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Top Five SMSF Strategies for 2010

Superannuation continues to be the preferred investment vehicle for accumulating wealth for retirement.

Despite the outcomes of the Henry and Cooper Reviews still being outstanding, maximising superannuation benefits for retirement remains of utmost importance, particularly if the recent Intergenerational Report is to be considered.

Below are the top five strategies to consider for SMSFs in 2010

1. SMSF Borrowing to invest in Property

The combination of low interest rates and reasonable rental yields has made borrowing to invest in property within superannuation an attractive strategy. The benefits are:

- Income is generated in a tax-effective environment;
- Capital growth is quarantined in a tax-effective or even tax exempt structure;
- Contributions to superannuation that can be used to make interest and principal repayments are concessionally taxed;
- Borrowing can be from a bank or a related party;
- Capital in the fund can be leveraged to build wealth in an tax effective environment;
- Small business owners can utilise some of their super benefits to acquire business premises.

There are strict criteria that need to be met for a fund to borrow, which need to be considered prior to purchasing any asset.

2. Estate Planning and SMSFs

Contrary to what many people believe, superannuation benefits are not governed by your Will. Accordingly, it is important to consider your objectives with respect to both the payment of your superannuation benefits upon your passing, as well as the succession of the fund itself:

- Would you like to be prescriptive as to who receives your superannuation benefits?
- Would you like to ensure the payment of your super benefits are not subject to challenge?
- Would you like to optimise the tax effectiveness of your super for your beneficiaries?
- Would you like your superannuation fund to continue on in perpetuity and benefit generations to come?
- How much control would you like to give your beneficiaries?
- How will the succession of your fund and payment of benefits affect other structures and your objectives.

An SMSF is a great structure to achieve your estate planning objectives, however consideration needs to be given to who your ultimate beneficiaries are and the most effective means to pay out your super benefits, the succession of your fund, and how your superannuation fits conjunction with your Will and other structures.

3. Reserving within an SMSF

SMSFs are able to establish and maintain reserve accounts in the fund. These can be used for the following reasons:

- Smooth investment returns;
- Pay fund expenses;
- Make pension payments;
- Self-insure against prescribed events;
- Pay out an additional benefit upon the passing of a member to obtain a substantial tax deduction for the fund;
- Ensure bulky assets (such as property) don't need to be paid out of the fund upon a member passing;
- Build up a fund that can continue on in perpetuity for future generations.

Reserves are a valuable tool for long-term family wealth accumulation, however they need to be established and managed appropriately.

4. Contributions to Superannuation

There are some substantial restrictions on contributions to superannuation. However, as much as possible these should be optimised within the limits:

- The $50,000 per annum pre-tax limit for taxpayers over age 50 ceases as at 30 June 2012, so should be taken advantage of where possible;
- The $150,000 per annum after-tax limit should be utilised where possible, as it can't be carried forward:
  - Surplus cash;
  - In-specie share contributions – need to ensure any CGT is considered;
- Taxpayers under age 65 are able to 'bring forward' two future years of after-tax contributions and contribute up to $450,000.

5. Transfer of Business Premises to Super

Small business owners who own their premises via another structure could consider the transfer of their premises to superannuation:

- Business premises are usually exempt from the strict investment restrictions regarding acquiring assets from related parties
- The fund could borrow to acquire the premises;
- May be eligible for small business concessions, managing any CGT on the transfer;
- If small business concessions, could use the CGT cap for contribution – not included in other caps, which enables a higher amount to be contributed to the fund;
- The transfer could be a part contribution, part purchase, part borrowing;
- Arm's length lease arrangement in place - fund receives regular rental payments in tax effective structure;
- Transfer may be eligible for transfer duty exemption;
- Future growth of the asset in tax effective environment.

The Next Step

All of the above strategies require careful consideration of your overall circumstances to ascertain whether they are appropriate, as well as considering their impact on other strategies.

Superannuation rules are quite complex and care needs to be taken to ensure the strategies are appropriate and the fund remains complying. In this regard it is imperative to obtain specialist professional advice, which is why all of our staff practising in this area are SMSF Specialist Advisors (SSA®).

If you have any queries, or would like advice in relation to any matters relating to any of the above, please contact either Jemma Sanderson, Michelle Saunders or Marissa Bechta on (08) 6311 6900.

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