



# SMSF

## End of Financial Year Tax Tips for SMSFs

If you have not completed your tax planning yet then now is the time to act! SMSF investors should be planning ahead for the financial year end to ensure their tax positions and contribution opportunities are maximised and any possible penalties are avoided.

### **Documentation**

Start preparing for tax-time by pro-actively compiling the required supporting documents for your fund's income, deductions and benefits. Only with the right documentation can your fund legitimately claim deductions and benefits. Also review documentation from previous years to see if it is relevant to a deduction or benefit for this financial year.

### **Market Value of Assets**

The ATO requires funds to record the value of investments, including real estate and any unlisted shares or unit holdings in other entities at a reasonable market value each year. If you have any investments that do not have a publicly listed value or price, please ensure that you obtain this value for 30 June and include it with the funds documents.

### **TPD insurance**

Check any TPD insurance policies held by your fund in relation to its members are held under the "any occupation" definition of TPD. As mentioned in last month's newsletter – only premiums paid under this definition will be tax deductible from 1 July 2011.

### **SMSFs in the pension phase**

Ensure that any pensioners have been paid at least the required minimum payment amount *before* 30 June, otherwise the investment income derived from the assets supporting that pension may no longer be exempt from tax.

### **Real Estate**

The value of a fund's real estate property can be the opinion of the trustees each year but we recommend that this be substantiated every third year by an appraisal from a licensed real estate agent or valuer. In addition, if the property is rented, the appraisal should also include an estimate of a market rate of rental.

Check that your tenant is up to date with their rental payments and that the rental lease agreements are current. Also ensure that the fund's property insurance policy is up to date and that any updated property values are correctly reflected in the policy.

### **In-house assets**

Trustees should check that any in-house assets of the fund remain under 5% of the market value of the fund's total assets at all times. If changing asset values mean the fund will be close to or exceed the 5% in-house asset limit, the members might consider making additional contributions (subject to the caps) to dilute the level of in-house assets prior to 30 June.

SMSF trustees who exceeded the 5% limit on in-house assets as at 30 June last year *must* ensure they have implemented their plan to reduce the fund's holding of in-house assets below 5% by 30 June this year.



## **Collectables & Personal Use Assets**

Draft regulations have been released which SMSFs must comply with when investing in collectables and personal use assets as of 1 July 2011. The proposed regulations are to prevent SMSF trustee members from gaining a 'current day benefit' from an investment in these types of assets and to ensure that such assets are for retirement purposes only.

These rules include items such as:

- Asset must not be leased to related party
- Item must not be stored in private residence of related party
- Decision on storage of item must be documented
- Item must be insured in the fund's name (within 7 days of purchase)
- Item must not be used by related party
- Transfer of asset to related party requires independent valuation
- Any offences are strict liability offences

A five year transitional period will apply to investments held by a fund on 30 June 2011 and this will apply until 1 July 2016.

## **Contributions**

Ensure that you record the amount and timing of all contributions to the fund – especially any contributions that may have been made via the payment of an expense on behalf of the fund and watch out for excess contributions!

If you are over age 65 at the time you make a contribution, you must satisfy "the work test". This test requires you to be gainfully employed for at least 40 hours over 30 consecutive days in the financial year in which the contribution is made.

Make a non-concessional (after tax) contribution to superannuation up to the allowable cap before the end of the financial year as unused cap amounts are not carried over future financial years. The annual cap is \$150,000 or you can bring forward an additional two years of contributions to a total of \$450,000.

If you have utilised these bring forward provisions previously, then check the fund records to see if you are eligible to begin a new bring forward period. Trustees should take care to properly identify the start and end dates of any bring forward periods to ensure their contributions are correctly assessed and to avoid any possible excess contribution penalties. Be especially wary of any excess concessional contributions assessments already made to the fund – as these count towards the non-concessional contributions cap also!

Personal contributions made by individuals who satisfy the 10% rule are eligible to be claimed as a tax deduction. The maximum deduction that can be claimed is \$25,000 if the taxpayer is under 50 or \$50,000 if the taxpayer is 50 or older. The 10% rule requires that less than 10% of the total of the individual's assessable income, reportable fringe benefits and reportable employer superannuation contributions for the financial year comes from employment- related activities. Ensure that the deduction will not exceed your expected taxable income for the financial year.

## **Government Co-Contribution**

Maximise your entitlement to the co-contribution by making a non-concessional (after tax) super contribution before the end of the financial year. Eligible personal contributions are matched dollar for dollar by the Government up to a maximum amount of \$1000. For 2010/11, the maximum amount is payable for individuals on incomes at or below \$31,920 and this reduces by 3.33 cents for each dollar over this amount, cutting out completely once an individual's total income reaches \$61,920.

To be eligible for the co-contribution, the member must be below 71 years of age and 10% or more of a taxpayer's income for the financial year must be from employment related activities and/or operating a business.



### **Spouse contributions**

Taxpayers are entitled to a maximum \$540 tax offset for superannuation contributions made on behalf of a low income or nonworking spouse. The maximum rebate is based on 18% of a maximum \$3000 non-concessional contribution. The maximum rebate is reduced by \$1 for each \$1 that the total of the spouse's assessable income, reportable fringe benefits and reportable employer superannuation contributions exceeds \$10,800, and cuts out completely at \$13,800.

***Please note that the information above is of a general nature and is not intended to be comprehensive nor does it constitute specific advice. Always seek independent financial advice before making decisions.***



**Always remember that we are available to assist our clients with any questions regarding self managed superannuation funds. Please feel free to email your questions to our office or to give us a quick call if you are unsure of any actions surrounding your fund. Please also inform us of any topics you would particularly like to see in future newsletters!**