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smsfmatters

Spring 2011

Minimum Payment Amount for Pensions

In the 2009, 2010 and 2011 financial years the superannuation regulations were amended to reduce the minimum annual pension payment by 50%.

For the 2012 (current) financial year the minimum annual pension payment has been reduced by 25%. This reduction will help assist to recover capital losses incurred as a result of the global financial crisis.

The minimum payment amounts will return to normal in the 2013 financial year.

Below is a table listing the minimum requirements for the 2012 and 2013 financial years. Prior to the end of the financial year we will advise members the amount required to withdraw from your SMSF to ensure your fund remains compliant..

Age	Percentage of account balance (2012)	Percentage of account balance (2013)
Under 65	3%	4%
65-74	4%	5%
75-79	5%	6%
80-84	5%	7%
85-89	7%	9%
90-94	8%	11%
95 or more	11%	14%

Loans to members, relatives or related entities - what are the rules?

It is important to be aware of the superannuation laws that prohibit members using SMSF resources to lend money or provide financial assistance to a fund member or their relatives.

The sole purpose of superannuation whilst in accumulation phase (before eligible for retirement) is to have funds and income available once retirement age is reached.

A breach of these rules can contain significant penalties up to 46.5% of the SMSF net assets. Therefore it is extremely important to maintain appropriate records.

Statistics.

Individuals running SMSFs control 32% (\$432.4 billion) of the \$1.36 trillion invested via Australian superannuation funds. Ten years ago SMSFs represented one-tenth (10%) of all superannuation money.

The money held in SMSFs exceeds the super money invested via retail funds (27.3%, \$370 billion), industry funds (19%, \$257 billion), public sector funds (14.1%, \$192 billion) and corporate super funds (4.6%, \$63 billion) according to figures released by APRA in June 2011.



SMSF get green light on property renovations.

Thankfully common sense has prevailed. Until recently, based on the strict interpretation of the law, the Australian Taxation Office indicated that a SMSF could not use money from inside the fund to improve the value of the property it owned. Costs incurred on normal repairs and maintenance were allowed, however any improvements were prohibited. This created great concern particularly as SMSFs have become more involved with direct property investment.

The ATO has now confirmed that a SMSF can use its funds to make an improvement to property. This is a positive outcome that will allow SMSFs to improve property and increase the value of retirement assets.



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SMSF's investing in collectables and personal use assets.

New standards now apply to SMSFs that make investments in collectables and personal use assets.

The new standards prescribe rules about how collectables and personal use assets are acquired, stored and used while in the SMSF and disposed of. The regulations do not prohibit investment in collectables, but rather tighten the restrictions on SMSFs investing in those assets.

Investments to which the new regulations apply include artwork, jewellery, antiques, artefacts, coins, stamps, books, memorabilia, wine, cars, boats and memberships of sporting or social clubs.

Broadly a SMSF must:

- Not lease a collectable to a related party of the SMSF;
- Not store a collectable in a private residence of a related party of the SMSF;
- Make a written record of the decisions in relation to the storage of collectables held by the SMSF;
- Have the collectable insured in the SMSFs name within the first seven days of acquiring it;
- Ensure that collectables are not used by a related party of the SMSF; and
- Ensure that if a collectable is being sold to a related party, that the collectable is sold at its market value, which is calculated by a qualified independent valuer.

This measure will apply to all new investments in collectables and personal use assets from 1 July 2011, and all existing holdings must comply with these regulations or be disposed of by 1 July 2016.

Question & Answers.

Q. I own a residential rental property outside super and would like to know if I can transfer the property into my SMSF.

A. Generally, SMSFs are prohibited from acquiring assets from related parties - related parties include the fund members, their family, and partners, related companies and trusts. However, there are some exceptions. These exceptions include:

- Business real property (used exclusively for the running of a business), for example a warehouse or farm you conduct business from
- A listed security (such as shares in companies listed on the stock exchange), or
- An in-house asset, for example an investment in a related party. The market value of in-house assets cannot exceed 5% of the total market value of assets held by the fund.

Each of the assets must be acquired by the SMSF at market value.

You cannot transfer a residential investment property to your SMSF. It is not covered by the above exceptions.

A SMSF can however purchase residential property from an unrelated party. Many SMSFs have taken advantage of the opportunity to borrow funds for property investments. It is a timely reminder that the borrowing provisions are due to be reviewed (as recommended by the Cooper review) this financial year.

Between our four business divisions of Accounting, Financial Planning, Lending & Legal we can assist you with the purchase of an investment property using a borrowing arrangement. To gain a better understanding of the taxation and cashflow benefits of this investment strategy, please contact **Faye Douglass, Jamie or Chris Mulcahy.**



Faye Douglass - SMSF Specialist

Many of the SMSF members will have had the pleasure of meeting Faye during SMSF training sessions earlier in the year. Faye has been a member of the Mulcahy & Co team for over 7 years as a taxation accountant. In the past 4 years she has focussed specifically on superannuation and in particular SMSFs. Please feel free to contact Faye with any taxation queries regarding your SMSF.