

Super Reform: What SMSFs absolutely need to consider before 30 June.

The wide-ranging superannuation reforms come into effect on 1 July 2017. With the changes come a series of issues that Trustees need to be across, even if they don't immediately affect you or your fund.

Understand the value of assets at 30 June

At 30 June 2017, SMSF Trustees will need to know the total superannuation balance held by members. If you have assets such as real estate in your SMSF, and to an extent other assets such as collectables, and artwork, you will need to have a current valuation of those assets. Real estate property values in particular may have varied dramatically over the last few years and should be reviewed. The value of the asset needs to be arrived at using a fair and reasonable process. Because of the extent of the changes, it is worth considering the use of an independent and qualified valuer for some assets.

Your total superannuation balance is the total value of your accumulation and retirement phase interests and any rollover amounts not included in those interests. The balance is valued at 30 June each year and it is this value that may determine what you can and can't do during the following year. For example, if your total super balance is \$1.6m or more at 30 June, you are restricted from making further non-concessional contributions in the next

year as these contributions may create an excess contribution. And, if your balance is close to the \$1.6m cap, then the fund can only accept limited non-concessional contributions.

Self funded retirees – avoiding adverse tax outcomes

If you are receiving a pension or annuity, a \$1.6m "transfer balance cap" applies to amounts in your tax-free pension accounts. The cap is essentially a limit on how much money a member can transfer into or hold in a tax-free account. If you have \$1.6m or more in a pension phase account, you will need to reduce the pension value level back below the cap before 30 June 2017. If the excess amount is not removed from the pension phase account the amount will be subject to a transfer balance tax.

If you opt to sell fund assets to manage the cap, transitional capital gains tax relief may be available to manage any adverse tax outcomes.

How do you value SMSF assets?

One of the emerging problems for many superannuation fund members is understanding whether they are close to or are likely to exceed the \$1.6m cap at 30 June 2017. For those with assets such as real estate, collectables or art, a current valuation that meets the ATO's guidelines will be essential. Real estate in particular has substantially risen in value in some areas creating uncertainty about the real value.

Fund assets need to be valued at market value. While these assets do not have to be valued every year by an independent valuer, it will be important to have documentation validating the value assigned to the asset. A qualified and independent valuer is recommended if the asset is a significant part of the value of the fund - if the asset is real property, this could be as simple as an online real estate agent.

Should you update your SMSF trust deed?

Over the years there have been continuous changes in superannuation legislation. While many of these changes do not require you to update your SMSF deed, where a deed has not been updated in at least the last 5 years, I suggest that the deed is updated to ensure it is compatible with current law.

As always, before buying, selling, transferring assets, or making any payments, make sure your trust deed allows you to complete the transactions in the way you intended.

Salary sacrificing concessional super contributions

If you have entered into a salary sacrifice agreement to make concessional super contributions, you will need to review these agreements to ensure your concessional contributions do not exceed the new \$25,000 cap from 1 July 2017.

"The 3 big ticket items to address before 30 June -

- 1. Understand how the reduction in the concessional contribution cap from \$30,000 to \$25,000 from 1 July will impact you if you are a high-income earner or salary sacrifice to super;*
- 2. Understand if you will need valuations for any of your SMSF assets at 30 June this year; and*
- 3. If you may have an issue with the \$1.6m total super balance, and you have taken no action, it is not too late !*

Contact your advisor immediately to review your position and discuss possible actions to take."



JULIAN NICHOLS