SUPERMATTERS

SUPERANNUATION STRATEGIES FOR YOU AND YOUR BUSINESS

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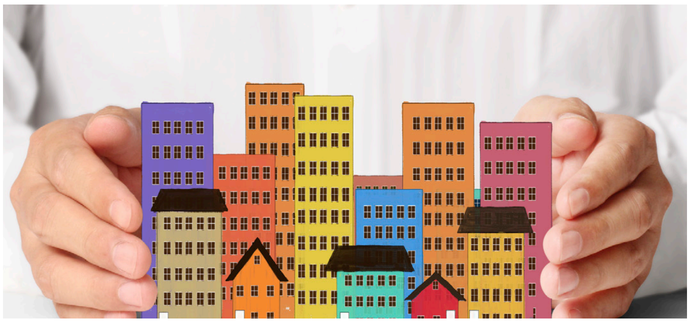

GEORGE SPARIS & ASSOCIATES
ACCOUNTANTS, REG. TAX AGENTS AND BUSINESS ADVISORS

Transferring a business property into your SMSF

Under a limited set of circumstances, it is possible for SMSF members to make non-cash contributions, also known as in-specie contributions, to their funds.

One way in which this can be done involves the transfer of a 'business real property' to an SMSF.

Using a combination of the non-concessional contributions cap and the CGT retirement exemption, it can be possible for business owners to transfer their commercial property into their SMSF with a number of tax advantages.

Property requirements

For a property to be considered a 'business real property' it must be used wholly and exclusively for business purposes. In order to be transferred into the SMSF, it must be unencumbered, meaning that it cannot have any outstanding debts or loans associated with it. If you are interested in transferring a 'business real property' with outstanding debt, you may be able to do so provided that you settle the debt before you transfer the property. The commercial property may be a shop, industrial space or a farm, and there are some slight exemptions to the exclusive business use specification for farms.

Transferring the property

The property must first be valued by an independent and appropriately qualified party. The transfer of the property must be recorded at market value and will also trigger a CGT event. If your SMSF has enough liquid capital to purchase the property outright, then this is allowable.

However, as many SMSFs do not have sufficient capital to do this, it may be possible for you to use your non-concessional contributions cap to cover the outstanding balance. For example, if your property is valued at $500 000, and your SMSF has $300 000 cash, you may be able to transfer the property, and count the remaining $200 000 as part of your non-concessional contributions cap. It is also possible for your SMSF to use an LRBA to borrow money to acquire the property. However, this has complex compliance requirements, and it is advisable to seek legal advice if you wish to pursue this course of action.

Using the CGT retirement concession

The CGT retirement concession allows business owners exemption from CGT on business assets up to the value of $500 000 over a lifetime.

If you are over 55, there are no associated conditions, however, if you are under 55 then you must place the money into a superannuation fund to receive the exemption.

This means that if you are under 55 and wishing to transfer a 'business real property' into your SMSF, you can potentially do so without incurring any CGT liability (up to the value of $500 000).

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Government freezes superannuation guarantee

The government has announced that it will freeze the superannuation guarantee at 9.5% until 2021.

Under previous plans, the super contributions paid by employers had been set to increase in 0.5% increments from the current rate of 9.5% until they reached 12% in 2019/2020. It will now be 2025 by the time the guarantee reaches 12%. The rationale behind the freeze on super is that it will ease pressure on the federal budget, due to the significant tax concessions associated with superannuation contributions.

There have been many claims by superannuation industry representatives about how this will impact the size of future superannuation accounts. While these figures can only amount to speculation because nobody can accurately predict wages, fund growth rates and the future taxation of superannuation, it is certain that these changes will result in smaller superannuation accounts. It is also likely that the freeze will disproportionately affect younger Australians, women, low-income earners and part time/casual employees.

There are, however, some strategies that may be useful to individuals seeking to counterbalance the impact of the freeze:

Salary sacrificing into your super is a great way to offset the impact of the superannuation guarantee freeze. The money that you salary sacrifice into super, known as concessional contributions, will be taxed at 15%, which for most people is significantly lower than their marginal tax rate. Therefore, salary sacrificing is a particularly effective tax strategy for high-income earners. Concessional contributions are capped at $30 000 per year for most people and $35 000 per year for over 50s.

For low-income earners, the **government co-contribution** is a great way to boost super balances. If you earn under $34 448, the government will contribute 50c for every $1 you put into your super account from your after-tax income (up to a total co-contribution amount of $500). If you earn anywhere up to $49 448, you may also be eligible for reduced co-contribution payments.

If you are a low-income earner or are taking a break from work, it may be worth investigating the possibility of your partner making super contributions on your behalf.

If you earn less than $13 800, then your partner will be eligible for a **low-income spouse tax offset** with a maximum value of $540.

It may also be beneficial to **re-examine your superannuation investment strategy**, considering the returns and risks involved with different investment options. Your investment strategy choices should be informed by your age, retirement goals and level of comfort with risk.

Regardless of whether or not the super guarantee freeze has affected your superannuation plans, now is a good time to start putting some serious thought into your superannuation, and the retirement that you want.

Super Trivia

1. Some economists believe that capital investment from Australia's impressive superannuation savings **protected us from a recession** during the GFC
2. Australia's superannuation system is **highly regarded internationally**
3. Australian superannuation is the **fourth largest asset pool in the world**
4. Increasing numbers of **Australians aged 30-50** are switching to self-managed super
5. Australians contribute over **$500 million** into SMSFs **every week**

Choosing a superannuation fund

Cumulatively, superannuation fees cost Australians approximately $20 billion per annum.

This represents about 1% of GDP and equates to an average of $726 per person each year. Australian fund fees are three times higher than their British equivalents. Recent research, conducted by the Grattan Institute, estimated that by halving fees in public superannuation funds, accounts would be, on average, 15% bigger by the time they reach pension phase.

In light if these revelations, many Australians have been questioning the quality of their current superannuation fund. To make this process easier, we have provided an explanation of some criteria that can be helpful when assessing different superannuation funds.

Fees

When it comes to fees, the lower the better. Modelling shows that excessively high fees can be extremely detrimental to your superannuation nest egg. This is particularly true for younger Australians, who have not accumulated as much super, because the fees will represent a larger portion of their total savings.

Insurance

Most large superannuation funds offer automatic life and income insurance, usually at very competitive rates. You should investigate what your insurance products your fund is offering, and how they stack up against competitors.

Performance

Performance is an extremely important consideration when choosing a fund. However, sometimes the benefits of a high performing public fund can be neutralised by exorbitant fees. You should be careful when looking at the account growth modelling provided by some large funds as often they will not include fee deductions in their calculations. When comparing the performance of funds, you should look at a period of at least ten years in order to get an accurate indication of success.

Flexibility

Some retail and industry funds will offer far more investment options than others. If you feel more comfortable knowing exactly where your super is invested, you may wish to change to a fund with more investment options, which in turn increases both your knowledge of and control over your superannuation. Individuals seeking a more flexible fund may also wish to investigate self-managed superannuation, which can be a cost-effective and hands on way to plan for your retirement.