SUPER CONTRIBUTION STRATEGIES

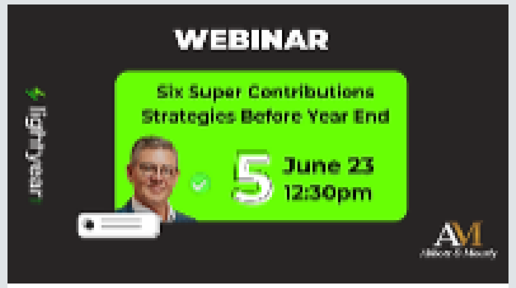
With Grant Abbott

SMSF Author, Presenter, Trainer and Adviser

Mark your Calendars!!

Upcoming Events

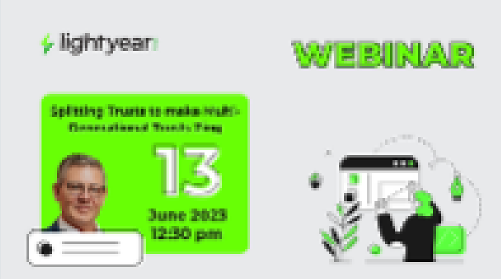
For CPD events, checkout LightYear Training Group.



Six Super Contributions...

Mon, 05 June | Online Even...

Register



Splitting Trusts to make Multi-...

Tue, 13 June | Online Event -...

Register

SMSF Estate Planning - BDBN v SMSF Will plu...

Mon, 03 July | Online Event ...

Register

Div 7A Deep Dive and Launch of LYD Div 7A...

Mon, 10 July | Online Event ...

Register

BGL REGTECH 2023

Tue, 01 Aug | Dockside Sydn...

Learn more

Launch of the SMSF Testamentary Trust: A...

Mon, 07 Aug | Online Event ...

Register

XEROCON 2023

Wed, 23 Aug | ICC Sydney

Learn more

SMSF Strategy Session - How to read a SMSF...

Mon, 04 Sept | Online Event...

Register

Setting up a Start Up Structure Perfectly...

Tue, 19 Sept | Online Event -...

Register

TOACON 2023

Wed, 01 Nov | Sheraton Gra...

Learn more

Over 30 Years the Ten Costliest SMSF...

Mon, 06 Nov | Online Event ...

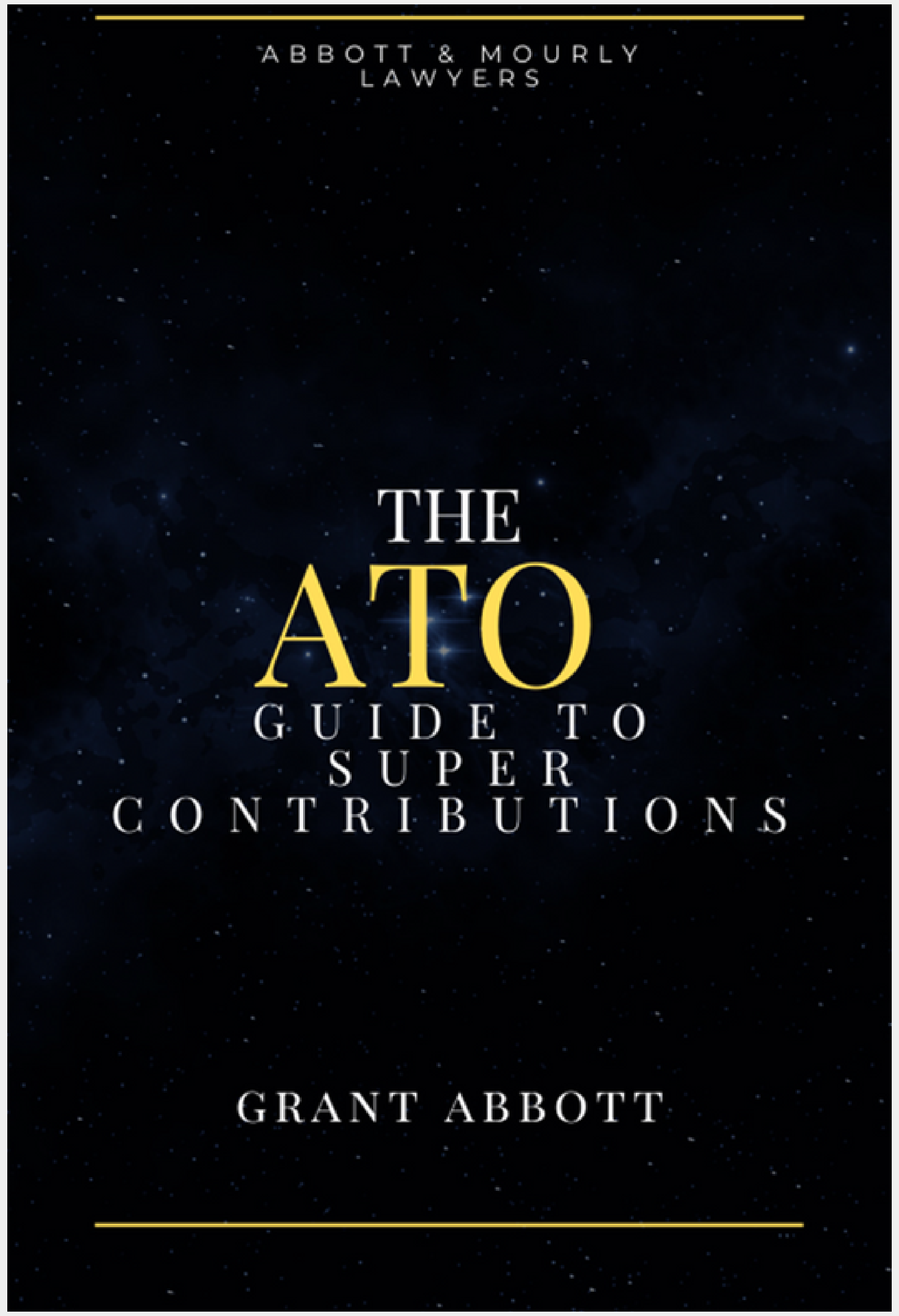
Register

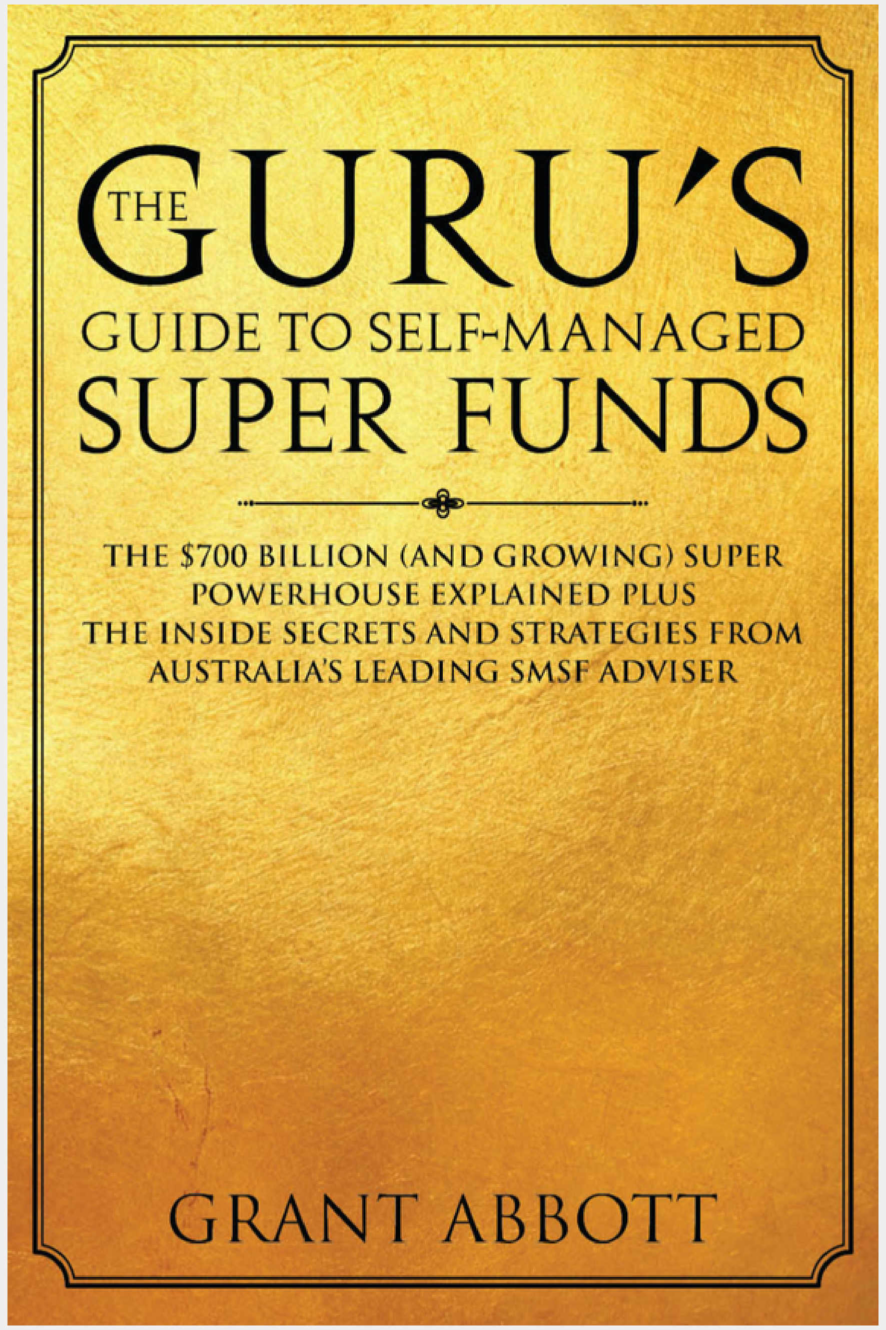
Document Execution: The Good, the Bad an...

Thu, 09 Nov | Online Event -...

Register

Two Free Gifts - put your email in the chat





YOUR OWN TRAINED AND VERIFIED SMSF GURU SOON

The SMSF Guru

Hi! I am the SMSF Guru how may I serve you?

give me a two page summary on the ten benefits of a SMSF

Certainly! As the SMSF Guru, I can tell you that there are ten big benefits of a SMSF.

Benefit One: A SMSF lets you look after your Family. For the majority of people, their family is the most important aspect in their lives. A SMSF provides members with an opportunity to provide a comfortable retirement income stream for their immediate family and possibly generations to come.

Benefit Two: Providing a Secure Income in Retirement. The major reason for establishing a SMSF is to ensure that, when an individual ceases work or business, they will have a stable, secure alternative to keep the lifestyle that they are accustomed to.

Benefit Three: Control and Flexibility. SMSF members have greater control over their investments and can tailor their investment strategy to meet their particular needs.

SMSFs have been a major part of my professional life for 30 years now and I have seen everything. And lots and lots of changes. Contributions are no exception ….

Deduction limits based on age

Up to the 2006–07 income year, super contributions were deductible for income tax purposes in the year you made them, up to certain amounts called the age-based limits. The following limits apply to:

- employers and their associates claiming deductions for contributions made for the benefit of an employee
- individuals claiming a deduction for personal super contributions.

Table 28: Age based limits

Income year	Under age 35	Age 35 to 49	Age 50 to 70
2006–07	$15,260	$42,385	$105,113

What can you advise on

- Financial planners
  - contributions, pensions, benefits and rolling over superannuation from a retail or industry super fund
  - type of SMSF
- Tax Agents - exempt for ordinary business
  - type of SMSF
  - tax and compliance advice
  - contributions not specific amount
  - tax benefits of pension accounts
  - investment strategies
  - NOT - rollovers or specific investments
  - SMSF Will or Binding Death Benefit Nomination

Lawyers - exempt like Tax Agents

Only way to learn - Case Study
The Smith Family

Case Study

John aged 42 and Sally Smith aged 39 have four children, Max aged 15. twins - Jan and Jane aged 13 and William aged 11. John and Sally have a cement drying business operated through a family trust which has a patented technology and has started to take off. They are trustees and beneficiaries jointly and John is the appointor. Your figures show that for 30 June 2023 the Trust expects a profit of $400,000 after taking $100,000 salaries each - so it is time to tax plan. The children help out in the business on holidays. Plus as a bonus the Trust leases a shed for $8,000 pm and the owner has offered to sell it to them for $600,000.

Johns parents - Brian is aged 66 and Dolores is aged 64 and are both retired. They have an investment property worth $900,000 and a SMSF with a corporate trustee and $450,000 and $350,000 in pensions respectively. John and Sally have $200,000 in Australian Super each which has been going backwards the last couple of years - they have not contributed since 2016 when they were previously working for someone else. The children go to the local Catholic school but John and Sally would love for them to get to a top private school.

Tax and Contributions

- ITAA97 s290-150: Personal contributions are tax deductible - if aged between 67-75 then must work 40 hours over 30 day period and if under 18 the member has received business or employment income - must send notice to Trustee before end of income year
- 18% Tax offset for spouse contribution - s290-230 provided spouse less than $40,000 income to maximum of $3,000
- s290-60: Employer contributions are deductible if fund is complying and employer is engaged in employers business

Excess Concessional Contributions

- ITAA97 s291-15: Excess concessional contributions added to personal taxable income but have a 15% tax offset on assumption that the fund pays 15% contribution tax which we will look at later.
- ECC is deductible contribution
- S291-20 - the ECC threshold or cap for concessional contributions is $27,500
- If your total super balance was less than $500,000 at start of income year then can claim up to five year's unused caps starting 1 July 2018
  85% ECCs can be withdrawn within 60 days of ATO notice

Excess Non-Concessional Contributions

- ITAA97 s292-15: Excess non-concessional contributions - ENCC is subject to of 47% unless withdraw within 60 days of the ATO providing the ENCC amount plus inclusion of deemed earnings amount in taxable income - 6.06%
- ECCs are excess non concessional contributions if not released
- S291-20 - the ENCC threshold or cap for NCCs is $110,000
- You can bring forward three years NCCs if under 75 and total superannuation balance is less than $1.7M = pension transfer balance

What is a Non-Concessional Contribution?

- ITAA97 s292-90: Non-concessional contributions are:
  - after tax contributions
  - spouse contributions
  - child NCCs
  - foreign super fund transfers - contact AM Lawyers
- Excluded from NCC
  - assessable component of UK pension transfer
  - downsizer contribution up to $300,000
  - personal injury payments
  - capital gains tax from sale of business assets up to capital gains tax cap of $1,650,000 for 2023 income year

Some specialist Contribution rules

- First home saver account - concessional contributions up to the ECC cap and maximum of $50,000
- Downsizer contribution from the sale of a property if over 55, held for 10 years and no more than $300.000 and made within 90 days from settlement - s292-300
- Contributions suspense accounts for leap frog into the next year for caps purposes - only in June
- Spouse split of concessional contribution up to ECCC - 85% under election after end of year
- Additional 15% tax on contributions where the members taxable income plus super (but not ECC) are more than $250,000

Strategy One - Upgrade the Smith SMSF and Corporate Trustee

- Currently a standard SMSF - Mum and Dad style fund with accountant administration and basic strategy - if at all due to the myth of licensing rules
- Family SMSF - bringing the whole family in with a range of strategies and even separate investment strategies but limited to six members - Brian, Dolores, John and Sally plus a couple of children
- **Leading Member SMSF - control kept by leading family member and built for bloodline and succession planning.**
- Brian and John are leading members with Dolores giving her proxy to Brian via EPOA and Sally the same plus children are under 18 so John has their proxy already.

Strategy Two - Max out Employees

- Ryan v. Commissioner of Taxation (2004) 56 ATR 1122 where spouse who worked for consultant was paid age based limit and consultant wasn't.
- Followed up by TD 2005 where Part IVA will not apply
- Children can be paid $27,500 and it is not caught by the minor penalty tax regime
- Can even do catch-ups from 2018 - 2023 - the full five years for this year equal to $130,000
- Good tax strategy, great asset protection strategy as children won't be sued but bad for access
- BUT consider for clients with parents, older adult children or spouses employed

Strategy Three - Max out John and Sally

- John and Sally can do catch-ups from 2018 - 2023 - the full five years for this year equal to $130,000
- Clears out $260,000 in tax effective super contributions which can be put into the Smith Family Super Fund
- This can be coupled with rollover from Australian Super of $400,000 between them
- Use the money to buy the shed and lease back to their Family Trust
- Can enter into an LRBA if they want interest deductions and keep super money for other investments
  If the shed was in their own name then do in-specie transfer or related party loan - watch stamp duty

Strategy Four- Parents - Brian and Dolores

- Brian and Dolores are already retired and with their investment property and super are over the asset threshold for Centrelink aged pension but still get Health Care card
- Can access super whenever they want
- Distribute $70,000 to each of them to clear out company taxable income
- They both can play catch ups which apply to personal deductible contributions
- Should the shed be in Parents pension investment strategy as tax free income
- Money goes into accumulation account and then a family allowance can be paid from pension income - potentially making whole family dependant

Some other contributions ideas

- For clients with big capital gains this year then use suspense account to carry to 2024 income year
- Will be both deferred and permanent tax difference
- If the client is under 60 then the excess to be included in 2024 income will not be assessed until May 2025 and then 85% of excess amount can be withdrawn with no penalty - so preservation suspense account until June 2025
- Can use for high income earners as it shifts income to the following year - there is no penalty in doing so
- June 2023 is the best time!