



**SPECTRUM**  
**FINANCIAL**

## SMSF Strategies Newsletter

### 30 June 2008 Tax Strategies

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30 June 2008 is only weeks away and the strategies our clients put in place now can have a significant impact on their tax payable. Unfortunately too many taxpayers, whether executives, salary and wage earners, small business owners or retirees, fail to take full advantage of some of the simple, yet tax effective strategies that are available on a year by year basis.

In this edition of SMSF Strategies we will look at our top five 30 June 2008 tax strategies at a personal level as well as superannuation strategies for both members and the trustee of the fund. If you feel as though one or more of these strategies may apply to you please contact us immediately so that we can take advantage of the 30 June window of opportunity.

#### 1. Defer income with a 90 day bank bill

This is a simple but very effective tax strategy particularly in volatile asset markets. Where a taxpayer has cash – whether in a Cash Management Trust or deposit, interest income will be brought to account for taxation purposes when paid - generally on a monthly basis and certainly by 30 June 2008.

In contrast a 90 day bank bill does not pay interest income until the end date of the bill. If a client acquires a 90 day bank bill in May 2008, the underlying interest income will be paid and assessable in the 2008-2009 financial year not the income year ending 30 June 2008. This provides a timely deferral of assessable income and tax payable.

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***“There are a number of important year end strategies that may apply to your special circumstances. Please contact us if one or more of the strategies are relevant to you.”***

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## 2. Agribusiness products

Agribusiness products have been a mainstay of year-end tax strategies for decades. Importantly there are a number of agribusiness products on offer that have ATO product rulings providing taxpayers with real tax shelter at the end of the financial year through the payment of management fees and pre-paid interest.

★ *SMSFs can also invest in agribusiness products, provided the trust deed and investment strategy of the fund allows. The deductions allowed in the first few years for management fees can be used to offset any contributions tax or other tax liabilities of the trustee of the fund. Of course when the income flows from the product, the smart trustee will ensure that it is secured into the tax free pension side of the fund.*

## 3. Super contributions

This is a perennial strategy but with the excess contributions tax rules there are now some important twists and turns to making contributions into superannuation. First and foremost superannuation is a highly desirable environment for those over preservation age and particularly those over age 60 where tax free lump sums and pensions can be paid.

When making a contribution, both cash and property, a tax deduction is available where less than 10% of the member's assessable income is obtained from employment activities including directorships.

*This means that retirees under the age of 65 able to make a contribution are potentially entitled to a tax deduction for the contribution. This deduction can be used to offset assessable income including dividends, interest and rents as well as net capital gains – see example below.*

Salary sacrifice is also a tax effective way of increasing superannuation fund wealth – although it is better to structure salary sacrifice agreements at the start of an income year rather than at the end when salary and wages have already been received.

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***“This means that retirees under the age of 65 who can make a deductible contribution are potentially entitled to a tax deduction for superannuation contributions. The tax deduction can be used to offset any capital gains tax from an in-specie share or property contribution into the fund.”***

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However the excess contribution rules need to be considered when making a contribution. For deductible contributions in excess of \$50,000 per year, a 31.5% excess concessional contribution tax must be paid by the member or at the member's request paid by the trustee on behalf of the member. Until 2012, the excess concessional contributions threshold has been extended to \$100,000 for contributing members over age 50.

In addition non-concessional contributions tax is imposed at a 45% tax rate for non-deductible contributions that exceed \$150,000 per annum. For any member under the age of 65, non-concessional contributions up to \$450,000 may be made over a three year period.

**Example:** 60 year old retiree John James has transferred \$400,000 of shares into his SMSF in the 2008 income year. At the time of the transfer John realises a \$200,000 capital gain which is then discounted to \$100,000. John claims a \$100,000 tax deduction in respect of the contribution which cancels out the capital gain. The combined deductible and non-deductible contribution is also below the non-concessional contribution and concessional contribution thresholds. Of course, 15% contributions tax will be payable by the trustee of the superannuation fund on the deductible portion of the contribution.



## 4. SMSF Borrowings

The relaxation of the superannuation borrowing rules has seen renewed interest in SMSFs and property investment. In particular the release by the ATO of their guidance paper on superannuation instalment warrants on 4 April 2008 has provided a strong backdrop for the use of both commercial and member financed borrowing in the fund.

Setting up a property instalment warrant for member owned business real property or third party acquired residential or commercial property pre-30 June 2008 will allow the trustee to offset establishment fees and also pre-paid interest from the fund's current year income.

For those who did not receive our complimentary SMSF borrowing strategy paper dealing with the use of SMSF borrowings through an instalment warrant strategy, please contact us. Alternatively if you have a property, are looking to buy a property, shares or managed funds make sure that you consider the option of borrowing in the SMSF to make the acquisition.

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***Trustees of a SMSF can now borrow to acquire shares, residential and other property. There are some limitations where the property is acquired from the member or a person related to the member or trustee.***

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## 5. Realising Capital Losses

With recent market volatility it is vital to review share and managed funds portfolios both inside and outside of superannuation to see if there are any capital losses that may be worth realising. Taking capital losses now allows current and future capital gains to be sheltered. This strategy is particularly beneficial when used in the context of transferring the shares or managed fund into a SMSF thereby benefitting from the loss while retaining the stock or managed fund in a favourable superannuation fund tax environment.

The Commissioner has recently ruled that it is inappropriate for a taxpayer to utilise this strategy if they sell the shares and then reacquire in their own name within a short period of time.



### Contact Details

*Spectrum Financial Partners*

*74 Smith Street*

*Southport Q. 4215*

*1300 55 65 35*

[www.spectrumfp.com.au](http://www.spectrumfp.com.au)

[info@spectrumfp.com.au](mailto:info@spectrumfp.com.au)

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*Our top five strategies for 30 June 2008 provide real tax savings and are vital to be considered for all our clients. Contact us immediately if they could save you tax.*

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