

THE TRUSTEE

The SMSF newsletter that keeps you informed and in control.



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Welcome



Welcome to another edition of “The Trustee”. We hope that your month has been fantastic. The 2021 tax return season is well and truly underway with many clients already receiving refunds. The team have been working feverishly to complete as many returns as they can. If you have been contacted via email or any other means, now is the right time to get your information in to avoid any backlogs. Please contact us if your 2020 return has not been completed. We have been working through that list and we may be waiting for your response or something as easy as a document to complete that task.

Many SMSF's invested in listed securities (Shares, ETF's & Managed Funds), have seen amazing returns over the past 12 months. If you are unsure how to measure your investment returns, we would encourage you to go to your portfolio online (My Portfolio) and open the “Performance” tab. Once there, you will be able to see your percentage rate of return and more detailed information like the dividend and interest income plus franking credits and realised and unrealised capital growth.

Those with residential property investments may also be seeing some positive movement in the value of their properties due to better market conditions. Supervision receive RP Data reports from our accounting software for residential properties at tax time. Once you

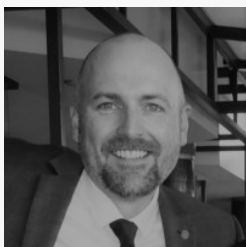
have accepted the valuation (you can get your own value if you like also), we will update the value of the property on the portal. We would also like to add the rental yield to your portfolio online, which displays an estimated amount of income that your SMSF creates each year. Unfortunately, the automated RP Data service does not cover commercial properties. If you need an updated valuation for your commercial property, you can get a curb side valuation from a friendly real estate agent.

By July 2022 there will be a requirement for all SMSF's in pension phase to create a "retirement income covenant". The Government is concerned that many SMSF's in pension phase may not have an adequate strategy in place to deal with paying pensions to members. They have put together a proposition paper to try and implement budget measures raised in 2018/19.

This requirement is in addition to what is already written in your investment strategy document. At this early stage, we are thinking about expanding our investment strategy builder to make room for such a covenant. If there is a requirement for a completely separate document, we will supply that as an online form. As further details are released, we will communicate them to you. If you read about this covenant in the media, we are happy to talk to you about it, but we will be learning more in the coming weeks and months as details at stage are "light on".

In this edition, we also discuss the latest ATO tax ruling which talks about Income and expenses of an SMSF that is not at arm's length. If you have a business that rents from your SMSF, this article is for you.

We hope that you are in good health and making the most out of your SMSF's low tax environment for saving. Our team are here to help you reach your goals, so please reach out to us if you don't think your SMSF is currently meeting this purpose. If you are struggling with the question about your SMSF's purpose, then it is critical to act and speak to your financial adviser today. If you need support finding advice, we have an extensive list of quality advisers that assist in providing investment structure and strategy to SMSF's. See you next time.



Christopher Homer
Director

My Portfolio

My Portfolio - % Income Yields

Knowing how much an investment will pay out as a dividend, distribution, or interest as a percentage of its market value is extremely useful. Depending on your liquid cash requirements, you may want to keep a share longer due to its capacity to pay high dividends even if its recent capital performance has not been stellar.

Yield is a simple calculation according to the following formula:

$$\text{Yield} = \frac{\text{Announced or \$ Paid Dividend Amount}}{\text{Current Value of Asset}} \times 100$$

Tracking yield will enable you to be fully informed on all facets of the asset's performance rather than just capital growth alone. Income forms part of your overall investment return on an investment. Your yields impact on your SMSF's total return which can be fully explored in the "Performance" tab.

My Portfolio - Dashboard Top Performers

Many clients view their dashboard in "My Portfolio" and ask us about the data displayed in "MY TOP PERFORMERS" & "MY BOTTOM PERFORMERS". This is a quick snapshot of the

best and worst performers from your SMSF for the current financial year. This dashboard section is not based on the increase or decrease since the original purchase, but the change in market value since the start of the current financial year. It is possible for a share to be one of your top performers overall but still be on the bottom performing list in the dashboard for the year because the price is currently low. You can see how this works when you view the "Performance Tab" and view more details. The report generated after hitting "view more details" on the performance page will display all of your assets and the change in market value during the date range you have selected.



SMSF Statistics July 2021

- Largest net establishments since 2016 of 23,125 SMSF's added to the number of existing SMSF's. Wind up are down to record low numbers.
- Total Number of SMSF are 597,900 with 1,114,529 members.
- Combined net value of \$789,672 Million [\$789 billion] = \$822,045 Total Assets - \$32,373 Total Liabilities (Borrowings).
- 19.5% of all SMSF assets are invested in Cash & TD's.
- 29.19% invested in Listed Shares.
- 5.48% invested in Residential Property.
- .026% invested in Crypto Currency (\$212 Million).

Analysis - Interesting Numbers

As an SMSF increases in \$ Value the % of cash in the SMSF gets lower.



SMSF's valued at between 1-50K have a weighting of cash of 49.8%. SMSF's greater than \$50 Million in size have 12.5% invested in cash. The decline in % is consistent across the value cohorts.

In contrast the level of investment in listed shares remains steady at an average percentage weighting of 25.2% across all value SMSF's.

As SMSF's get larger in size they increase their weighting in unlisted trusts. SMSF's valued between 1-50K hold only 2.7% in unlisted trusts all the way to 21.7% for SMSF's with a value of over \$50 Million.

The largest cohort of SMSF members still resides in the members aged between 75-84 (13.7% of Males & 11.3% Females) however the age gap is narrowing with younger SMSF trustees starting to make up greater percentages.

Collectibles

As a reminder for Trustees who are investigating the purchase of collectible assets, we would like to provide you some information below so that you understand your obligations as Trustee.



**What is
considered
as collectible?**

- Artwork (such as paintings and sculptures)
- Jewellery (pink-diamonds)
- Antiques
- Cultural or historical artefacts
- Motor vehicles and motorcycles
- Recreational boats
- Memberships of sporting clubs or social clubs
- Coins, medallions and bank notes if their value exceeds their face value
- Rare books, manuscripts and folios
- Memorabilia
- Wine or spirits
- Postage stamps and first-day covers

Collectables and personal use assets can't be:

- Leased to, or part of a lease arrangement with, a related party.
- Used by a related party.
- Stored or displayed in a private residence of a related party.
- The decision on where the item is stored must be documented (for example, in the minutes of a meeting of trustees) and the written record kept.
- The item must be insured in the fund's name within seven days of the fund acquiring it.
- If the item is transferred to a related party, this must be at market price as determined by a qualified, independent valuer.
- As with all fund assets, check prior to purchase that they are not encumbered in any way (you can use the Australian Financial Security Authority's Personal Properties Security Register to ensure that collectables and personal use assets have no security interests over them prior to your purchase).



Crypto Currency Investments in SMSF

There have recently been more enquiries from Trustees about the purchase of crypto currency with SMSF money.

Many clients have already started their journey with this asset and others are doing their due diligence on the appropriateness of this asset for their members. Whilst we don't have an opinion on whether or not you should include it in your SMSF portfolio, we can tell you that it is a legal asset to hold in your SMSF as long as you follow the rules.

Here is the accounting treatment of Crypto inside of SMSF.

1. Cryptocurrency assets are not treated as a cash investment.
2. Cryptocurrency will trigger capital gains tax event if sold with a profit, but triggers capital loss event when sold at a loss.
3. The costs involved in cryptocurrency trading are accounted for as an increase in the asset cost base and not as a tax deduction.

Below is a short guideline on how to remain compliant.

1. Obtain and supply the 30 June Market Value from a reputable digitation currency exchange that publishes historical cryptocurrency values such as Coin Spot.
2. Confirmation of Ownership of the Cryptocurrencies (30th of June each year).
 - a. The SMSF needs to have its wallet entirely separate from any personal crypto wallets.
 - b. Auditors need to verify that your SMSF is the owner so make sure the purchase and holding of units is in the SMSF's name.
3. Transactions in the cryptocurrency wallet should be traceable to the SMSF's bank account.
4. Signing of declaration of trust which states that the SMSF is the beneficial owner of the cryptocurrency if a report is not able to demonstrate the account is in the name of the SMSF.
5. Trust Deeds of the SMSF must not prohibit the purchase and holding of cryptocurrency.
6. Investment Strategy documents must include the purchase and holding of cryptocurrency and the impact they have on the risk, return, diversification & liquidity of the SMSF.
7. Don't buy coins from yourself - make sure you purchase from a third party or off an exchange.
8. Make sure you don't get scammed by people purporting to buy coins on your behalf. Complete your due diligence on the platform and complete searches online for possible illegal activities.



ONLINE – Important Form: Investment Strategy Confirmation Form

The screenshot shows a web browser window with the URL supervision.com.au/investment-strategy-confirmation-form/. The page features the Supervision Group logo and navigation links. The main heading is "Investment Strategy Confirmation Form". Below this, there is a "Confirm Investment Strategy" button. The form itself is titled "Investment Strategy Confirmation Form" and includes a section for "SMSF Details" with fields for "SMSF Name", "Date of Last Signed Investment Strategy Document", "Name of the person completing this form", and "Email Address to receive this 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.

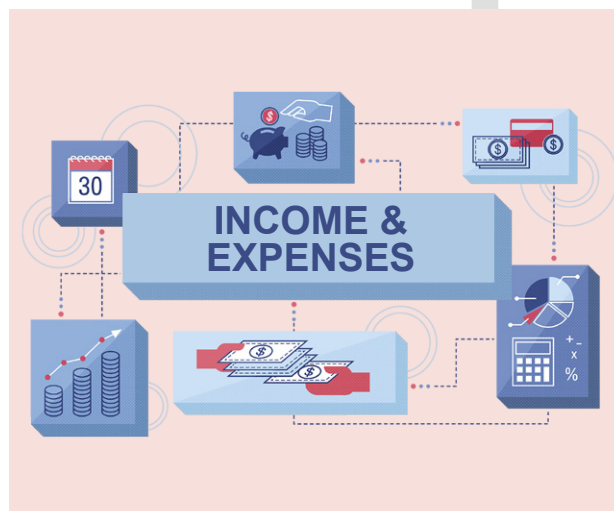
Changes to Super Rules

Non-Arm's Length Income LCR 2021/2

Recently the ATO has released a tax ruling to clear up the treatment of **non-arm's length income and expenses**. This ruling is particularly important for SMSF that invest with related parties. For example, an SMSF is allowed to own a business real property and lease it to a related party on the provision that the terms of the lease are at arm's length. If the terms of the lease are not at arm's length, the income made by the SMSF will be taxed at the highest marginal tax rate instead of 15%.

These rules are **not new**.

The **ATO** has issued the ruling to ensure all tax practitioners are **refreshed** on the existing rules and will **increase** the level of compliance across their clients.



It is important to understand that expenses incurred by the SMSF must also be at arm's length. This means that if expenses paid by the SMSF are not at arm's length – higher or lower than normal commercial dealings, then the income derived from this asset will be taxed at the highest marginal tax rate. Trustees are not allowed to receive payment for work they perform for their SMSF as Trustees, however if they do work for the SMSF that is outside of their duty as Trustee (special skills) such as trades, then the SMSF must pay for the expenses at arm's length.

Trade's people can get caught out completing work on their SMSF properties. Other professionals impacted are accountants and financial advisers who work on their SMSF's in a professional capacity and do not pay expenses at arm's length.

Here is an example straight from the ruling:

Example 10 – SMSF trustee carrying out duties – individual capacity

70. Jean is the trustee of his SMSF of which he is the sole member. He is also a licenced electrician by trade. The SMSF owns a residential property which it leases for a commercial rate of rent.

71. Jean undertakes electrical work on the rental property that can only be done by a licenced electrician. In that instance, the work done by Jean is not as trustee of his SMSF but in his individual capacity. Jean charges the SMSF the commercial rate for the work undertaken on the rental property. Accordingly, the non-arm's length expenditure provisions will not apply.

If you want to make sure that your SMSF is not in any danger from the above ruling, please **make an appointment** as soon as possible to discuss solutions.



Retirement Income Covenant

By 1st of July 2022 all SMSF's will be required to create a retirement income covenant document. Here are some direct quotes from the proposition paper, plus some commentary on the issue.

According to the Australian Government Position Paper on Retirement Income Covenant.

“

29 years after the introduction of compulsory superannuation, the retirement phase of superannuation remains under-developed. There is substantial room for improvement in how the superannuation system delivers adequate incomes in retirement. By 2060, the median earner is projected to accumulate over \$450,000 by retirement.

”

“

Most retirees are not currently supported to effectively manage their superannuation when they retire. Retirement involves multiple decisions and difficult trade-offs, such as:

- *when to retire*
- *whether to keep their money in superannuation*
- *how to invest their savings, both in and outside of superannuation*
- *how to draw down their savings, both in and outside of superannuation; and*
- *their future expenditure and capital needs*

”

“

Partly because they have only ever been primed to save as large a lump sum as possible, retirees struggle with the concept that superannuation is to be consumed to fund their retirement.

Because retirees struggle to develop effective retirement income strategies on their own, much of the savings accrued by members through the superannuation system are not used to provide retirement income. Rather, they remain unspent and become part of the person's bequest when they die.

”

“

Multiple studies have shown that retirees die with around 90 per cent of the assets they had at retirement. Without a change in behaviour, it is expected that bequests from superannuation will grow. By 2060, it is projected that 1 in every 3 dollars paid out of the superannuation system will be a part of a bequest.

”

A vicious cycle can occur in retirees. They reduce the amount of risk they are willing to take to avoid losing money. This leads to lower income created by their SMSF, which leads to lower expectations about what types of lifestyles the members can have. Less requirement for income increases the desire to take risks and income continues to drop. The result is that at least 30% of their Superannuation wealth is enjoyed by others at the detriment of the person that earned that entitlement.

This paper is the result of numerous investigations by Government to understand the flow of money from Superannuation to the members. To increase the living standards of pensioners, an **income strategy should be in place** to make sure that members maximise their returns and also have enough liquid cash to use as pensions. Of course, a balance is required between risk and reward (return and safety).

Retirees face the difficult prospect of trying to calculate their life expectancy. Human health and life spans do not conform to a manual. The task of working out retirement requirements becomes tricky not only for the members of the SMSF but for the adviser.

The position statement makes it clear that Australians in retirement do not utilise the

skills of a financial adviser. Many of our retired clients have created wealth with the help of an adviser but have not seen the need to engage them on an ongoing basis now that they achieved a steady cycle of investment income. The covenant is a timely reminder that advisers can provide excellent advice even after everything is in place, to align members to their investment strategies and their desired lifestyles.

It is an interesting dynamic that people perceive that their invested money is somehow finite however they may live forever. An adviser may be able to put that back into the right order.



Editorial Content



Supervision held an exciting presentation this month on the state of the share market and the factors that surround the economy in general. This presentation was one of the most highly demanded and attended presentations that we have had in over a year. The content provided did not fixate on predictions or crystal balling what “might” happen. Yes, it did have graphs and charts to show the history of market fluctuations, but the focus was squared centred on the **application of strategy to produce great results for investors.**

One attendee mentioned to me that “although his portfolio has a diverse range of investments selected on their own merits, he wanted to make sure if that his portfolio had an overall strategy to deal with different market

conditions.” Another long-term Trustee said that he “initially had a great strategic plan for the investments in his portfolio, however over time, the portfolio may have drifted from that plan due to tinkering around the edges and lack of a dedicated review with a third party”.

If your overall investment strategy in your portfolio is not suited to your objectives and requirements, one off investment picks (no matter how clever they appear to be at the time) will not be able to generate sustainable wealth over the longer term.

We have been banging on about strategy for a while now. Much of the focus in SMSF has been about **building better investment strategy documents.**



We are beginning to see changes in conversations our investment strategy builder is creating with Trustees.

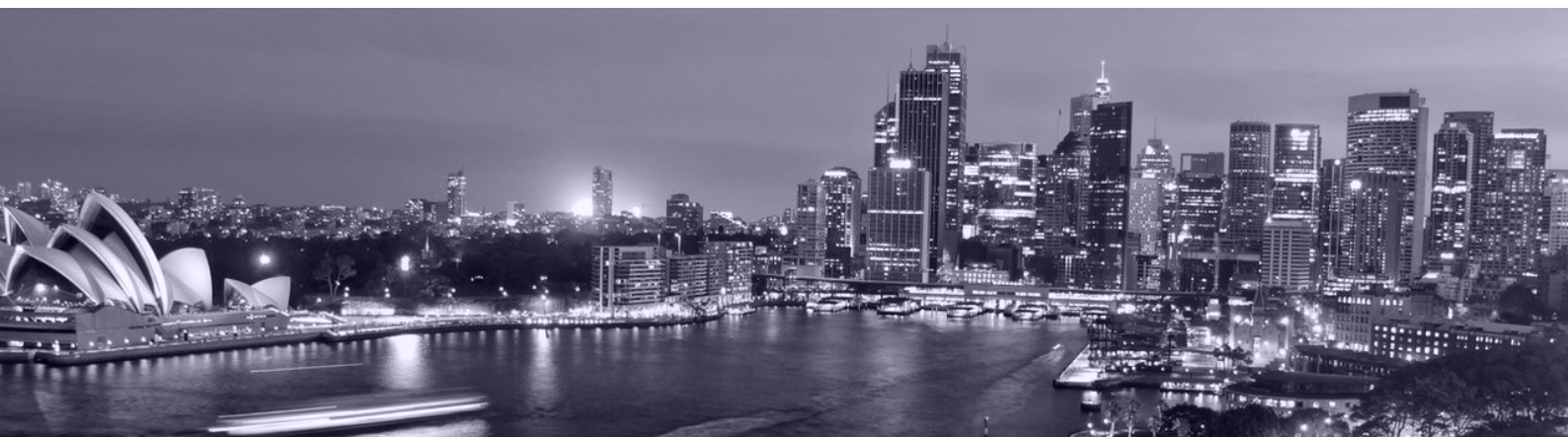
Trustees are now asking themselves different questions about how they structure their investments and manage diversification. We want to make sure that our clients continue on this journey, so we encourage you to take the time to use our **investment strategy builder** on our website. Remember if you don't have an adviser, you are not alone with your thoughts and strategy. Supervision can recommend a licenced adviser that can help you with simple strategies based on your objectives so you can "live your dreams".

The upcoming retirement income covenant (coupled with better investment strategy

creation) has the potential to change conversations you have about your retirement leading to better outcomes for members of your SMSF.

We encourage you to speak to us or your licenced financial adviser about how any of the material presented above is important to you and what you can do to make positive strides in your SMSF.

See you in the next edition of "The Trustee"



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