Self Managed Super Funds: An Overview

Our core purpose is
'TO HELP COMMITTED CLIENTS ACHIEVE FINANCIAL SECURITY'

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OVERVIEW

This document provides a brief outline of the advantages of holding investment assets in a self managed superannuation fund (SMSF).

Please note that the following information should be considered general in nature and before acting on this general advice a detailed analysis of your situation would need to be undertaken.

At Mulcahy & Co our business is set up so that you can access the advice needed in these important areas. We have experts in all areas of Accounting & Taxation, Financial Planning, Lending, Legal and Information Technology to provide proactive, ongoing assistance.

When looking at the options to accumulate and generate investment assets and income we talk a lot about superannuation. The reason for this is that superannuation is taxed at a lower tax rate compared to individual tax rates. By investing via superannuation and taking advantage of the lower tax rate, less tax is paid allowing more funds to be invested. This helps to sustain the longevity of your investment assets.

The tax concessions available to superannuation once retirement age is reached are even better with potentially no tax being paid on investment earnings including capital gains.

So by having an investment plan that involves superannuation there can be significant tax advantages at all stages of life - whilst working and accumulating investment assets, the transition phase between working and retirement and once full retirement stage is reached.

By paying less tax, more cash is available for investment assets to be accumulated and more income is available to retire with.

TAXATION RATES

As mentioned above superannuation is concessionally taxed. A superannuation fund whilst in accumulation phase has a tax rate of 15% on taxable income and 10% on capital gains. The tax rate reduces to 0% (nil) on investment income once a member enters pension phase (see below). Taxable purposes includes investment income income for superannuation and concessional (tax deductible) superannuation contributions.

On this basis the tax rate for superannuation can be advantageous compared to individual tax rates. Tax on superannuation income can be summarized as follows:

Details	Tax on this income
Accumulation Phase	
Investment income & concessional contributions	15%
Capital gains tax for assets held > 12 months	10%
Account Based Pension Phase	
Concessional contributions	15%
Investment income, including all capital gains	0%

From 1 July 2017 transition to retirement income streams (TRIS) will no longer be tax free. Income will be taxed at 15%.

For the 2016/2017 financial year individual tax rates are as follows (excluding 2% Medicare levy):

Taxable income	Tax on this income
$1 - $18,200	Nil
$18,201 - $37,000	19c for each $1 over $18,200
$37,001 - $87,000	$3,572 plus 32.5c for each $1 over $37,000
$87,001 - $180,000	$19,822 plus 37c for each $1 over $87,000
$180,001 and over	$54,232 plus 45c for each $1 over $180,000

PRESERVATION AGE

Your preservation age is the date you can access a pension from superannuation and move into the pension phase within the super fund. Once an account based pension commences it is also the date your superannuation fund can have a 0% (nil) tax rate on investment income. As mentioned above, investment earnings for a TRIS will be taxed at 15% from 1 July 2017. The preservation age depends on your date of birth as follows;

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
From 1 July 1964	60

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CONTRIBUTION CAPS

Although it is an advantage to contribute income and assets to superannuation, there are limits on how much can be contributed each year to superannuation by an individual. This highlights the need for planning to maximize the use of superannuation for your retirement.

The main contribution limits for the 2016 / 2017 financial year are as follows:

Contribution Cap	Amount
Concessional Contributions (Tax Deductible)	
Concessional (under age 50)	$30,000
Concessional (over age 50)	$35,000
Non Cessional Contributions (Non Tax Deductible)	
Non Concessional	$180,000
Non Concessional (bring forward option)	$540,000

From 1 July 2017 the following caps will be applicable:

Concessional Contributions (regardless of age)	$25,000
Non - Concessional Contributions	$100,000
Non - Concessional Contributions (bring forward)	$300,000

From 1 July 2018 people will have the ability to carry forward their unused concessional cap if their superannuation balance is less than $500,000.

It is important to understand that the concessional contribution cap includes the amount of superannuation contributed by an employer or tax deductable super contributions if you are self employed.

SELF MANAGED SUPERANNUATION

Self managed superannuation funds (SMSF's) continue to grow in popularity due to the many advantages and flexibility that a SMSF has over standard superannuation funds. The global financial crisis has also highlighted that it is important to have greater control and understanding of how your superannuation is invested.

We recommend utilising a self managed superannuation fund in circumstances where clients are looking to take greater control and a greater interest in accumulating investment assets for retirement. Once you reach preservation age (as discussed above) a SMSF enables the transition process to access a pension (and tax free investment income) to be relatively straight forward.

Some of the advantages of a SMSF are as follows:

- Greater control and flexibility with investment options.
- A greater range of uncomplicated investment options and opportunities such as:
  - Direct shares
  - Residential property
  - Commercial property (including farm land)
  - Term deposits
  - High yielding cash accounts
  - First mortgage investments
  - Wholesale managed funds - Australian & International shares
- The ability to borrow money to purchase investment assets.
- A fee structure that is clear and understood with no hidden commissions and management fees.
- The ability to manage your own money
- Avoiding the need to have separate and multiple accounts. For example accumulation and pension accounts for each member
- Providing a greater understanding of your underlying investments

In terms of establishing a SMSF, we can assist with completing the following:

1. Establish the SMSF trustee company and SMSF deed.
2. Complete all necessary Tax Office registrations.
3. Establish a bank account (s).
4. Review personal insurances held within existing superannuation and in individual names and set up the insurance in the SMSF as required.
5. Organise to rollover existing super balances and consolidate into the SMSF.
6. Establish a share broking account (if applicable).
7. If borrowing within the SMSF:
   - Assist with locating an appropriate investment and provide a tax and cash flow analysis of the investment utilising borrowing.
   - Establish the necessary legal documents to enable the SMSF to borrow.
   - Provide lending options and organise the finance.

We currently look after a large number of SMSF's. This includes not only the taxation, administration and compliance matters, but also establishing and maintaining direct share portfolios, managed funds, fixed interest and direct property.

We see the utilisation of a SMSF strategy as a sensible way of reaching financial goals, utilising a much more efficient fee structure, accessing a broader range of investment options and accessing borrowing to help boost retirement savings.

CONCLUSION

We trust that this detailed summary provides an overview and explanation of SMSFs. As indicated it is recommended that an appointment is made in order to provide advice tailored to your personal circumstances. If you wish to discuss in further detail please do not hesitate to contact our office.