If you are at the higher levels of income, then electing to save in Superannuation is definitely gaining good tax breaks.

Interest plus time will make sure that your savings will provide **financial security** in retirement.

The Super system will never be completely "fair" or "equitable", but it is the best system that we have, and it has delivered some outstanding outcomes, which I see day in and day out.

We hope that you pay the right amount of tax because your SMSF is making money. Something is going right for you, and we want that to continue.

See you in the next edition of "The Trustee"

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The Team behind Supervision SMSF

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Christopher Homer: Director of SMSF
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