

June 2017

CHECKLIST FOR TRUSTEES OF SELF-MANAGED SUPER FUNDS

As we approach 30 June 2017 it is opportune for trustees to go through the following checklist.

If after reviewing this checklist you have any concerns, please contact us immediately, as in some cases there is limited time to rectify any problems.

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CONTRIBUTIONS

1) Concessional (Before Tax) Contributions Caps:

- employer contributions including salary sacrifice arrangements
- personal contributions claimed as a tax deduction by a self-employed person

| Age at 30 June 2017 | Need to pass work test | Cap amount pa* 2016-17 | Cap amount pa 2017-18 |
|---------------------|------------------------|---------------------------|---------------------------|
| Under 49 | No | \$30,000 | \$25,000 |
| 49 and under 60 | No | \$35,000 | \$25,000 |
| 60 years or over | Yes for 65 and over** | \$35,000 | \$25,000 |
| 75 or Over | N/A | Only 9.5% Super Guarantee | Only 9.5% Super Guarantee |

*The Cap includes the total of both personal deductible and all employer contributions (including compulsory super and salary sacrifice contributions).

Members 65 to 75 must satisfy the work test **BEFORE they contribute.

2) Non-Concessional (After Tax) Contributions Caps:

- personal contributions for which taxpayers do not claim a deduction

| Age at first day of financial year | Need to pass work test*** | Cap amount pa 2016 - 17 | Cap amount pa 2017 - 18 |
|------------------------------------|---------------------------|--|---|
| Under 65 | No | \$180,000 or a 3-year limit of \$540,000 | \$100,000 or a 3 year limit of \$300,000* |
| 65 – under 75 | Yes** | \$180,000 | \$100,000 |
| 75 or Over | N/A | | |

* Under 65s may utilise the 3 year “bring forward” arrangements which allow up to \$300,000 in non-concessional contributions to be made, averaged over 3 financial years (e.g. a member under 65 could contribute \$300,000 in one financial year but then nothing for the next 2 financial years).

Members 65 to 74 must satisfy the work test **BEFORE they contribute.

*** Work test: At least 40 hours worked in 30 consecutive days during the year.

Members who have triggered the 3-year bring forward rule during the 2016 and 2017 income years should ensure that their \$540,000 3-year NCC Cap is fully utilized before 1 July 2017. If a member who is under 65 fully utilizes their bring-forward cap in 2017 income year then the maximum amount that can be contributed in total for the 2016/17, 2017/18 and 2018/19 years is \$540,000.

If a member who is under 65 triggered their bring-forward cap in 2016 income year but have not fully utilized their bring-forward cap before 1 July 2017, then the maximum amount that can be contributed in total for the 2015/16, 2016/17 and 2017/18 years is \$460,000.

If a member who is under 65 triggered their bring-forward cap in 2017 income year but have not fully utilized their bring-forward cap before 1 July 2017, then the maximum amount that can be contributed in total for the 2016/17, 2017/18 and 2018/19 years is \$380,000.

IMPORTANT NOTE FOR THOSE WHO ARE MEMBERS OF MORE THAN ONE SUPER FUND:

Where you are a member of more than one superannuation fund, the contribution limits discussed above are not per super fund, but are the **total** for the financial year **for all funds** of which you are a member.

\$1.6M SUPERANNUATION BALANCE RESTRICTION

To be eligible to make a Non-Concessional Contribution, an individual must have a total superannuation balance in all of their super funds of less than **\$1.6 million** after 30 June. The \$1.6 million balance threshold will be indexed in \$100,000 increments in line with the Consumer Price Index.

INCOME EARNED BY THE SUPER FUND

All income earned by the super fund's investments must be deposited into the super fund's bank account(s) and cannot be deposited into a members or any other entity's bank account. This includes all income such as interest, dividends, distributions and rental income.

PERSONAL EXPENSES AND WITHDRAWALS

Where your super fund is **not** paying a pension, no personal withdrawals or payments can be made from the super fund, other than when a condition of release has been met (typically retirement or reaching 65 years of age).

Where your super fund **is** paying a pension, withdrawals or payments from the super fund for personal expenses are allowed as long as they can be treated as pension withdrawals (which are subject to a maximum for most members between 55 and 60).

SUPER FUND PENSIONS

If a member is in pension mode, there is a minimum pension that must be withdrawn by 30 June each year. Penalties apply if the minimum pension is not drawn.

| <u>Age</u> | <u>Minimum % for 2016/17 Year</u> |
|--------------------------|--|
| <i>Under 65</i> | <i>4%</i> |
| <i>65-74</i> | <i>5%</i> |
| <i>75-79</i> | <i>6%</i> |
| <i>80-84</i> | <i>7%</i> |
| <i>85-89</i> | <i>9%</i> |
| <i>90-94</i> | <i>11%</i> |
| <i>95 or more</i> | <i>14%</i> |

55 to under 60

If a member has not retired and is under 60, the minimum annual pension that must be drawn is 4%. A group certificate must be prepared by the SMSF and tax may have to be withheld. This pension is taxable.

60 to under 65

If a member has not retired and is under 65, the minimum annual pension that must be drawn is 4%. The pension is tax-free to members 60 and over. Alternately, an election can be made to take the pension as a lump sum tax-free to access the low rate threshold of \$195,000. This can be done until 30 June 2017.

65's and over

Refer to the above table. The pension drawn is tax-free.

SIGNIFICANT TRANSITION TO RETIREMENT INCOME STREAM (TRIS) CHANGES

From 1 July 2017, a TRIS will no longer be treated as a pension in 'retirement phase' for income tax purposes and hence will no longer qualify for the pension earnings exemptions. This means that, from 1 July 2017, income (including capital gains) derived in relation to assets supporting a TRIS will be taxed.

COMMENCING A PENSION PRIOR TO 30 JUNE 2017

If you wish to commence a pension from your super fund during June 2017 and are eligible, there is no need to take any pension withdrawals during the remainder of the 2016-17 financial year, but please contact us to discuss if you are eligible.

CLAIMING A PERSONAL TAX DEDUCTION FOR SUPER

From 1 July 2017, all members who are under age of 75 can claim an income tax deduction for a personal super contribution made, regardless of whether they earn 10% or more of their total income from employment or related activities.

IN-HOUSE ASSET RULE

An in-house asset is a loan to or an investment in a related party of the fund (see below for loans). An asset of the fund that is leased to a related party is also an in-house asset. You are restricted from lending to, investing in or leasing to a related party more than 5% of the fund's total assets with some exceptions such as business real property.

Assets owned by the super fund but used for private purposes are considered in-house assets but in addition, are also considered a breach of the "Sole Purpose" test. As an example, a residential rental property used by a member or related persons would be classed as an in-house asset and would be in breach of the sole purpose test and possibly the in-house asset rules and likely to be a non-compliant fund and thus lose all tax concessions.

LOANS/FINANCIAL ASSISTANCE TO MEMBERS OR RELATED PARTIES

The superannuation regulations prohibit super funds from providing loans or financial assistance to any of its members or any persons or entities associated with its members (i.e. related parties) with some very limited exceptions.

There are stringent restrictions applying to assets transferred into or out of the super fund.

ASSETS HELD IN NAME OF TRUSTEE(S)

All super fund assets must be held in the name(s) of the trustee(s) whether a corporate trustee (a company) or individual trustees. Where there is more than one individual trustee, then assets must be held in the names of all the trustees, e.g. Alan John Smith & Alana Joy Smith atf The Smith Super Fund.

\$1.6 MILLION PENSION TRANSFER BALANCE CAP

From 1 July 2017 the maximum amount of tax free pension balance will be \$1.6 million per member. Members that have over \$1.6 million in pension phase on that date will need to either:

- transfer the excess back into an accumulation superannuation account (any income earned on that accumulation account will be taxed at 15%); or
 - withdraw the excess amount from their superannuation.
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TRUST DEEDS AND INVESTMENT STRATEGY

Super fund trust deeds must be upgraded periodically to keep up with legislative changes to super. Any trust deeds dated prior to 2012 should be updated and we can organize this for you.

An investment strategy is compulsory for all funds and indicates the preferred investments of the trustees. It must be reviewed regularly by the trustees. It is compulsory for all trustees to consider insurance for their members.

BINDING DEATH BENEFIT NOMINATION

If you are concerned about how your superannuation benefits will be distributed following your death, a properly executed binding death benefit nomination can give you peace of mind. The law does not require an SMSF member to have a binding death benefit nomination to pay out death benefits. However if the SMSF does have one, it will need to follow the requirements of the SMSFs trust deed and the operating standards of the law.

REVERSIONARY PENSION

A reversionary pension is an existing income stream which automatically becomes payable to a dependent/spouse (called the 'reversionary beneficiary') upon the death of the SMSF member who is receiving the pension.

SUPERSTREAM CHANGES FOR SMSFs

All SMSFs where the members are employed must be able to receive contributions from employers and in order for this to happen the SMSF needs to obtain an "Electronic Service Address" which is used to identify where the contribution goes.

The providers which are free of charge are Click Super, SMSF DataFlow and SMSFlow.

VALUATION OF SMSF ASSETS

SMSF trustees are required to value their fund's assets at market value. This is particularly important where the assets of the fund include real estate. The ATO has published a "valuation guideline for Self-Managed Super Funds" which can be accessed from the ATO's website.

OTHER MATTERS

SUPERVISORY LEVY

The Supervisor Levy payable for 2016/2017 Year is \$259.

PRESERVATION AGE

Assets and money in an SMSF are to provide for a member's retirement and can be paid to them as a benefit when they have reached the preservation age set by law and retired. A person's preservation age depends on their date of birth as set out in the table below:

| 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 |

TAX OFFICE FOCUS 2016-17

- Timely lodgement of SMSF annual returns
 - Illegal early release
 - Inexplicable changes in value of SMSF assets or income
 - Related party investments
 - Limited recourse borrowing arrangements that are not structured correctly
 - Paying minimum pension payment
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