



SPECTRUM FINANCIAL

SMSF Strategies Newsletter

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SMSFs now No 1 in Superannuation

Inside This Issue

- 1 SMSFs now No 1 in superannuation
- 2 SMSF = Family superannuation fund
- 3 Why are SMSFs so popular?
- 4 Why are SMSFs so popular?
- 5 Where SMSFs invest
- 6 Contact Details

In September 2008 the ATO released its long awaited SMSF statistics for the June 2008 income year. Although it came as a surprise to many superannuation advisers and financial planners, to many in the SMSF industry the figures released were no shock. They proved that the SMSF industry is not only leading the way when it comes to superannuation but is beginning to overpower all other forms of superannuation including retail superannuation funds, industry based superannuation funds and public sector superannuation.

Importantly at 30 June 2008 the assets residing in SMSFs were \$358.2 billion or to write it longhand - \$358,269,000,000. For the two year period commencing 1 July 2006 and ending 30 June 2008 SMSFs grew at \$8 million per hour - a fast growth rate by anyone's standards.

“SMSFs should be looked at by trustees of funds as long term wealth creation vehicles for ongoing generations of the family. They are truly Family Super Funds!”

SMSF = a Family Superannuation Fund

The large majority of SMSFs have been established with one or two members – primarily mum and dad – 90% of funds. However a SMSF is not simply a place for mum and dad to accumulate their retirement wealth. With changes to the superannuation laws in 2007, SMSFs have become the latest and clearly the best estate planning vehicle. Having your children in the fund where their employer is making contributions on their behalf makes financial sense. SMSFs should be looked at by trustees of funds as long term wealth creation vehicles for ongoing generations of the family. They are truly Family Super Funds!

Why are SMSFs so popular?

The reasons for the flood of interest in SMSFs are:



“The Simpler Super revolution introduced by the previous government provides tax free status for lump sums and private pensions payable from a SMSF to a member over age 60. This is a huge benefit for members during their retirement.”

1. **Investment control:** trustees of SMSFs – essentially the members, can choose their own fund investments including shares, residential and commercial property, farms, artwork and the like. There are limitations under the superannuation laws of how these assets can be used (including use by members) and who they can be acquired from. However provided they meet the fund’s investment strategy they should be appropriate investments.
2. **Family Super Funds:** As discussed previously the SMSF is a true intergenerational wealth accumulation and wealth transfer vehicle. There is no legal time limit on how long a SMSF can last – so many of our clients build it for generations to come. The joy of ruling well beyond the grave.
3. **Australia’s only tax haven:** The Simpler Super revolution introduced by the previous government provides tax free status for lump sums and private pensions payable from a SMSF to a member over age 60. This is a huge benefit for members during their retirement compared with all other forms of investment structure including the family trust, family company or investing alone or in a partnership. The only other comparative exemption is the capital gains tax exemption on a person’s principal place of residence or the sale of a business asset that meets the small business capital gains tax exemptions.
4. **Social Security benefits:** where a member is over age pension age (65 years for a male and 63.5 years for a female) assets in their SMSF member account are tested for assets test and the incomes test. Where a couple’s combined assets including superannuation is less than \$873,500 for a homeowner then a part payment pension is payable. For incomes test purposes, pension income less the tax free proportion is assessed

as income of the member. The tax free component is not determined by whether the pension income from the fund is tax free in the member's hands but the component of the pension that relates to undeducted contributions, the CGT exempt component and other capital type components. If you are unsure whether you may have a "tax free component" for income test purposes please contact us. Under the incomes test, a couple with their own home will receive a full pension when income is less than \$240 per fortnight with a 20% reduction for each \$1 of income thereafter. It is the lesser pension that is produced by either the assets or incomes test that is to apply.

Importantly a pension couple may be entitled to the health care card, electricity and telephone allowance where combined SMSF pension income is less than \$80,000 per annum (where they have no other income).

5. **SMSF estate planning:** The ATO has recently stated that a member's superannuation benefits cannot be looked after via a member's will. It is the trust deed of the fund that must provide rules as to how the trustee of the fund is to pay out a deceased member's benefits to their dependants or legal estate. Importantly from a tax strategy perspective there is no tax on lump sums paid to a deceased member's dependant. A dependant includes a spouse, a child under the age of 18, someone in an interdependent relationship (live together and provide mutual support) or a person who is financially dependent upon the deceased member. If the deceased member is over age 60 and receiving tax free pension income then this income may continue to be paid tax free to the member's dependants – excluding any financial dependant who is a child and is over age 25.
6. **SMSF Borrowing:** The new borrowing rules for the trustee of a SMSF mean it is lot easier for the fund to acquire property directly in a SMSF. A strategy not available to other superannuation funds!



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.

Where SMSFs invest

The ATO statistical report reveals that the average size SMSF is now more than \$950,000. This is a sizable superannuation fund by any person's standards. But where do SMSF trustees invest?

Table One highlights where SMSFs invest – a significant percentage is in equities (\$100bn) but there is a sizable stake in cash. With the current financial and economic turmoil spreading into the Australian share market, many SMSFs have been hard hit by falling share prices. But on the other hand there are also a large number of trustees sitting on cash waiting for the bottom of the market or turning to the direct property market to make ongoing investment returns.

Table One: What SMSFs invest in

Investment	SMSF Investment - \$M	% of SMSF Investments
Cash	97,214	27%
Loans	1,917	1%
Equities	115,200	32%
Property	44,900	12%
Overseas	2,198	1%
Life Policies	269	0.1%
<i>Managed Funds</i>	<i>61,200</i>	<i>17%</i>
Private unit trusts	26,064	7.5%
Other	9,307	2.5%
Total Assets	358,269	100%

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