ADAMS ACCOUNTING

CHARTERED ACCOUNTANTS / BUSINESS ADVISORS / TAXATION SPECIALISTS

SELF MANAGED SUPERANNUATION FUNDS

AS WE COUNT DOWN TO 30 JUNE 2013, WHAT STEPS SHOULD YOU BE TAKING?

Be prepared – June 30 is a SUNDAY this year!
Make sure all contributions are cleared through the bank by Friday 28th June.

Things to do or consider before June 30:

1. Make sure you have paid the minimum pension amount that we advised you of during the year (if you are in pension or transition to retirement phase) (see our article on page 4)

2. Consider making a co-contribution (see our article on page 3).

3. Make rent payments on freehold property owned by your SMSF in accordance with the rent figure discussed with Gerald.

4. Make any tax deductible contributions well before the end of June so that they are cleared through the bank by June 30.

Inside This Issue

What are the ATO's top SMSF target areas for 2013?

The ATO reports the six most common types of contraventions currently seen in SMSF are:

1. loans to member or relative
2. breaches of the in-house asset purchase rules
3. administrative breaches
4. assets not owned in the name of the fund
5. breaches of the sole purpose test

The ATO is now starting to show a firmer hand in its compliance activities, with 185 funds receiving a notice of non-compliance in 2010—the highest ever. With trustees facing an increased likelihood of being subject to an SMSF review, it is more important than ever for trustees to understand the ATO's approach to auditing SMSFs and the basics of the investment rules.

Leasing your business premises from your SMSF

It is important to ensure that all lease payments for business real property are paid to your SMSF before 30 June.

If your business rents business real property (e.g. commercial property or farm land) from your SMSF all lease payments need to be made prior to 30 June to ensure there is no breach of your lease agreement.

Any lease in place must be at market value and meet the terms and conditions in line with that of a typical commercial lease agreement.

How much can I contribute?

Concessional contributions include:
- employer contributions (including contributions made under a salary sacrifice arrangement); and
- personal contributions claimed as a tax deduction by a self-employed person.

The concessional contribution limit for the 2012-13 year is:
- $25,000 for all individuals.

If you have more than one fund, all concessional contributions made to all of your funds are added together and count towards the cap.

Non-concessional contributions include:
- Personal contributions up to $150,000 for which no income tax deduction has been claimed.
- People under 65 years able to make contributions up to three times their annual cap – or $450,000 – over a three-year period. This is known as the 'bring forward' option.

Under a "bring forward" arrangement, a member who is under 65 years of age in an income year can "bring forward" two years' worth of future non concessional contributions entitlements. This is triggered automatically if contributions in excess of the annual cap (i.e. $150,000 in 2012/13) are made in the financial year.

For instance, a member under 65 is able to make non-concessional contributions totalling $450,000 in 2012/13 year provided that they make no more non-concessional contributions in the 2013/14 and 2014/15 financial years.

Too much super could mean extra tax

Your SMSF is required to report your contributions to the ATO each financial year.

They use this information, as well as information from your income tax return and your date of birth to work out if you have exceeded the contributions cap and therefore you may face "excess contributions tax liability."

The ATO make the assessment after the end of each financial year, once they've received the necessary information.

	Concessional cap	**Non-concessional cap**
2012-13 financial year	$25,000	$150,000
Tax on amounts over the cap	31.5% (in addition to the 15% paid by SF)	46.5%

If you've exceeded your contributions cap, the ATO will send you a notice of assessment for the relevant year which will include the amount that you have to pay.

At the same time, they will send you a voluntary release authority form, which you can use to authorise the release of up to the tax amount from your fund.

Transition to Retirement (TTR) Phase

Under the transition to retirement rules, if you have reached your preservation age, you may be able to reduce your working hours without reducing your income. You can do this by topping up your part-time income with a regular 'income stream' from your super savings.

Under the transition to retirement rules you can only access your super benefits as a 'non-commutable' income stream. This generally means you cannot take your benefits as a lump sum cash payment while you are still working. You must take your super benefits as regular payments.

Your preservation age is generally the age you are allowed to access your super benefits when you stop working.

The table below shows your preservation age. Once you reach your preservation age, you can access your super benefits without retiring completely from the workforce.

Date of Birth	Preservation age
Before 1 July 1960	55
1 July 1960 – 30 June 1961	56
1 July 1961 – 30 June 1962	57
1 July 1962 – 30 June 1963	58
1 July 1963 – 30 June 1964	59
After 30 June 1964	60

Under the Transition to Retirement rules, there is a requirement that a minimum of 3% and a maximum of 10% of the member's account balance must be drawn and paid to you each year.

Getting some superannuation from the Government…
Superannuation Co-Contribution

You may be eligible for the super co-contribution if all of the following apply to you:

- you make an eligible personal super contribution to a superannuation fund
- your income for the income year is less than the higher income threshold (see below)
- 10% or more of your total income comes from eligible employment-related activities, carrying on a business or a combination of both
- You are less than 71 years old at the end of the income year, and;
- You lodge your income tax return for the relevant income year.

Lower income threshold	Higher income threshold	What is my maximum entitlement?
$31,920	$46,920	Your maximum entitlement is $500 for income below $31,920. However, for every $1 that your income is over the lower income threshold your co-contribution reduces by 3.333cents.

<u>How much could I get?</u>

Assessable income	Contribution required for co-contribution	Maximum super co-contribution
$31,920	1000	500
$36,920	666	333
$41,920	333	166
$46,920	0	0

If you are eligible, your co-contribution amount will be forwarded to your superannuation fund with remittance advice. It is important to include this remittance advice letter with your taxation information at year end.

<u>IMPORTANT NOTE:</u>

If you believe you would be eligible for the Government Co-Contribution, make sure your contribution is made to your SMSF by 30 June and it is recorded as a member non-concessional contribution with your fund.

Safe Tax cover for 2013-14
Superannuation Funds (the growth area in compliance audits)

It is highly likely that your SMSF will be audited by an Australian Government Authority within the next five years.

The experience can be unpleasant and can disrupt your business and your life.
The cost of professional advice and assistance given during a tax investigation will be a further unwelcome surprise.

Safe Tax offers you **professional support, pre-paid to agreed fee limits,** if your SMSF taxation affairs are subject to an audit.

For a fraction of the potential cost (a tax deductible fee paid annually) we will support you when you are audited. Subject to an agreed limit, no additional professional fees will be rendered for our work.

Our Safe Tax service includes access to specialist taxation advisors and includes your BAS and IAS returns.
This means we will be there when the Government is!

Those clients with their own self-managed superannuation fund should **DEFINITELY TAKE OUT THE SAFE TAX COVER** as it is likely that once every five years your fund will be audited.

The time involved in handling these audits is extensive and comes to a minimum of $2,000 per audit. The fees could get up to $5,000 with a complex fund.
The bottom line is that many more audits can be expected on superannuation funds.

If you have a superannuation fund you need this cover.

The cost of Safe Tax for a SMSF for the 2013-14 year is $280.00

We will be sending Safe Tax applications out during June, so please fill in the application and return to us <u>as soon as possible</u> to ensure that your SMSF is covered for the 2013-14 year.

Changes to in-specie contributions from 1 July 2012

LISTED SHARES AND UNITS:
From 1 July 2012 a related party is no longer able to make in-specie contributions to a SMSF. Previously a related party (member of the fund) could transfer listed shares/units into their SMSF as an in-specie contribution. That is, you were able to make a superannuation contribution without contributing cash.

WHY THE CHANGE? The reason for the banning of the ‘off-market’ transfers is due to concerns that these transfers allow you to manipulate your capital gains tax liability and/or super contribution levels.

WHAT HAS CHANGED? From 1 July 2012, you must sell the shares on the Australian Stock Exchange (ASX) and then buy them back again in the name of the fund.

BUSINESS REAL PROPERTY:
A SMSF cannot acquire an asset that has an existing charge or loan against it. So this means the business real property would have to be unencumbered before it can be transferred to a SMSF.

A valuation of the property will need to be ascertained by an independent and appropriately qualified valuer and the property transferred into the SMSF at this market value.

Who is an independent valuer?

- Qualified property valuer
- Suitably qualified industry person with experience and knowledge in the property industry

Minimum pension payments for funds in pension phase

One of the benefits of starting superannuation pensions is the tax exemption provided to some or all of the fund’s investment income as a result of being in pension phase.

Consequently, in order to be able to claim the exemption it is imperative that you have made your minimum pension payments in full prior to 30 June.

Minimum pension amounts for 2012-13/2013-14

AGE	Minimum pension amount
55 – 64	3%
65 – 74	3.75%
75 – 79	4.5%
80 – 84	5.25%
85 – 89	6.75%
90 – 94	8.25%
95 +	10.5%

Changes to SMSF borrowings for property

If you SMSF is thinking of borrowing money to acquire ‘bricks and mortar’ there are a few things you need to know.

A new ATO ruling helps to clarify what you can and cannot do with property that is under a limited recourse borrowing arrangement.

The ruling addressed 3 key areas:

- The borrowing must be used to acquire a “single acquirable asset”;
- The rules now allow the asset to be improved, however the trustee cannot use borrowed funds to make the improvements;
- Also, if you do improve the property, any improvement must not result in the asset becoming a different asset.

New concessional (tax deductible) contributions cap from 1 July 2013

Under the Governments super reforms there have been changes made to the superannuation concessional contributions cap from 1 July 2013.

- Taxpayers under 60 years of age from 1 July 2013 will be eligible for the $25,000 concessional contributions cap.
- Taxpayers who are aged 60 or more from 1 July 2013 will be eligible for the $35,000 concessional contributions cap.

Income over $100,000 taxed at 15% when in pension phase

From 1 July 2014, earnings on assets supporting income streams will be tax free up to $100,000 a year for each individual (not each pension stream).

Earnings above $100,000 will be taxed at the same concessional rate of 15% that applies to earnings in the accumulation phase.

ATO SMSF Levy increase

The Government recently announced that it will reform the supervisory levy arrangements for SMSF's by:

- Increasing the levy from $191 in 2012/13 to $259 per year from 2013/14 onwards

- Bringing the payment of the levy forward so that it is levied and collected in the same year of income – currently the levy is paid when the funds income tax is due for payment.

Very high income earners contributions taxed at 30%

The Government have announced that from 1 July 2012 individuals with income greater than $300,000 will have their concessional contributions taxed at 30%, not 15%. The 30% tax rate will be imposed on the individual not on their superannuation fund.

Where an individual exceeds the income level of $300,000 due to the inclusion of their concessional contributions, the higher tax of 30% will only apply to the excess over the income of $300,000.

New government superannuation contributions for low income earners

The new payment, called Low Income Super Contribution (LISC), became legislation on 1 July 2012. Individuals are eligible for the LISC if they earn $37,000 or less per year and the scheme is designed to help low income earners to save for their retirement.

You will receive a government superannuation payment that equates to 15% of your employer superannuation contributions, up to a maximum of $500. For example, if your employer paid $3,240 of superannuation guarantee, your super fund would receive $486 under the LISC scheme.

The payment will be calculated by the ATO based on your income tax return information, and then deposited into your superannuation account.

It is important that your superannuation fund has your tax file number to receive a LISC.

SUPERANNUATION FUND
CHECKLIST FOR INCOME TAX RETURN & FINANCIAL STATEMENT PREPARATION

- If prepared on computer
  - Backup disk of accounts (e.g. QuickBooks) including bank reconciliation at year end
  - Bank statements
- If not prepared on computer
  - Bank statements with details of each transaction (either receipts or notes on bank statements) for whole year.
  - Cheque books
  - Deposit books
- Term deposit statements (if any)
- Details of contributions (i.e. who made contributions and how much)
- Details of rollovers including rollover forms received from old super funds.
- All investment documentation:
  - dividend statements
  - annual managed trust taxation statements
  - share purchase/sale documents
- If you have property in your SMSF:
  - A copy of most recent rates notice showing Capital Improved Value (CAV)
  - Rental statements and invoices for expenses paid
  - Lease agreements
  - Current water right notices (if any)
  - Current insurance policy documents
  - Copy of title (if new property purchased/transferred during year)
- Any other details of asset transactions i.e. purchases, sales etc.
- Government co-contribution correspondence received during year

ENQUIRIES

If you have any enquires about any of the articles in this newsletter please feel free to contact our office on the details below.

WHERE TO FIND US

170 Johnson Street (PO Box 251) Maffra Victoria 3860
P: (03) 5147 1525 F: (03) 5147 3211 E: admin@adamsaccounting.com.au