SuperGuardian Information

10 Smart Strategies for **Self-managed Super Funds**

SMSF Facts

- SMSFs account for 30% of Australian superannuation assets.
- The median SMSF balance is approximately $641,983.
- The median age of members of newly established funds was 59 years of age.
- Roughly 80% of SMSF assets are held in direct assets (shares, cash & term deposits).
- About 2% of SMSFs breach the ATO compliance rules each year. Source: ATO 2017.

1 Pension vs Lump Sum

This strategy involves treating any withdrawals from super above the minimum pension required as lump sum withdrawals. As lump sums create a debit to the transfer balance cap this can free up additional room in the cap for future use.

Most Suitable For:
Members drawing more than the minimum pension required; more specifically for members with a balance exceeding the transfer balance cap (currently $1.6 million).

2 Spouse Contribution Splitting

The strategy provides a superannuation member with the opportunity to split up to 85% of their concessional contributions received within the previous financial year with their spouse. This may provide an opportunity to equalise the amount saved for retirement between the member and their spouse and enable them to take maximum advantage of the tax concession rules.

Most Suitable For:
Couples who want to transfer contributions to their spouse and/or equalise super balances.

3 Multiple Pensions

Starting multiple pensions enables the member to crystallise their taxable and tax free components. When excess pension payments are being drawn above the minimum this strategy allows the pension with the highest taxable component to be run down first and allowing the pension with the higher tax free component to be left to beneficiaries on the death of the member.

Most Suitable For:
This is advantageous where there are non dependants that will receive a death benefit (eg. adult children).

4 Registering for GST

By voluntarily registering for GST an SMSF is able to claim back input taxed credits on certain fees for services such as administration, advice and share brokerage. This means the fund can get a refund of 75% of the input tax credits from the ATO when the business activity statements are submitted.

Most Suitable For:
SMSFs in full pension mode that are no longer needing a tax deduction.

5 Direct Property

An SMSF is the only superannuation structure that enables members to invest in direct property (residential or commercial). Investing in direct property may deliver the fund both capital growth and an income stream. The property can be purchased under a limited recourse borrowing arrangement (LRBA) which enables leverage.

Most Suitable For:
Investors with an appetite for property.

6 Business Real Property

One popular strategy employed by many small and medium business owners is to have their business premises owned by their SMSF. This ensures the rental income from the property is taxed at the maximum rate of 15% (or zero if the fund is entirely in pension mode - subject to the transfer balance cap from 1 July 2017) rather than the corporate rate of around 30%.

It also means CGT is limited to 10% or may be tax free if the property is held until the SMSF is entirely in pension phase (subject to the transfer balance cap from 1 July 2017). It also offers additional benefits from an asset protection perspective.

Most Suitable For:
Small business owners who own their business premises.

7 Reversionary Pensions

When a super fund member passes away, if they have a pension account with a reversionary beneficiary nomination, the pension can continue to be paid to the reversionary beneficiary.

A reversionary pension will count towards the recipient's transfer balance cap 12 months after the date of death of the member.

The timing difference here can have important implications as a reversionary nomination can give the recipient 12 months to deal with any transfer balance cap issues and commute any balances required to comply.

8 Borrowing

Under certain conditions, SMSFs can use borrowed money to purchase a single acquirable asset such as a property. This is done under a limited recourse borrowing arrangement (LRBA) where the lender's recourse is limited to the assets. While borrowing in an SMSF is not without risk there are several potential benefits including leverage and tax advantages.

Most Suitable For:
Experienced property investors with the ability to service the loan in their SMSF.

9 Transferring Shares into Super

This strategy involves an individual making a contribution to their SMSF in the form of a parcel of listed securities.
Although the transfer triggers a CGT event for the individual making the contribution, once the assets are held within the SMSF the earnings and capital gains will be taxed concessionally or tax free (if entirely in pension – subject to the transfer balance cap) meaning it may make sense to move the shares into the super environment sooner, particularly in a weak market.

Most Suitable For:
Those with individually or jointly held shares.

10 Segregation of Assets

This strategy allows specific assets to be attributed to each member account.

The benefit is that assets with large unrealised capital gains (for example business real property which will be sold on retirement) can be moved specifically into pension phase and thus result in tax free earnings for that investment.
This compares to the alternative where the investment is pooled with the other assets which would result in a proportion of the gain being taxed based on the portion of accounts in accumulation phase to pension phase.

Most Suitable For:
SMSFs with members in both the pension and accumulation phase or with different risk profiles. Note this is no longer available for any fund with a member who is a retirement phase income stream recipient and has a total superannuation balance exceeding $1.6 million at the end of the previous financial year.

Listed below are some other popular strategies that, while not unique to SMSFs, can offer clear benefits to SMSF clients:

- Utilising franking credits
- Death tax minimisation
- SMSF specific estate planning
- Salary sacrifice