Super strategies for your SMSF

Wednesday 24th January 2024

Welcome

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Presenter

Garth McNally, GM Super Consulting

Garth has worked in the Australian Superannuation industry for over 25 years with a specific focus on self-managed super funds. He provides ongoing support and training to individuals as well as to professionals working in the superannuation area, including advisers, accountants and lawyers.

Garth is a regular contributor to industry publications and to the leading professional bodies including Chartered Accountants Australia & New Zealand (CA ANZ) & CPA Australia (CPA).

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IMPORTANT

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In particular, you should seek independent financial advice prior to making any investment decision.

You should consider the appropriateness of this information having regard to your individual situation and seek taxation advice from a registered tax agent before making any decision based on the content of this presentation.

Any examples & calculations within this presentation are provided for illustrative purposes only. They should not be relied on.

Attendance at this webinar and/or viewing the content provided, is considered as acknowledgement, acceptance and agreement to this Disclaimer and the contents contained within.

Todays Webinar

- SMSF specific investment opportunities
- SMSF specific tax planning strategies and outcomes

Considerations

- SMSF specific estate planning strategies and outcomes
- Utilising multi member SMSF strategies: Families, Couples, Business partners

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Introduction

SMSFs may offer certain opportunities that other types of super fund don’t

You need to determine if any of these are beneficial to you

Other APRA style funds are starting to offer access to investments that were previously only available through a SMSF

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Introduction

SMSFs may offer certain opportunities that other types of super fund don't

You need to determine if any of these are beneficial to you

Other APRA style funds are starting to offer access to investments that were previously only available through a SMSF

However, it is the strategic opportunities that may be available through a SMSF that are difficult to replicate through other types of superfunds

What are effective strategies only offered to SMSF?

Ivana

Can a SMSF do more than an industry fund?

Tony H

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Utilising Combined Member Balances

Considerations

- Husband and wife funds
- Family super funds
- SMSF with business partners
- SMSF with Unrelated Parties (friends)

Benefits of multi member funds?

SMSFs allow members to combine their overall superannuation balances, together, in the one fund

Higher fund balances may allow access to certain investment opportunities that may not be available with smaller balances

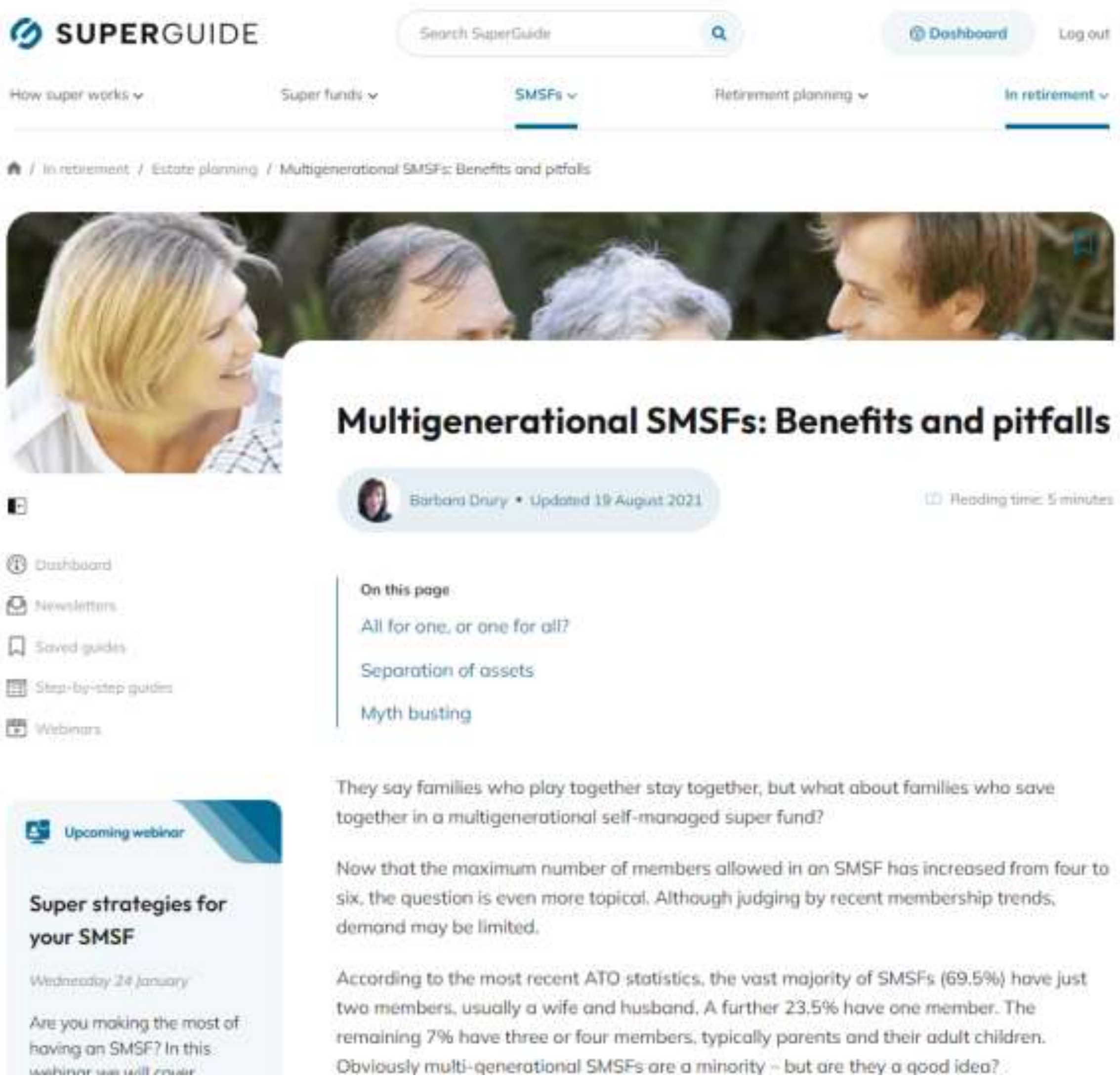
SMSFs tend to have fixed ongoing administration and running costs; these can be shared by having multiple members:

- Often provides a better outcome if looking at a % cost of the members balances
- HOWEVER, you also need to include investment costs which can vary considerably based on what assets the fund owns.

Family SMSFs

- Cost effectiveness by sharing fixed costs between members.
- More members and higher fund balances can often allow access to further investment opportunities
- Cash flow from contributions from younger members can be used to fund pension payments for older members allowing growth assets held in the tax concessional superannuation environment to be held for a longer period of time
- Estate planning opportunities by building cash reserves in the SMSF from member contributions that can be used to fund death benefit payments for older members without the need to sell assets. Remember that a member's benefit must be “cashed” on their death!
- Financial education and exposure for younger family members as they need to be involved in the ongoing running of the SMSF

Resources



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Business partners

Combining their separate superannuation balances into the one SMSF could provide an opportunity for the SMSF to acquire a property from where their business can be run.

- This is referred to as business real property.
- The rent that is paid to the SMSF by the business can then be used to fund the members retirement.

The SMSF can even borrow to fund part of the property acquisition costs.

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Example

Sue and Ellen are partners in an Accounting business, and they are looking to purchase office space for their business.

They decide to set up a SMSF and rollover their super balances into the new SMSF. Their combined balances held in their SMSF is now sufficient to acquire the office space.

Their business then rents the office from their SMSF, paying market rates for rent and all other transactions.

The rental payments by their business are now being paid into their SMSF, a tax effective environment, and can later be used in the funding of their eventual retirements.

Joint investing

Can I buy a property using both my own personal money and my SMSF?

Gavin C

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Joint investing

SMSFs can buy and hold assets jointly with other people or with other entities, including:

- The members personally
- Family trusts
- Companies
- Unrelated parties

This allows an asset to be co-owned with other investors and could provide an option to acquire larger or higher valued assets within a shared ownership structure.

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Example

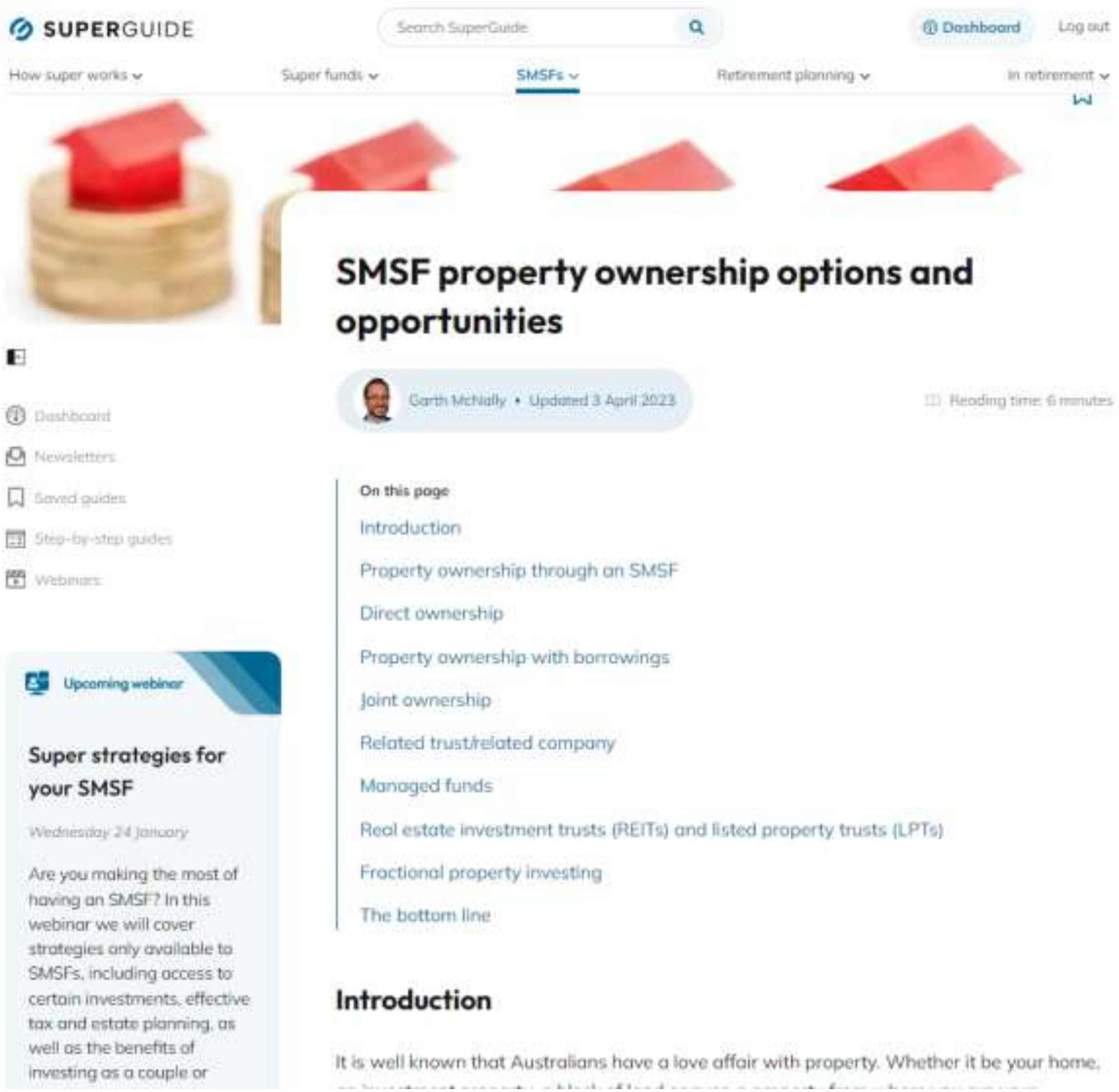
Sam wants to acquire a $650,000 commercial office space from where he will run his Engineering business. He does not have the required funds personally or in his SMSF, but if he could use both then he could afford the property.

- Sam uses $200,000 that he has personally; and
- Sams uses $450,000 that he has in his SMSF

The $650,000 combined is used to acquire the property that is held as Tenants in Common with each investor owning a defined and separate interest in the asset.

Income and expenses are received and paid in proportion to the ownership percentages.

Resources



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Strategy Opportunities

Considerations

- Ability to borrow money
- Asset Segregation
- Timing of Transactions & Tax Planning
- Maintaining Separate Member Interests in the one SMSF

Investment choice

SMSF trustees are responsible for the ongoing management of the funds' investments.

There are very little restrictions on what SMSFs can invest in, however there are restrictions imposed on how SMSF investments and assets can be used and by whom!

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All SMSF investments need to be made and maintained in accordance with the fund's overall investment strategy.

SMSF trustees are required to implement and then give effect to an overall investment strategy that considers the needs of the fund members.

Can my SMSF invest in Crypto?

James M

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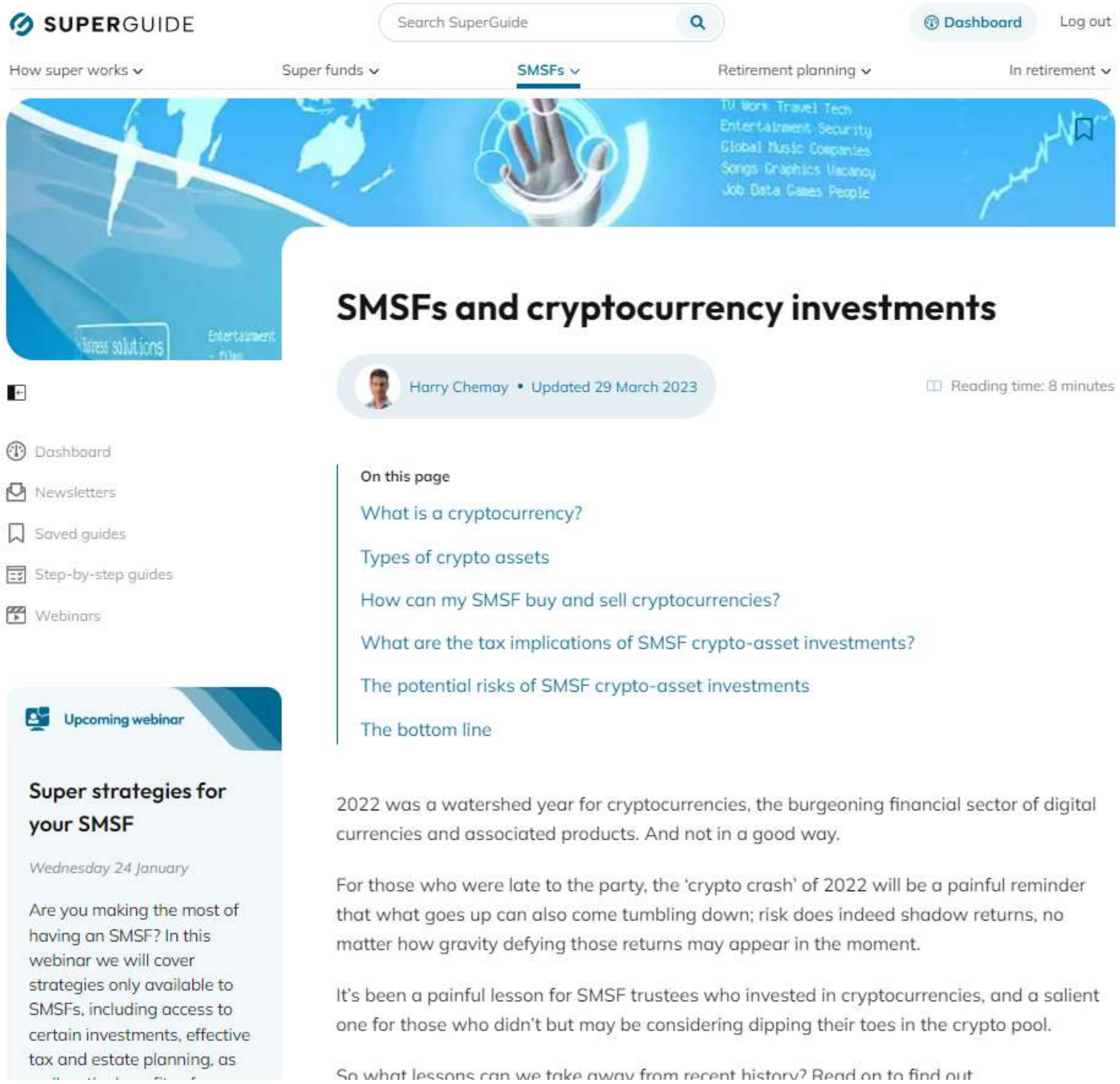
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Super strategies for your SMSF

Wednesday 24 January

Are you making the most of having an SMSF? In this webinar we will cover strategies only available to SMSFs, including access to certain investments, effective tax and estate planning, as

SMSFs and cryptocurrency investments

Harry Chemay • Updated 29 March 2023

Reading time: 8 minutes

On this page

2022 was a watershed year for cryptocurrencies, the burgeoning financial sector of digital currencies and associated products. And not in a good way.

For those who were late to the party, the 'crypto crash' of 2022 will be a painful reminder that what goes up can also come tumbling down; risk does indeed shadow returns, no matter how gravity defying those returns may appear in the moment.

It's been a painful lesson for SMSF trustees who invested in cryptocurrencies, and a salient one for those who didn't but may be considering dipping their toes in the crypto pool.

So what lessons can we take away from recent history? Read on to find out

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Can I purchase artwork in my SMSF?

Ben W

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Ben W

Yes, but there are specific rules for these types of assets: referred to as "collectable & personal use assets".

- No personal use or benefit from the asset
- No leasing of the asset to a member or related party
- Can not be stored in the private residence of the SMSF member or related party
- Must write a minute of where the asset is to be stored and why
- The asset must be insured in the SMSF's trustees name within seven days of being acquired
- There are specific valuation requirements to meet.

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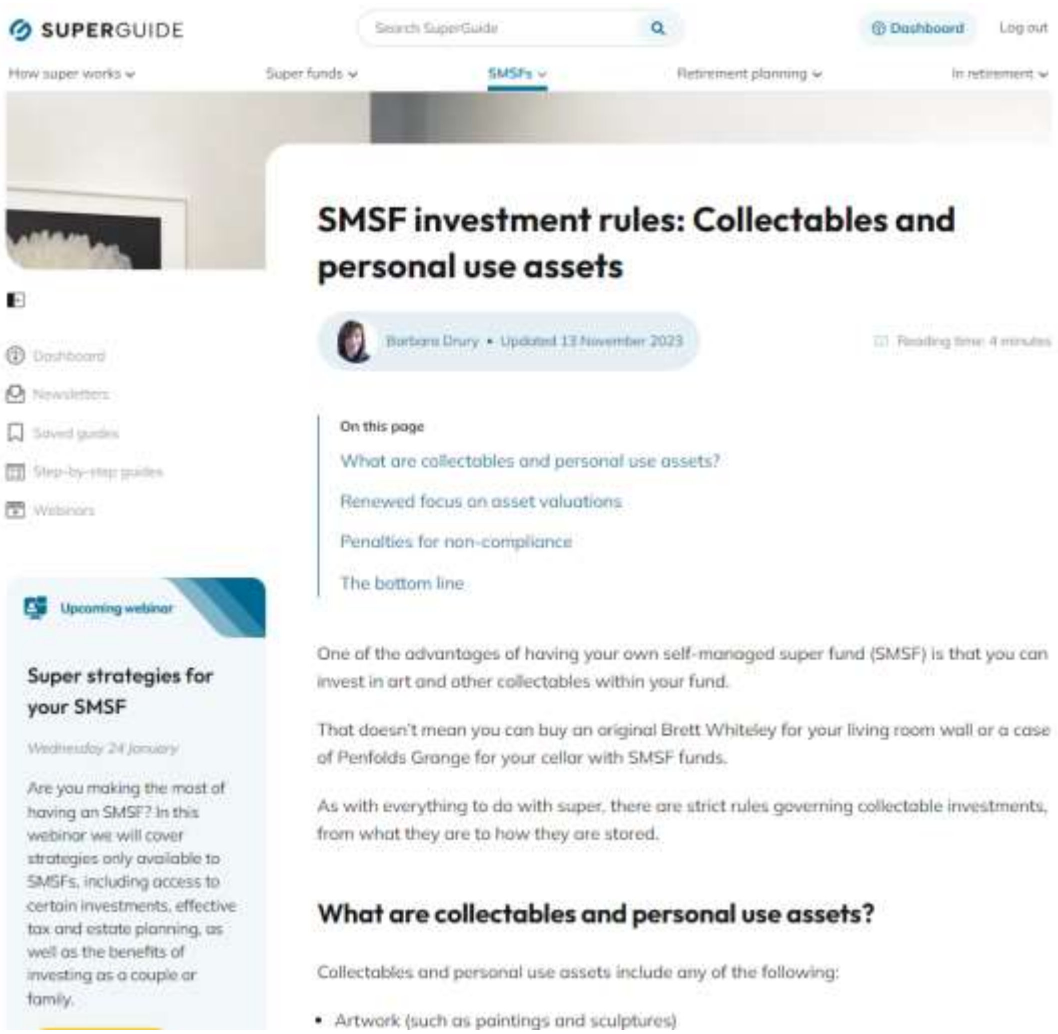

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SMSF investment rules: Collectables and personal use assets
Barbara Drury • Updated 13 November 2023
Reading time: 4 minutes
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Super strategies for your SMSF
Wednesday 24 January
Are you making the most of having an SMSF? In this webinar we will cover strategies only available to SMSFs, including access to certain investments, effective tax and estate planning, as well as the benefits of investing as a couple or family.
On this page
What are collectables and personal use assets?
Renewed focus on asset valuations
Penalties for non-compliance
The bottom line
One of the advantages of having your own self-managed super fund (SMSF) is that you can invest in art and other collectables within your fund.
That doesn't mean you can buy an original Brett Whiteley for your living room wall or a case of Penfolds Grange for your cellar with SMSF funds.
As with everything to do with super, there are strict rules governing collectable investments, from what they are to how they are stored.
What are collectables and personal use assets?
Collectables and personal use assets include any of the following:
• Artwork (such as paintings and sculptures)

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Is my SMSF allowed to invest in my business?

Mel M

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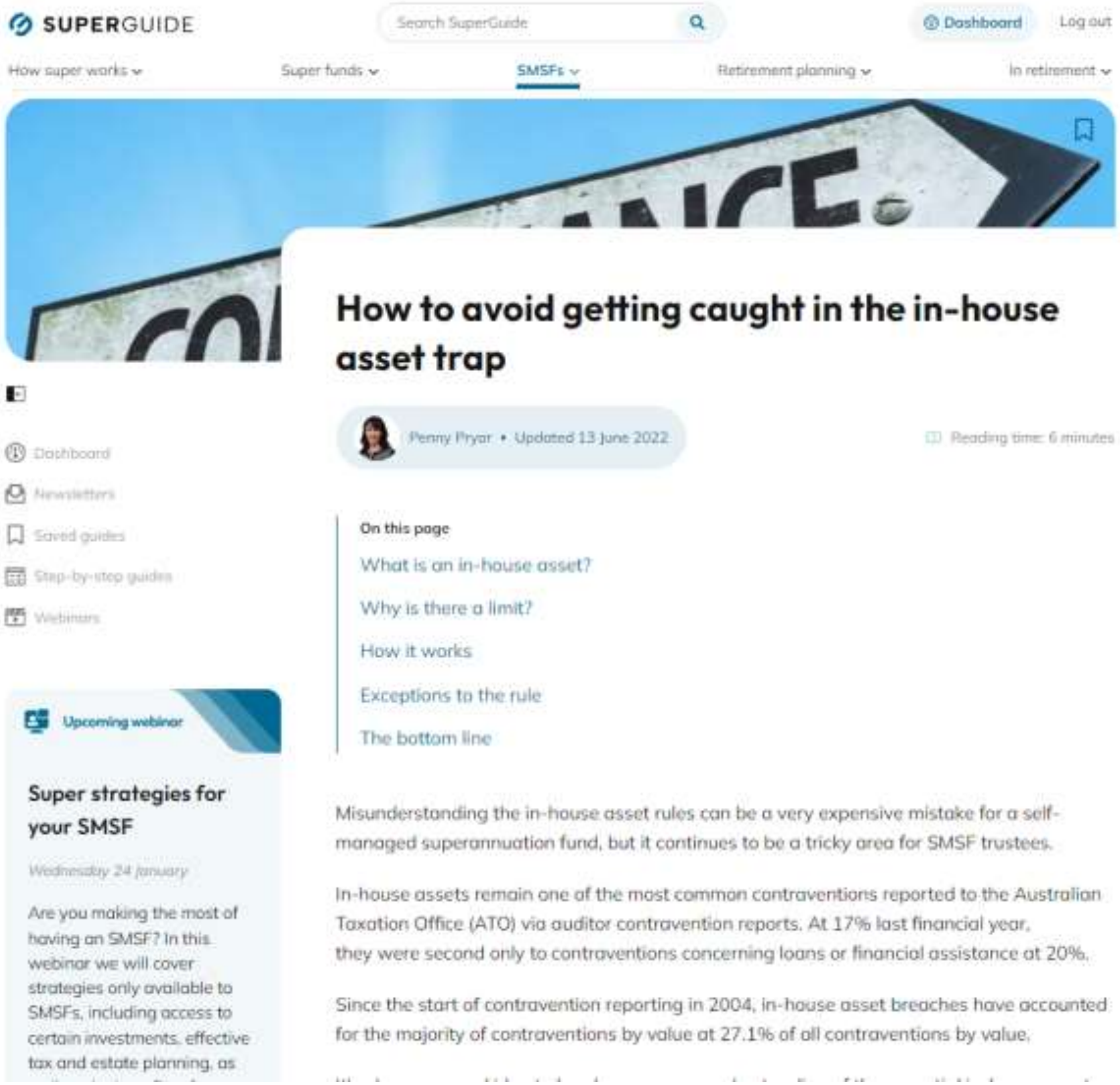
This is an area where restrictions are imposed on SMSFs and what they invest in.

An SMSF can hold no more than 5% of its assets as "In-House Assets".

In-house assets include:

- A loan to a related party or entity
- An investment made into a related party or entity (excluding certain ungeared, related trusts)
- An asset of the fund that is leased to a related party (excluding business real property)

Resources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How to avoid getting caught in the in-house asset trap
Penny Pryor • Updated 13 June 2022
Reading time: 6 minutes
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On this page
What is an in-house asset?
Why is there a limit?
How it works
Exceptions to the rule
The bottom line
Misunderstanding the in-house asset rules can be a very expensive mistake for a self-managed superannuation fund, but it continues to be a tricky area for SMSF trustees.
In-house assets remain one of the most common contraventions reported to the Australian Taxation Office (ATO) via auditor contravention reports. At 17% last financial year, they were second only to contraventions concerning loans or financial assistance at 20%.
Since the start of contravention reporting in 2004, in-house asset breaches have accounted for the majority of contraventions by value at 27.1% of all contraventions by value.
Upcoming webinar
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Are you making the most of having an SMSF? In this webinar we will cover strategies only available to SMSFs, including access to certain investments, effective tax and estate planning, as

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- Each SMSF member can hold the actual assets that they wish to hold; with the added benefit of scale within a larger fund.

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Assets can then be dealt with (bought, sold etc.) at the most appropriate time for the relevant member WITH little effect on the other fund members:

- Tax planning for the SMSF
- Tax planning for the member
- Transfer Balance Account planning
- Pension planning
- Div 296 ($3M+) planning

Tax considerations

SMSF trustees decide when fund assets are purchased or sold & and the timing will often affect the tax outcome for the fund & therefore the fund members.

Control of the timing could create certain tax planning opportunities specifically designed around the fund members.

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Examples

- Fund assets that are sold in "retirement phase" may not be subject to Capital Gains Tax.
- Members can also benefit from the timing of the sale of assets; make use of capital losses to reduce tax on realised gains.
- Pension payments can be made at the most appropriate time for the SMSF; if cashflow issues exist, it can prevent the need to sell assets.

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Examples

Utilising franking credits on dividends can be extremely beneficial for SMSFs*

- Accumulation phase: reduce / offset tax payable by SMSF
- Pension phase (tax free): The franking credit can be paid back to the fund

Tax considerations

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Control of the timing could create certain tax planning opportunities specifically designed around the fund members.

These issues are not specific to SMSFs; all funds would benefit from franking credits etc.

However, in a SMSF, there is the additional benefit of control and timing of fund transactions.

This control over the funds transactions and timing can often provide a better or more targeted "member" outcome.

Borrowing

SMSFs are allowed to borrow money to acquire an asset; essentially providing a way to leverage current super savings and future contributions in order to acquire an asset

There are strict rules that need to be adhered to.

This is referred to as a limited recourse borrowing arrangement (LRBA)

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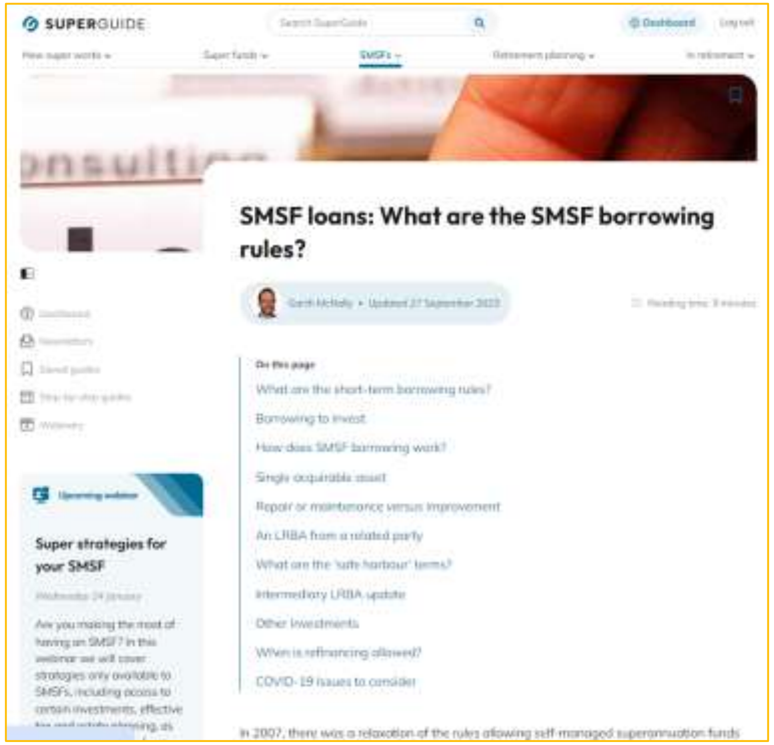
- The asset is held in a separate (holding) trust for the SMSF. The trustee of this trust is the "legal" owner of the asset
- The SMSF is the "beneficial" owner of the asset and receives all income from the asset and pays all relevant expenses
- Only 1 asset (or collection of identical assets like shares in 1 company) can be held under a limited recourse borrowing arrangement

- The lender can be a bank or even a related party!
- The amount that can be borrowed is often based on a loan to value ratio (LVR).
- SMSFs with more members and higher balances may be able to borrow more to acquire higher valued assets.

Resources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Super strategies for your SMSF


SMSFs and borrowing: Tips and traps
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Retirement benefits: Alternatives

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Can I live in my SMSF property once I retire at age 65?

Van H

Retirement benefits: Alternatives

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A member or related party cannot live in a residential property owned by the SMSF – even if they are retired.

However, the member could consider accessing an in-specie benefit payment; being the property.

The property would then be transferred out of the SMSF and be personally owned; so, the SMSF restrictions on living in the house would no longer apply.

Estate Planning

Decision makers
&
Decision making process

Flexibility
&
Control

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Decision makers

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In a SMSF, this is usually close family members.

In certain situations, it may be beneficial if the fund trustees are empowered to decide "who" and "how" a death benefit is to be paid based on the position of the SMSF and the death benefit recipient at the required time (death of the member).

Essentially, paying the right person, the best possible way and at the right time, rather than being bound by member directions that may no longer be appropriate!

This can be extremely beneficial and can be managed effectively in a SMSF!

(Binding vs non-binding nominations)

Flexibility and control

There are strict rules around the payment of death benefits from a super fund & these are the same for most funds!

These include:
- Who the benefit can be paid to.
- How the death benefit can be paid.
- Timeframes on when the payment must be made.

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These include:

- Who the benefit can be paid to.
- How the death benefit can be paid.
- Timeframes on when the payment must be made.

Being able to control this process can provide a real benefit to both the fund & the death benefit recipient:

- Whether a death benefit could be paid as an in-specie payment (transfer of asset) rather than cash
- Where superfund assets need to be sold to fund a death benefit payment, control over when these sales occur could reduce the funds overall tax liability
- When a taxable death benefit (to adult child) is actually paid could affect the tax payable or required to be withheld by the fund or the recipient in some situations.

This may be possible within a SMSF as the trustees control the process. Of course, all the usual rules and requirements for death benefit need to be followed!

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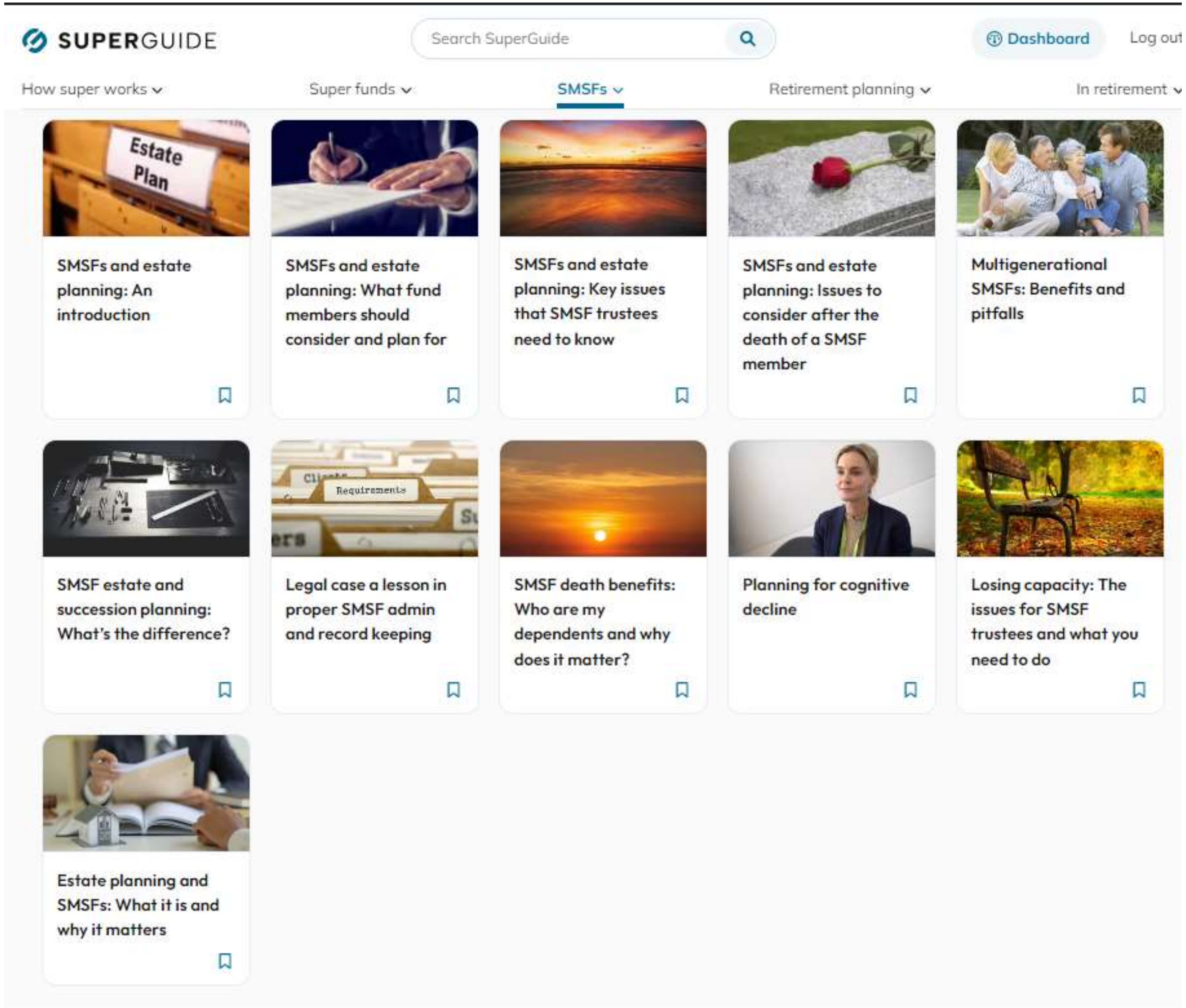
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SMSFs and estate planning: Issues to consider after the death of a SMSF member
Multigenerational SMSFs: Benefits and pitfalls
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Planning for cognitive decline
Losing capacity: The issues for SMSF trustees and what you need to do
Estate planning and SMSFs: What it is and why it matters

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Wrap up