Graeme Colley, SuperConcepts

Graeme is executive manager, SMSF technical and private wealth at SuperConcepts. Graeme is a well-known figure in the SMSF community with a long-standing reputation as an accomplished educator, technical expert and advocate for the sector. Graeme has held senior roles in the Australian Tax Office, worked as assistant commissioner for the Insurance and Superannuation Commission, and most recently held the role of director, technical and professional standards at the SMSF Association.

SMSF end-of-year requirements

For June 2020

Graeme Colley

With the end of another financial year it is time to ensure that SMSFs (self-managed superannuation funds) have everything ready to allow a smooth completion of the SMSF's 2019/20 financials and tax return. While most requirements are unchanged, there are some things that have been affected by COVID-19-related changes that SMSF trustees might need to consider.

Contributions review

As always, there are two concerns for SMSF trustees to take into account:

- what is the maximum contribution that can be made
- what happens if you go over your concessional or non-concessional contribution cap.

For concessional contributions, there is a universal cap of $25,000 that applies if you qualify. But if your total super balance on 30 June 2019 is less than $500,000, you can bring forward any unused concessional contributions that are under the universal cap from 2018/19, and can claim personal tax deductions for any concessional contributions you make.

It is important to note that time frames apply if fund members wish to claim a tax deduction for personal concessional contributions. An election must be made to the SMSF setting out the amount you will be claiming before you lodge your personal tax return for the 2019/20 financial year and no later than the end of the financial year after the contribution was made. The notice needs to be lodged before any part of the contribution is withdrawn or used to start a pension. An SMSF also needs to acknowledge the election before an income tax return is lodged.

A major consideration in making non-concessional (non-tax deductible) contributions (NCC) is the amount of the 'Total Superannuation Balance', which determines the amount you can make to your SMSF without facing a tax penalty. If the Total Super Balance is more than $1.6 million, a penalty will apply to any NCC that is made, and you could end up having to withdraw any excess that arises.

If the Total Super Balance is less than $1.6 million and you qualify to make NCC to your SMSF, you may be able to make up to $300,000 over a fixed three-year period. The standard NCC is $100,000, but for anyone under age 65 it is possible to bring forward

Table 1. Non-concessional contributions that can be made without penalty

Total Super Balance	Maximum non-concessional contribution using bring forward cap	Balance after bring forward amount
Under $1.4 million	$300,000	Depends on balance prior to non-concessional being made
$1.395 million	$300,000	$1,695,000
$1.4 million	$200,000	$1,600,000
$1.495 million	$200,000	$1,695,000
$1.5 million	$100,000	$1,600,000
$1.595 million	$100,000	$1,695,000
$1.6 million +	$0	

Source: SuperConcepts 2020.

up to the next two years standard NCC if the Total Super Balance is less than $1.5 million.

Table 1 sets out the NCCs that can be made to an SMSF without being penalised. If the Total Super Balance is less than $1.4 million you can bring forward the next two years standard NCC, and if it is between $1.4 and $1.5 million you can bring forward the next year's standard NCC.

Notionally, this information is to be available for trustees via the MyGov portal, but it will only be accurate if the SMSF's 2018/19 return has been lodged.

If the bring-forward rule has been triggered in either 2017/18 or 2018/19, the aggregate NCCs may be either $300,000 or $200,000 respectively, provided you do not exceed the maximum of your Total Super Balance for 2019/20.

Investment strategy review

Ensuring that the SMSF's investment strategy accurately reflects the SMSF's current asset allocation is an important compliance responsibility. While there is a degree of flexibility with respect to movements in your overall asset allocation, it is good practice to review your current asset allocation against your documented strategy. If the fund's current allocation falls outside the documented strategy trustees may wish to make an adjustment to either so they fall into line.

It is reasonable to expect that the SMSF's asset allocation will have a degree of tolerance over the short term, which falls either side of the long-term target. But a regular review is something trustees should get in the habit of doing as it is required by superannuation law.

Some of the more common situations where an SMSF's investment strategy should be reviewed include:

- trustees purchasing property for their fund, but not updating the investment strategy to reflect the purchase
- an asset class, such as listed shares, being over the fund's target position due to significant rises or falls in the underlying holdings
- trustees moving from accumulation to pension phase and changing asset allocation due to cash flow needs, but neglecting an investment strategy update
- trustees choosing to invest in predominantly one asset or asset class, 90% or more of the fund, can lead to concentration risk. In this situation, the fund's investment strategy needs to document how the trustees have considered the risks associated with a lack of investment diversification. This should include how high concentrations of investments can meet the fund's investment objectives, including predicted returns and cash flow requirements.

Asset concentration risk is heightened in highly leveraged funds, such as where the trustee has used a limited recourse borrowing arrangement to acquire the asset. This can expose members to a loss in the value of their retirement savings should the asset decline in value. It could also trigger a forced asset sale if loan covenants (for example, the loan to valuation ratio) are breached.

Capital gains tax review

In the lead up to the end of the financial year, trustees or advisers might wish to undertake tax planning to minimise the capital gains tax (CGT) position of their SMSF. This is usual where an SMSF has assets with an unrealised loss position.

Trustees may seek advice on whether it is worthwhile to crystallise the unrealised losses to reduce any of the fund's realised gains. It is important to understand that there might be tax consequences arising from simply selling an asset and buying it back immediately.

Asset re-valuation

One of the trustee's most important obligations is to ensure for purposes of preparing the fund's financial accounts that assets are valued at market value each year. This is a legal requirement and ensures that the value of the fund assets and member balances are accurate. The valuation has implications for each member's Total Super Balance as well as taxing the fund's income if it is paying pensions.

The value of some of the fund's investments may be easy to obtain, such as listed company shares and bank account balances. However, when it comes to real estate and other fund investments, market value may not be that obvious and a valuation may be required from an appropriately qualified person, such as an independent registered valuer or real estate agent.

For assets where a valuation is not easy to determine it is necessary to obtain evidence to support whatever value trustees decide on as it assists when the fund is audited. For the more exotic assets, such as privately held unlisted shares, unit trust holdings or artworks and collectables,

The quote

There are some things that have been affected by COVID-19 changes for SMSF trustees to consider.

The quote

It is important to note that time frames apply if you wish to claim a tax deduction for personal concessional contributions.

the matter can always be raised with the fund's auditor to see whether the fund is on the right track.

Pension review

It is essential that at least the minimum pension is paid for existing pensions and the maximum level is not exceeded for transition-to-retirement pensions. For a pension that does not satisfy the payment rules, any income on assets supporting the pension will be taxed at 15% rather than be tax exempt.

When deciding to draw more than the minimum pension, trustees may wish to consider taking any amount over the minimum as a pension payment or as a lump sum. The reason is that lump sum commutations of the pension balance will result in a reduction of the Transfer Balance Account and can be used to access additional pension benefits in future.

You need to instruct your SMSF that you are drawing a lump sum prior to it being made from your pension balance; otherwise it will be treated as a pension payment. If you have more than one pension account, or possibly an accumulation account in your SMSF, then part of the decision will be whether any additional payment comes from one or more of those accounts.

Some of the things to consider if you have multiple pension accounts is the tax-free proportion of each pension and whether grandfathering could apply to qualify for Centrelink benefits or a Seniors Health Care Card. Also, trustees might like to take into consideration whether the pension is reversionary or non-reversionary, or the impact of any binding death benefit nominations. FS