

arm

aston.ryan.malcolm

accountants auditors financial advisors

ARM Financial Advisors

ARM Insights – Series 4

Self Managed
Super Funds

Neil Wilde

Disclaimer

This presentation has not been prepared to provide recommendations for any particular individuals. The examples used are for the purposes of illustration only. Individuals should seek expert financial planning advice to determine suitable recommendations for individual circumstances.

All information has been obtained from sources believed to be reliable and accurate at the time of publication. The Taxation and Superannuation illustrations are based on current law at the time of writing and may change at a future date.

All reasonable care has been taken to ensure correctness of facts stated and the examples given and to ensure that they are fair and reasonable. We make no warranty in relation to, nor accept any responsibility or any liability for any errors or misstatements nor for any loss or damage arising out of, or in relation to the material in this illustration, however caused.

Agenda

- Statistics
- Brief History of Superannuation in Australia
- Trustee Roles and Responsibilities
- Reserving Strategies
- Questions

Statistics

- December 2009
 - Superannuation Assets worth = \$1,230,000,000,000
 - SMSF Assets worth = \$384,000,000,000
 - Australian Government's Nation Building - Economic Stimulus Plan = \$42,000,000,000.

Statistics

○ December 2009

- Superannuation Assets worth = \$1,230,000,000,000
- SMSF Assets worth = \$384,000,000,000.
- Australian Government's Nation Building - Economic Stimulus Plan = \$42,000,000,000.

- SMSF account for 31%, Retail funds account for 28%, Industry funds account for 18%, Corporate funds account for 5%

Statistics

○ December 2009

- Superannuation Assets worth = \$1,230,000,000,000
- SMSF Assets worth = \$384,000,000,000.
- Australian Government's Nation Building - Economic Stimulus Plan = \$42,000,000,000.

- SMSF account for 31%, Retail funds account for 28%, Industry funds account for 18%, Corporate funds account for 5%

- Over 416,000 SMSF in existence, growing by 2,500 per month.

Statistics

- June 2009

- Average account balance = \$429,400 SMSF;
Corporate fund = \$81,200;
Retail and industry fund \$18,400 and \$16,600 respectively

Statistics

○ June 2009

- Average account balance = \$429,400 SMSF;
Corporate fund = \$81,200;
Retail and industry fund \$18,400 and \$16,600 respectively
- 794,000 members
- 1-2 person funds account for 90%
- Over 60% of members were aged between 45-64, 19% over 64.

Brief History of Superannuation

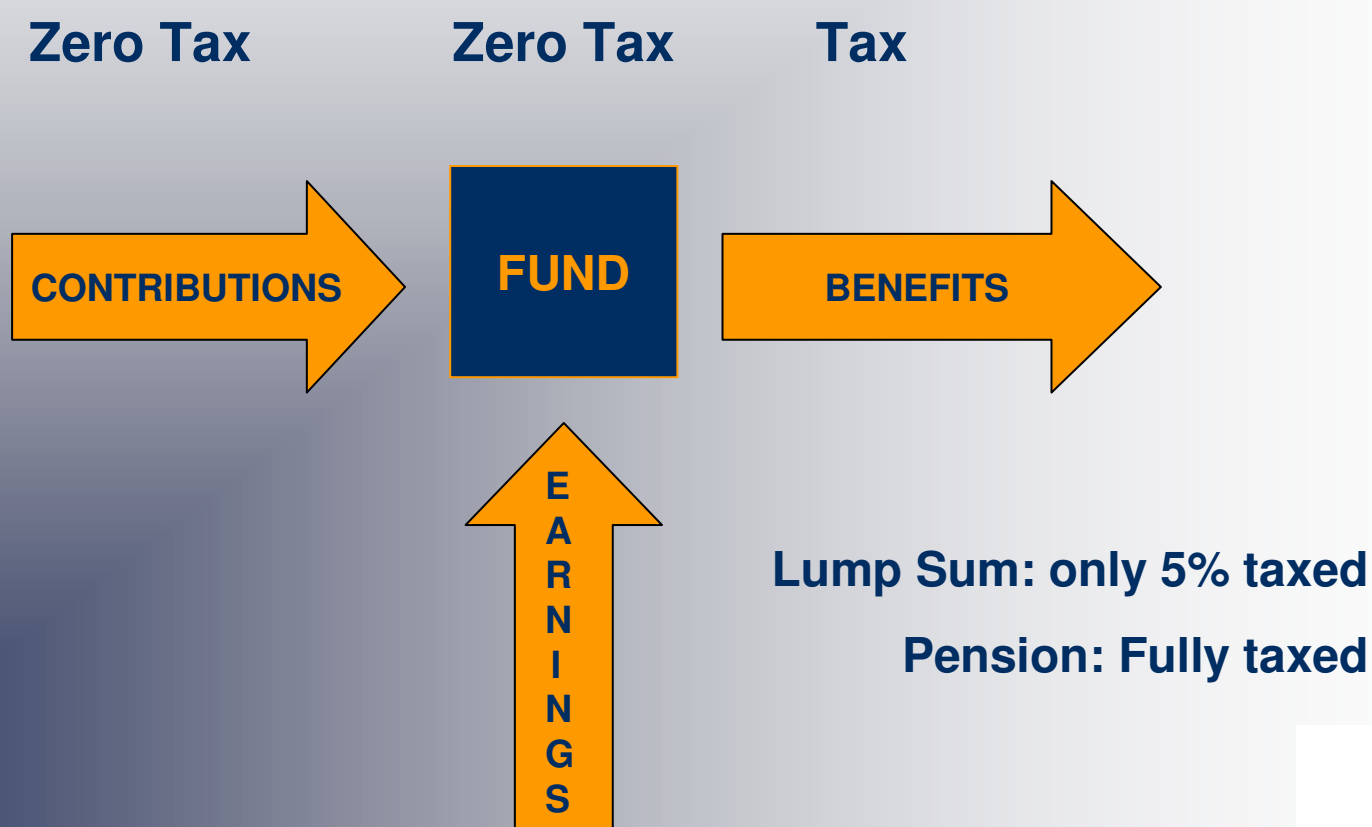
- 1908 first Commonwealth Age pension is paid.
- 1974 only 32% of employees were covered by superannuation
- 1986 ACTU lobbies for a 3% wage increase to be taken as superannuation contributions
- 1992 Superannuation Guarantee introduced, designed to “encourage” employers to make super payments.

Brief History of Superannuation

- 2002 Superannuation Guarantee increases to 9%
- Simplified Superannuation from 1 July 2007.
- Henry Report??
- Cooper Review??

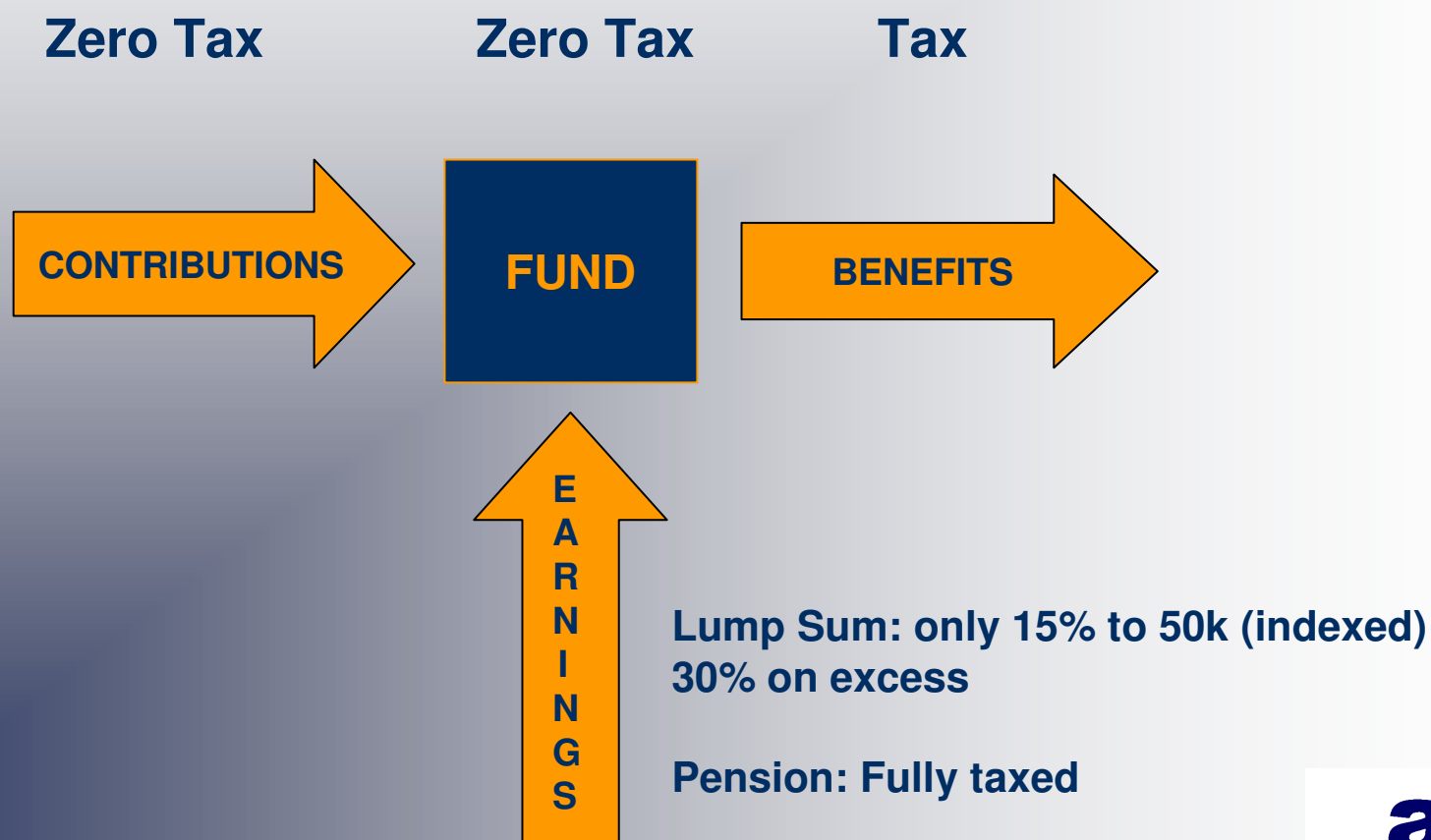
Brief History of Superannuation

- Taxation of Superannuation
 - Pre 1983



Brief History of Superannuation

- Taxation of Superannuation
 - 1983 - 1988

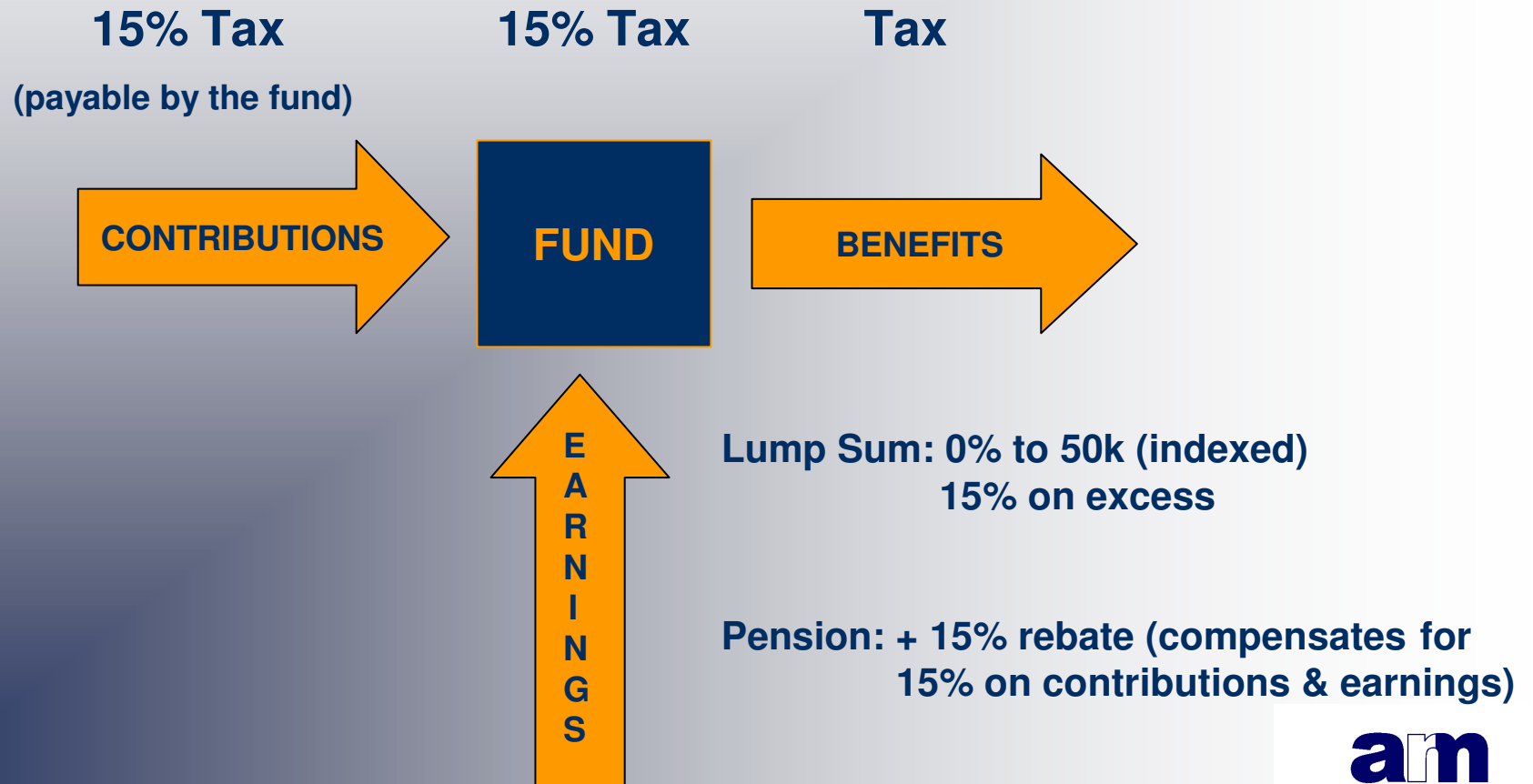


Brief History of Superannuation

○ Taxation of Superannuation

○ 1988 - 2007

ARM Financial Advisors



am
aston.ryan.malcolm

accountants auditors financial advisors

Brief History of Superannuation

○ Taxation of Superannuation

○ 2007 – now

- RBL replaced with contributions caps

ARM Financial Advisors

Tax from July 2007 where the fund pays tax

15% Tax
(payable by the fund)



15% Tax



Tax



From age 60: Zero Tax

Below age 60:

Lump Sum 0% to 140k (indexed)
 15% on excess

Pension: Fully taxed + 15% rebate
(compensates for 15% on contributions & earnings)



(Effectively no change in the rates for people less than 60yrs)

Trustee Roles and Responsibilities

Our compliance program shows that while many trustees understand their lodgement and reporting obligations, their knowledge in specific areas could be better.

Michael D'Ascenzo, Commissioner of Taxation, Feb 2010

Trustee Roles and Responsibilities

Our compliance program shows that while many trustees understand their lodgement and reporting obligations, their knowledge in specific areas could be better.

Michael D'Ascenzo, Commissioner of Taxation, Feb 2010

Only 51% of respondents said they were a trustee of their SMSF.

CPA Australia survey of 1251 consumers conducted November 2009

Trustee Roles and Responsibilities

Our compliance program shows that while many trustees understand their lodgement and reporting obligations, their knowledge in specific areas could be better.

Michael D'Ascenzo, Commissioner of Taxation, Feb 2010

Only 51% of respondents said they were a trustee of their SMSF.

CPA Australia survey of 1251 consumers conducted November 2009

Free Online Training Tool

<http://www.smsftrustee.com>

Trustee Roles and Responsibilities

- Membership rules
 - Trustees
 - # of members
 - Acting in accordance with relevant legislation and trust deed.

Trustee Roles and Responsibilities

- Accepting Contributions
 - Mandated = 9% amounts
 - Non-mandated = anything over 9% amount from employer, personal contributions, spouse contributions, govt co-contributions.
 - Under 65 = can accept all contributions
 - 65-70 = only if pass the “work test” (gainfully employed for 40 hours in a 30 day period)
 - 70-75 = same as above except no spouse contributions
 - 75 + = No

Trustee Roles and Responsibilities

- Accepting Contributions
 - Mandated = 9% amounts
 - Non-mandated = anything over 9% amount from employer, personal contributions, spouse contributions, govt co-contributions.
 - Under 65 = can accept all contributions
 - 65-70 = only if pass the “work test” (gainfully employed for 40 hours in a 30 day period)
 - 70-75 = same as above except no spouse contributions
 - 75 + = No
 - Concessional = \$25,000 per individual, \$50,000 for individuals over 50 until 2012.
 - Non-concessional = \$150,000 annually, or \$450,000 over a three year period.

Trustee Roles and Responsibilities

- Accepting Contributions
 - Mandated = 9% amounts
 - Non-mandated = anything over 9% amount from employer, personal contributions, spouse contributions, govt co-contributions.
 - Under 65 = can accept all contributions
 - 65-70 = only if pass the “work test” (gainfully employed for 40 hours in a 30 day period)
 - 70-75 = same as above except no spouse contributions
 - 75 + = No
 - Concessional = \$25,000 per individual, \$50,000 for individuals over 50 until 2012.
 - Non-concessional = \$150,000 annually, or \$450,000 over a three year period.
 - TFN needed by fund, otherwise extra tax payable.

Trustee Roles and Responsibilities

- Managing your investments
 - Investment Strategy
 - Maximising member returns taking into account associated risk profiles.
 - Diversification across asset classes.
 - Ability to pay benefits on members retirement.

Trustee Roles and Responsibilities

- Managing your investments
 - Investment Strategy
 - Maximising member returns taking into account associated risk profiles.
 - Diversification across asset classes.
 - Ability to pay benefits on members retirement.
- Sole purpose test
 - Sole purpose is to provide retirement benefits to the members, or their dependants if a member dies before retirement.

Trustee Roles and Responsibilities

- Investment Restrictions
 - Exist to protect fund members from assets that are exposed to undue risk, like a business failing.
 - One of the most important requirements of the super laws.

Trustee Roles and Responsibilities

○ Investment Restrictions

- Exist to protect fund members from assets that are exposed to undue risk, like a business failing.
- One of the most important requirements of the super laws.
- Ownership of assets
 - Need to be held in the correct name

Trustee Roles and Responsibilities

○ Investment Restrictions

- Exist to protect fund members from assets that are exposed to undue risk, like a business failing.
- One of the most important requirements of the super laws.
- Ownership of assets
 - Need to be held in the correct name
- Loans to members or relatives
 - Can't have access to superannuation until retirement.

Trustee Roles and Responsibilities

○ Investment Restrictions

- Exist to protect fund members from assets that are exposed to undue risk, like a business failing.
- One of the most important requirements of the super laws.

- Ownership of assets
 - Need to be held in the correct name
- Loans to members or relatives
 - Can't have access to superannuation until retirement.
- Borrowings
 - Only in limited circumstances
 - Installment Warrants
 - Short term in order to pay pension payment (up to 90 days), or fund an asset purchase (up to 7 days)

Trustee Roles and Responsibilities

- Investment Restrictions (continued)
 - Acquisition of assets from members
 - Exceptions are listed shares at market value, business real property, or in-house assets under 5% of fund balance.

Trustee Roles and Responsibilities

○ Investment Restrictions (continued)

○ Acquisition of assets from members

- Exceptions are listed shares at market value, business real property, or in-house assets under 5% of fund balance.

○ In-house assets

- Is a loan to, or an investment in a related party of the fund
- A related party is all members of the fund and associates (including relatives, business partners, companies or trusts that a member controls or influences.
- Allowed 5% of fund assets

Trustee Roles and Responsibilities

- Reporting and Administration Obligations
 - Prepare SMSF annual return and lodge before due date.
 - Member contributions reported to ATO
 - Appoint an approved auditor.
 - Record Keeping
 - Accounts, tax returns, and supporting documentation = 5 years
 - Trustee minutes and declarations = 10 years.

Penalties for non-compliance

- In the 2009 financial year, the ATO finalised 14,759 compliance activities, representing more than 3% of the SMSF population.

Penalties for non-compliance

- In 2009 financial year, the ATO finalised 14,759 compliance activities, representing more than 3% of the SMSF population.
- Biggest contravention was loans to members 19.7%, Administration type contraventions 17.1%, In-house assets 16.3%, Separation of assets 13.4%

Penalties for non-compliance

- In 2009 financial year, the ATO finalised 14,759 compliance activities, representing more than 3% of the SMSF population.
- Biggest contravention was loans to members 19.7%, Administration type contraventions 17.1%, In-house assets 16.3%, Separation of assets 13.4%
- 80% of ATO audits and reviews resulted in either:
 - Education of trustees on SMSF requirements;
 - Guidance to trustees to help them rectify less serious contraventions; or
 - Significant sanctions

Penalties

- The proportion of SMSFs that have significant sanctions is small (approximately 2% of all compliance activities).
 - 99 SMSFs were made non-complying (5 in 2007);
 - 29 trustees were disqualified (15 in 2007)
 - Additionally the ATO wound up 17 funds (0 in 2007).

Reserving Strategies

- The ATO has confirmed that contribution reserving is possible.
 - NTLG Superannuation Technical Sub-Group Agenda 6.6
- Ability to claim a deduction in Year 1, but not credit the member account until Year 2.
- Must be allocated from the reserve within 28 days of the end of financial year.
- Get Advice from financial planners before using this strategy.

Questions?

Retirement Planning

- SMSF are a Tax Planning Vehicle as well as an Investment Vehicle
- What is a 'Comfortable Retirement'?
- **\$51,727 pa**
- How much do I need?
- How do I plan to get there?

Retirement Planning

- SMSF are a Tax Planning Vehicle as well as an Investment Vehicle
- What is a 'Comfortable Retirement'?
- **\$51,727 pa**
- How much do I need?
- How do I plan to get there?

Future Sessions

- Your Feedback is important
- The China Story – Wed 21st April
- Federal Budget – Tentative Thurs 13th May