MGR ADVISORY GROUP
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360 PRIVATE WEALTH

Self Managed Super

Autumn Edition Newsletter 2019

Year-end super planning

With 30 June 2019 approaching fast, trustees should aim to address any year-end obligations and planning opportunities by early June. In this special edition, we review a range of issues to consider in the lead-up to year-end.

COMMENT–Trustees should also review whether their year-end planning is affected by the result of the Federal Election.

Strategies for individuals in accumulation phase

Individuals focused on building their super savings can consider the following strategies:

Strategy	Description of strategy
Salary sacrificing	Review any salary sacrifice arrangements. Eligible individuals can also make personal deductible contributions in conjunction with (or instead of) salary sacrificing into super.
Deducting personal contributions	Eligible individuals can generally claim a deduction for personal super contributions from 1 July 2017.
Splitting concessional contributions	An individual can generally split up to 85% of their concessional contributions to their spouse. However, the contributions still count against the cap of the individual for whom the contributions were originally made. Also, note that contributions cannot be split to a spouse aged 65+, or a spouse who is at least preservation age and retired.
Cashless personal contributions	Individuals can generally transfer commercial property or listed shares into their SMSF at market value. The contribution can be made by transferring title – no money needs to be contributed. Review any tax issues associated with the transfer (e.g., CGT).
Downsizer contributions	Individuals aged 65 or over selling their own home could boost their super by up to $300,000 ($600,000 per couple).
Concessional contribution cap amount	The concessional contributions cap is $25,000 for all individuals (i.e., irrespective of age and super balance).
Total super balance limit for non-concessional contributions	Individuals with total super balances of $1.6m+at 30 June 2018 have a non-concessional contributions cap of zero for the 2019 income year.
Work test	Contributing individuals aged 65 to 74 must generally meet the 'work test' for the 2019 income year – except for super guarantee (SG) amounts and downsizer contributions.
Contributions for members 75+	Individuals aged 75+ are generally unable to contribute to super – except for SG amounts and downsizer contributions.

HIGHLIGHTS

YEAR-END PLANNING

With 30 June 2019 approaching, ensure that year-end planning and administrative issues are in hand

30 JUNE 2019 IS A SUNDAY

For the 2019 income year, 30 June is a Sunday – meaning trustees need to take extra care

TRUSTEE Q & A

Can I make tax deductible contributions personally if my employer salary sacrifices into super for me?

Contributions – administrative issues

Generally, super contributions are deductible in the income year they are received by the fund. Similarly, contributions generally count towards an individual's concessional or non-concessional contributions cap in the year in which they are 'made'.

In this regard, contributions made by Electronic Funds Transfer (EFT) are 'received' in the income year in which they are credited to the SMSF's bank account.

Key review points to consider when contributing by 30 June 2019 are:

- Check the amount of contributions made and the date they were received by the fund to reduce the risk of over contributing.
- Given that 30 June occurs on a Sunday this year – plan ahead to ensure that contributions are received well-ahead of this time.
- Contributions received by a clearing house are not 'received' until they are credited to the receiving fund's bank account.

Year-end super planning – continued

Pensions – administrative issues

A critical requirement for SMSFs paying a pension is that the fund must pay the minimum annual pension payment by 30 June.

An SMSF paying a 'retirement-phase' pension generally loses its tax-exempt status if the minimum annual pension payment requirement is not met.

WARNING–30 June falls on a Sunday for the 2019 income year. Trustees should ensure the pension payment is made well before 30 June to avoid the payment being processed by the bank in July.

The minimum pension payment factors for the 2019 income year are:

Recipient's age	Minimum
Under 65	4%
65–74	5%
75–79	6%
80–84	7%
85–89	9%
90–94	11%
95 or more	14%

The 'recipients age' and 'minimum' are as at 1 July 2018 (or the day of commencing the pension, if later).

Minimum payment =

account balance x minimum (per table)

- Proportionally reduce the minimum pension payment if commenced later than 1 July 2018; and
- No minimum is required for a pension commenced on or after 1 June 2019.

Other points to note about meeting the pension payment requirements are:

- Round the minimum pension payment to the nearest $10, with amounts ending in an exact $5 to be rounded up to the nearest $10;
- Lump sum commutations do not count towards the minimum pension payment requirement; and
- SMSFs relying on funds from illiquid investments to make the minimum pension payment (e.g., term deposits) should leave sufficient time to access the investment.

Transition to retirement income stream – developments

Individuals aged at least preservation age and under 65 can start a transition to retirement income stream (TRIS). Preservation age varies between age 55 and 60, depending on the member's date of birth.

From 1 July 2017, earnings on assets supporting a TRIS are no longer tax-exempt unless the TRIS is in 'retirement-phase'.

A TRIS automatically enters 'retirement phase' when the member reaches age 65. Further, a TRIS also enters into retirement phase when the member satisfies one of the following conditions of release and notifies the fund of such:

- Retirement;
- Permanent incapacity; or
- Has a terminal medical condition.

Importantly, SMSF trustees must still comply with the minimum and maximum pension 10% payment requirements for TRISs that are not in 'retirement phase'.

INFO–Generally, on meeting one of the above conditions of release, the TRIS continues, with the modifications discussed below.

Subject to the pension rules, meeting a condition of release means that:

Item	Description
No '10% cap'	The '10% cap' ceases to apply.
Transfer balance cap	The value of the pension is credited towards the member's $1.6m transfer balance cap.
Tax-exempt income	Income (including capital gains) earned by the fund from assets supporting the TRIS begins to be tax-exempt.
Benefits are no longer preserved	Benefits supporting the TRIS generally can be accessed by the member without restrictions.
Paying lump sums	The general prohibition on making a lump sum payment from a TRIS ceases to apply.

"...lump sum commutations do not count towards the minimum pension payment requirement"

ATO UPDATE

The ATO has issued Super Guidance Note GN 2019/1 to provide information about the changes that impacted on transition to retirement income streams from 1 July 2017. Google 'GN 2019/1' to learn more.

The ATO reminds SMSF trustees that serious consequences can apply if super is withdrawn before the member satisfies a condition of release. Google 'QC 58252' to read about the ATO's concerns.

A reminder about the due dates for transfer balance account reports (TBARs) has also been published by the ATO. The TBAR is used to report certain events that affect the 'transfer balance accounts' of members in receipt of a 'retirement-phase' pension. Google 'QC 58549' to learn more.

SMSF trustee Q & A

Question

I am 45, and my employer will contribute approximately $15,000 through SG and salary sacrificed contributions for 2019. Can I top up my super personally by $5,000 and claim a tax deduction for this?

Answer

Generally, if the conditions below are met, you can deduct the top-up contributions of $5,000.

Firstly, ensure that you give the fund a notice of your intent to claim a tax deduction for the contributions of $5,000. In turn, the fund must acknowledge the notice.

To claim a deduction for your contribution, you must have given your fund a valid notice of your intent to claim a deduction on or before the day you lodge your 2019 income tax return (or 30 June 2020, whichever comes first), and the fund must have given you an acknowledgement of their receipt of the notice.

This notice alerts the fund that your contributions are to be included in its assessable income. In contrast, personal, undeducted contributions are tax-free on receipt by the fund.

I also assume that the deduction will not create a tax loss for you personally (i.e., because no tax deduction can be claimed in this situation).

Note that you cannot claim a deduction for contributions to certain funds (such as certain defined benefit Commonwealth schemes).

Also, your total concessional contributions of $20,000 are below your cap of $25,000, and so no excess contributions should arise. Finally, you cannot deduct the SG and salary sacrifice contributions of $15,000.

Question

Does a downsizer contribution form part of the taxable or the tax-free component in the SMSF?

Answer

A 'downsizer contribution' forms part of the tax-free component within the fund.

From 1 July 2018, eligible individuals aged 65+ can contribute proceeds of up to $300,000 from the sale of their home as a 'downsizer contribution'.

Individuals cannot claim a tax deduction for a downsizer contribution. This means that SMSF trustees must always treat downsizer contributions as part of the tax-free component of the contributing member.

INFO–Super payments received by individuals aged 60+ are generally tax-free. However, classification of the component can be important for estate-planning purposes.

Key dates and reminders

1 Jul 2019

From this time, individuals aged 65 to 74 with super balances below $300,000 are exempt from the 'work test' for an additional year after they finish working.

1 Jul 2019

Eligible individuals with super below $500,000 can access unused concessional cap space for up to five years. Labor proposes to remove this concession.

5 Jun 2019

This is generally the due date for SMSFs that were non-taxable or refundable for both the 2017 and 2018 income years.

Proposals not legislated

The following super-related changes **did not** pass through Parliament before the Federal election:

- Allowing an increase in the number of SMSF fund members from 4 to 6.
- The proposal to apply a 45% tax rate to income from arrangements involving SMSFs that incur expenses at non-commercial rates.
- Amendments that would have permitted high-income earners with multiple employers to opt out of the SG regime to avoid breaching their $25,000 concessional contributions cap.

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