Grow @ Marinis Group

From: Grow | Marinis Group
Sent: Friday, 8 June 2018 10:45 AM
To: Alex Wiedenmann | Marinis Group
Subject: Getting Super Right

Dear Friends,

Getting super right; put away as much you can, as soon as you can, for as long as you can.

I woke in the last month to the headlines screaming "Super Rip-off" – which was all about how 40% of Australians have more than one super fund, with the fees they pay eating into their retirement savings.

For a change, these headlines were justified.

Regular readers of eGrow will know that I have consistently advocated for the consolidation of super funds, and for "getting as much into super as you can, as soon as you can – for as long as you can".

For those of us in superannuation 'accumulation' phase, we should all be striving to save the current maximum allowable (tax deductible) contribution of $25,000 pa.

Most of us enjoy annual CPI pay increases, and some wage earners also receive bonuses; therefore, contributing any 'extra' pay to super is a relatively pain free way of building your balance.

Prior to 1 July 2017, the ability to make personal tax deductible contributions was NOT generally possible for employees.

This means that:

- ANY wage earning individual can NOW make personal Concessional Contributions (CCs) even though they have employer superannuation support.

- If your employer does not permit Salary Sacrifice you can now make the Concessional Contribution yourself by topping up to $25,000 (after allowing for Super Guarantee contributions).

- If you haven't maxed out your CC cap with Salary Sacrifice you can make a personal Concessional Contribution to take your total CCs to the $25,000 limit.

It is not too late to ensure that you have 'maxed up' your contributions in this current financial year. You can still top up before the end of June, but make sure you act immediately as most funds have a 'close off' period a few days before June 30.

Don't forget either (provided you are not one of the lucky few with a Total Super Balance (TSB) of $1.6M) that there are still opportunities to make additional (non tax deductible) contributions.

Should a wind-fall come into your life (for example, an inheritance or sale of an asset) you can still apply $100,000 each year, up to a maximum of $300,000, as a non-concessional contribution (NCC).

Be careful, however, if your TSB is approaching $1.6M as this annual $100,000 NCC limit is most likely now constrained by the Transfer Super Balance rules and your TSB!

Some other EOFY reminders:

If you are retired and in a Self-Managed Super Fund (SMSF) in draw-down phase, make sure you take the minimum Account Based Pension (ABP). If you are not an SMSF member/trustee, there is no need to take any action, as your retail pension provider will undertake this responsibility to ensure that the minimum income payment is made to you.

Budget 2018 round-up

Readers may have wondered why I haven't produced a Budget 2018 edition of eGrow. As a pre-election document, predictably, the changes to super, tax and Centrelink were minimal; to use a cliché, it was a 'damp squib'

I have attached some of the salient points here (FPA Budget Wrap) for those of you who would like to know more.

Of considerable interest for me was the new SMSF 'Retirement Income Strategy' requirement and the increased funding to the Australian Tax Office in the light of a push to regulate the SMSF environment even more closely.

Specifically, ***BY 30th June 2018***, Self-Managed Super Funds with a balance greater than $1m or in pension phase will need to comply with new, onerous 'events based' ATO reporting requirements.

The initiative is called 'Transfer Balance Account Reporting' (TBAR) and will essentially spell the end of what could be called 'shoe-box' accounting for SMSFs. It is my view and that of my colleague, accountant Marco Piteo, that TBAR will have dramatic impacts on maintaining SMSF compliance – particularly for those people in later stages of life. Our joint media release on this topic can be seen here (TBAR or T-Bone Media Release #81).

Still on the subject of SMSF issues, the budget also contained a proposal to increase the allowable number of SMSF members in new and existing funds (from 4 to 6 members), effective 1 July 2019. This change is expected to benefit families who have children who wish to join the fund for intergenerational planning purposes.

Robert MC Brown, a highly respected industry commentator, points out that in addition to the increasingly complex compliance challenges for aging SMSF trustees, there may be some other unintended consequences of this particular move.

He writes: "Then, sadly, there is the risk of elder abuse by professional advisers and relatives seeking access to the large sums of money SMSFs typically hold. These risks, particularly the latter, are not theoretical. They are a real and present danger as the Australian Law Reform Commission recently acknowledged."

His article is here (The SMSF time bomb) for those interested. Unfortunately, we are not all blessed with scrupulous family members..

Staying in touch with a trusted professional adviser

Despite the fact that governments of both persuasions love tinkering with super in the endless pursuit of 'adding value' by changing tax and Centrelink rules, Australia still has a very good superannuation system.

We need to be diligent to keep costs low, to take advantage (where possible) of opportunities to maximise contributions, and to draw down at the appropriate levels when the time for retirement comes. It can be confusing, and you need to ensure that you get strategic advice which is specific to your personal circumstances.

That is why the Marinis team is here. Our job is to understand the complexities of the superannuation system and to make your life easier.

As always, if I or any of the Marinis Financial Group experts can be of assistance, please don't hesitate to contact us on (08) 8130 5130.

Happy NEW financial year!

Oh, and one more thing:

If you would like to see my recent media commentary, please click here (www.marinisgroup.com.au/media/2018).

Yours sincerely,

Theo

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FINANCIAL PLANNING
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BUDGET WRAP

2018

Overview

The 2018-19 Federal Budget, handed down by the Treasurer tonight focused more on minor adjustments than sweeping reforms. It is a Budget designed to create short sharp election headlines, but there are also lots of measures which will support financial planners to assist and improve their clients' financial positions.

One of the more significant announcements is the Government's resolve to reduce personal income tax over stages starting with tax relief for low and middle income earners from 1 July 2018 and culminating in the elimination of the 37 per cent tax bracket (and increasing the lower threshold of the top tax bracket) from 1 July 2024.

Some of the main insights from tonight's Budget include:

- Tax reductions for low and middle income earners
- Making the tax system easier over the coming years by reducing tax brackets
- Reduction in fees and a ban on exit fees on all super funds.
- Opt-in insurance for young and low super balance Australians
- Increasing SMSF members from 4 to 6
- Super trustees will need to build new retirement income options for their members
- Expanding the pension loan scheme to all older Australians.
- Additional funding for regulators.

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Personal Income Tax

The tax rates for 2018-19

From 1 July 2018, the Government will increase the top threshold of the 32.5 percent personal income tax bracket from $87,000 to $90,000.

Taxable Income	Tax Payable / Marginal Rate
Up to $18,200	Nil
$18,201 - $37,000	Nil + 19% of each dollar over $18,200
$37,001 - ~~$87,000~~ $90,000	$3,572 + 32.5% of each dollar over $37,000
~~$87,001~~ $90,000 - $180,000	~~$19,822~~ $20,796 + 37% of each dollar over ~~$87,000~~ $90,000
Over $180,000	~~$54,232~~ $54,096 + 45% of each dollar over $180,000

Medicare Levy low-income threshold for families

The Government will increase the Medicare Levy low-income threshold for singles, families and single seniors and pensioners from 2017-18 income year.

- The threshold for singles will be increased from $21,655 to $21,980.
- The family threshold will be increased from $36,541 to $37,089.
- For single seniors and pensioners, the threshold will be increased from $34,244 to $34,758.
- The family threshold for seniors and pensioners will be increased from $47,670 to $48,385.
- For each dependent child or student, the family income thresholds increase by a further $3,406, instead of the previous amount of $3,356.

Personal Income Tax — income tax exemption for certain Veteran Payments

Veteran Payments and supplementary amounts (such as pension supplement, rent assistance and remote area allowance) of Veteran Payment paid to a veteran, and full payments (including the supplementary component) made to the spouse or partner of a veteran who dies, are exempt from income tax are exempt from income tax.

This measure takes effect from 1 May 2018.

Personal Income Tax — retaining the Medicare levy rate at 2 per cent

The Medicare levy rate will no longer be increased from 2.0 to 2.5 per cent of taxable income from 1 July 2019.

Personal Income Tax Plan

The Government will introduce a seven-year Personal Income Tax Plan over three stages.

Step 1: Targeted tax relief to low and middle income earners

A Low and Middle Income Tax Offset will be introduced. The offset is:

- a non-refundable tax offset
- of up to $530 per annum
- available to Australian resident low and middle income taxpayers
- available for the 2018-19, 2019-20, 2020-21 and 2021-22 income years
- received as a lump sum on assessment after an individual lodges their tax return.

The offset will provide a benefit of:

- up to $200 for taxpayers with taxable income of $37,000 or less
- the value of the offset will increase at a rate of three cents per dollar to the maximum benefit of $530, for taxpayers with taxable income between $37,000 and $48,000
- the maximum benefit of $530 for taxpayers with taxable incomes from $48,000 to $90,000
- the offset will phase out at a rate of 1.5 cents per dollar for taxpayers with taxable incomes from $90,001 to $125,333.

The benefit of the offset is in addition to the existing Low Income Tax Offset (LITO).

Taxable Income	Offset benefit
< $37,000	$200
$37,000 - $48,000	$200 increase at 0.03 per dollar to a maximum of $530
$48,000 - $90,000	$530
$90,001 - $125,333	phase out at 1.5% per dollar

Step 2: Protecting middle income Australians from bracket creep

The top threshold of 32.5 per cent personal income tax bracket will be increased from $87,000 to $90,000.

This measure takes effect from 1 July 2018.

Other measures include:

- LITO will be increased from $445 to $645 (and withdrawn at a rate of 6.5 cents per dollar between incomes of $37,000 and $41,000, and at a rate of 1.5 cents per dollar between incomes of $41,000 and $66,667)
- 19 per cent personal income tax bracket will be extended from $37,000 to $41,000
- top threshold of the 32.5 per cent personal income tax bracket will be increased from $90,000 to $120,000.

These measures take effect from 1 July 2022.

Step 3: Ensuring Australians pay less tax by making the system simpler

The 37 per cent tax bracket will be removed entirely:

- top threshold of 32.5 per cent personal income tax bracket will be increased from $120,000 to $200,000.
- Taxpayers will pay the top marginal tax rate of 45 per cent from taxable incomes exceeding $200,000 and the 32.5 per cent tax bracket will apply to taxable incomes of $41,001 to $200,000.

These measures take effect from 1 July 2024.

Tax

Enhancing the integrity of concessions in relation to partnerships

Partners that alienate their income by creating, assigning or otherwise dealing in rights to the future income of a partnership will no longer be able to access the small business capital gains tax (CGT) concessions in relation to these rights.

This measure will take effect from 7:30PM (AEST) on 8 May 2018.

Extending anti-avoidance rules for circular trust distributions

Anti-avoidance measures will be extended to family trusts engaging in 'round robin' arrangements whereby the trusts act as beneficiaries of each other and the distribution is ultimately returned to the original trustee tax free.

This measure will apply from 1 July 2019.

Improving the taxation of testamentary trusts

Concessional tax rates for minors receiving income from testamentary trusts will be limited to income derived from assets that are transferred from the deceased estate or the proceeds of the disposal or investment of those assets. This is to prevent taxpayers from inappropriately obtaining the concession in respect of income on assets unrelated to the deceased estate into the testamentary trust.

This measure will apply from 1 July 2019.

Removing the capital gains discount at the trust level for Managed Investment Trusts and Attribution MITs

Managed Investment Trusts (MITs) and Attribution MITs (AMITs) will no longer be able to apply the 50 per cent capital gains discount at the trust level. This measure will prevent beneficiaries that are not entitled to the CGT discount in their own right from getting a benefit from the CGT discount being applied at the trust level. The measure will not stop the CGT discount applying in the hands of beneficiaries of a distribution from the trust.

This measure will apply from 1 July 2019.

Deny deductions for vacant land

Expenses associated with holding vacant land will no longer be tax deductible. This measure is to ensure no deductions are claimed for vacant land that is not genuinely held for the purpose of earning assessable income.

This measure will take effect from 1 July 2019.

Company Tax - Improving the integrity of the tax treatment of concessional loans between tax exempt entities

Where tax exempt entities become taxable after 8 May 2018, the Government will disallow tax deductions that arise on the repayment of the principal of a concessional loan.

Under this measure, concessional loans that are entered into by tax exempt entities that become taxable will be required to be valued as if they were originally entered into on commercial terms.

Small business - Further extending the immediate deductibility threshold

The $20,000 instant asset write-off will be extended by a further 12 months to 30 June 2019 for businesses with aggregated annual turnover less than $10 million.

Small businesses will be able to immediately deduct purchases of eligible assets costing less than $20,000 first used or installed ready for use by 30 June 2019. Only a few assets are not eligible (such as horticultural plants and in-house software).

Assets valued at $20,000 or more (which cannot be immediately deducted) can continue to be placed into the small business simplified depreciation pool (the pool) and depreciated at 15 per cent in the first income year and 30 per cent each income year thereafter. The pool can also be immediately deducted if the balance is less than $20,000 over this period (including existing pools).

Superannuation

Capping passive fees, banning exit fees and reuniting small and inactive superannuation accounts

There will be a three per cent annual cap on passive fees charged by superannuation funds on accounts with balances below $6,000, and exit fees will be banned on all superannuation accounts.

In addition, all inactive superannuation accounts with balances below $6,000 will need to be transferred to the ATO.

These changes will take effect from 1 July 2019.

Changes to insurance in superannuation

Insurance in superannuation will only be able to be offered on an opt-in basis for:

- members with low balances of less than $6,000;
- members under the age of 25 years; and
- members whose accounts have not received a contribution in 13 months and are inactive.

The changes will take effect on 1 July 2019. Affected superannuants will have a period of 14 months to decide whether they will opt-in to their existing cover or allow it to switch off.

Better integrity over deductions for personal contributions

Funding will be provided to the ATO to improve the integrity of the 'notice of intent' (NOI) processes for claiming personal superannuation contribution tax deductions. Currently, some individuals are claiming the deduction without submitting the NOI. As a result, no tax is paid on the contribution amount.

This measure will commence from 1 July 2018.

Increasing the maximum number of allowable members in self-managed superannuation funds and small APRA funds from four to six

The maximum number of members permitted in new and existing self-managed superannuation funds and small APRA funds will be increased from four to six.

This measure will commence from 1 July 2019.

Preventing inadvertent concessional cap breaches by certain employees

Individuals whose income exceeds $263,157 and have multiple employers will be able to nominate that their wages from certain employers are not subject to the superannuation guarantee (SG) from 1 July 2018.

The measure will allow eligible individuals to avoid unintentionally breaching the $25,000 annual concessional contributions cap as a result of multiple compulsory SG contributions.

This measure will commence from 1 July 2018.

Three-yearly audit cycle for some self-managed superannuation funds

Self-managed superannuation funds with a history of good record-keeping and compliance will be subject to a three-yearly audit requirement rather than an annual audit requirement.

This measure will start on 1 July 2019.

More Choices for a Longer Life — comprehensive income products in retirement

The superannuation law will be amended to introduce a retirement covenant that will require superannuation trustees to formulate a retirement income strategy for superannuation fund members.

The Government will also amend the Corporations Act 2001 to introduce a requirement for providers of retirement income products to report simplified, standardised metrics in product disclosure to assist customer decision making.

Treasury portfolio legislation

There will be technical amendments to the transition to retirement income stream rules relating to the death of a member and addressing double taxation in respect of deferred annuities purchased by a superannuation fund or retirement savings account.

More Choices for a Longer Life — work test exemption for recent retirees

The Government will introduce an exemption from the work test for voluntary contributions to superannuation, for people aged 65-74 with superannuation balances below $300,000, in the first year that they do not meet the work test requirements.

This measure will take effect from 1 July 2019.

Social Security

More choices for a longer life - finances for a longer life

- Increase the Pension Work Bonus from $250 to $300 per fortnight to allow pensioners to earn up to $7,800 each year without impacting their pension;
- Extend the Pension Work Bonus to allow self-employed retirees to earn up to $300 per fortnight without impacting their pension;
- Amend the pension means test rules to encourage the development and take-up of lifetime retirement income products that can help retirees manage the risk of outliving their savings; and
- Expand the Pension Loans Scheme to everyone over Age Pension age and to increase the maximum fortnightly income stream to 150 per cent of the Age Pension rate.

This measure commences on 1 July 2019.

More Choices for a Longer Life — healthy ageing and high quality care

The Government will implement new policies to support people to stay at home longer, remain healthy and independent for longer, and to improve access to high quality, safe aged care:

- additional 14,000 new high level home care packages over four years from 2018-19 in addition to the 6,000 high level packages delivered in the 2017-18 MYEFO;
- 13,500 residential aged care places and 775 short term restorative care places in the 2018-19 Aged Care Approvals Round will be released, with a $60.0 million capital investment to support new places;
- combine the Residential Care and Home Care programs from 1 July 2018 to provide greater flexibility to respond to changes in demand for home care packages and residential aged care places.
- the Government will support preparatory work for a new national assessment framework for people seeking aged care;
- the Government will to trial navigator services to assist people seeking information about aged care to make decisions that are right for them.

More Choices for a Longer Life — jobs and skills for mature age Australians

To support mature age Australians to adapt to the transitioning economy and develop the skills needed to remain in work, additional funding includes:

- targeted training to help mature age job seekers aged 45 years and over and who are registered with a jobactive provider to enhance employability, develop digital skills and identify opportunities in local labour markets;
- training funding of up to $2,000 for workers aged 45 to 70 years to take up reskilling or upskilling opportunities, with the Government contribution to be matched by either the worker or their current employer;
- support mature age workers who are considering early retirement or who are retrenched to look at alternatives to remain in employment;
- additional Inclusive Entrepreneurship Facilitators for an increased focus on mature age people to promote entrepreneurship and new business opportunities and to provide business mentoring; and

- restructure the Employment Fund to allow additional wage subsidy places for mature age employees. In addition, the Government will work with business and community peak bodies to develop strategies that promote the benefits of a diverse workforce, influence hiring practices and reduce discrimination.

More Choices for a Longer Life — skills checkpoint for older workers program — establishment

The Government will establish the Skills Checkpoint for Older Workers program, which will support employees aged 45-70 to remain in the workforce.

From 1 September 2018, 5,000 employees each year would be entitled to receive customised career advice on transitioning into new roles, or their pathways to a new career, including referrals to relevant training options

National Disability Insurance Scheme — continuity of support

The Government will ensure continuity of support for people who are not eligible for the National Disability Insurance Scheme (NDIS), but are currently receiving support under programs that are transitioning to the NDIS.

Under the new continuity of support arrangements, eligible recipients will receive a level of support that is consistent with that which they currently receive.

Delivering Australia's Digital Future — Welfare Payment Infrastructure Transformation — Tranche Three

Tranche Three will transform the delivery of payments to jobseekers, older Australians, carers and people with disabilities by implementing more efficient and automated claim, assessment and payment processes.

Elder abuse

More Choices for a Longer Life - protecting older Australians

The measure will support:

- expansion and evaluation of trials of three types of specialist support services: specialist elder abuse units located in legal services; health-justice partnerships; and family counselling and mediation services;
- an Elder Abuse Knowledge Hub;
- a National Prevalence Research scoping study; and
- the development of a National Plan to address elder abuse, to be agreed between the Commonwealth, States and Territories, in close consultation with industry and community groups.

The Government will also work with the States and Territories to develop a nationally consistent legal framework and establish a National Register of Enduring Powers of Attorney. Expenditure for this component has been provisioned in the Budget but is not for publication pending the outcome of negotiations with the States and Territories.

Regulators

Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry

The Government will provide $10.6 million over two years from 2017-18 to the Australian Securities and Investments Commission (ASIC) and $2.7 million in 2018-19 to the Australian Prudential Regulation Authority (APRA) to assist in their involvement in the Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry.

The cost of this measure will be offset by an increase in the APRA Financial Institutions Supervisory Levies of $2.7 million in 2018-19 and an increase in levies of $10.6 million over two years from 2018-19 under the ASIC industry funding model.

Funding of $5.9 million for ASIC in 2017-18 has already been provided for by the Government.

Tax Practitioners Board — funding

The Government will provide $20.1 million over four years from 2018-19 to the Tax Practitioners Board (TPB) to assist the TPB in meeting its broadened responsibilities to ensure that tax agent services are provided to the public in accordance with appropriate professional and ethical standards.

This measure will be funded by an increase in tax practitioner registration fees.

Enhancing Female Financial Capability

The Government will provide $10.0 million to the Australian Securities and Investments Commission in 2018-19 to provide a grant that will support initiatives to enhance female financial capability.

Delivering Australia's Digital Future — modernising business registers

The Government will provide an additional $19.3 million in 2018-19 to the Australian Taxation Office, the Department of Industry, Innovation and Science and the Australian Securities and Investments Commission to develop a detailed business case for modernising the Government's business registers. The detailed business case will provide options for improving how businesses interact with government, and will be considered in the 2019-20 Budget.

Australian Financial Complaints Authority — additional funding

The Government will provide $1.7 million in 2018-19 to provide a grant to the Australian Financial Complaints Authority (AFCA) to support its establishment.

Personal Income Tax — ensuring individuals meet their tax obligations

The Government will provide $130.8 million to the ATO from 1 July 2018 to increase compliance activities targeting individual taxpayers and their tax agents.

The measure will also provide funding for new compliance activities, including additional audits and prosecutions, improving education and guidance materials, pre-filing of income tax returns and improving real time messaging to tax agents and individual taxpayers to deter over-claiming of entitlements, such as deductions by higher risk taxpayers and their agents.

Modernising Payroll and Superannuation Fund Reporting — additional funding

The Government will provide an additional $15.0 million over three years from 2018-19 to the Australian Taxation Office to support the modernisation of payroll and superannuation fund reporting. The funding will be used to support small businesses with fewer than 20 employees during the transition to Single Touch Payroll Reporting from 1 July 2019.

Funding for this measure has already been provided for by the Government. This measure builds on the 2017-18 MYEFO measure titled Superannuation Guarantee Integrity Package — modernising payroll and superannuation fund reporting.

National Consumer Data Right

The Government will provide funding over four years from 2018-19 to establish a national consumer data right (CDR) that will allow consumers and small to medium enterprises to access and transfer their data between service providers in designated sectors. Funding will be given to the ACCC, Office of the Australian Information Commissioner, and the CSIRO.

For further information on the 2018 Federal Budget measures, please visit www.budget.gov.au.

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TBAR or T-Boned?

The new reporting regime for SMSF trustees

By Theo Marinis & Marco Piteo

The ATO's TBAR (Transfer Balance Account Reporting) requirements may well sound the death knell for trustees of Self-Managed Super Funds attempting 'to go it alone' without the aid of specialist advice.

From 1 July 2018, Self-Managed Super Funds with a balance greater than $1m in pension phase will need to comply with new, onerous 'events based' ATO reporting requirements.

And this new quarterly reporting responsibility is real time. Traditionally, this was handled via a rear vision "we can fix it up later" approach by many SMSF trustees and their accountants.

Twelve months ago, the average SMSF had a balance of $1,142,000; at over $700 billion, the SMSF sector now represents approximately a third of the superannuation industry. Not surprisingly, the ATO is now moving to apply the requirements for SMSF compliance reporting to a level commensurate with Industry and Retail Super Fund sectors.

With an increasingly onerous compliance burden looming for Australians over 55 (the retired 'mums and dads) SMSF member/trustees should also, comprehensively review and justify the investment strategy of their fund and the resulting investment choices. Similar considerations also apply to the level and basis of personal insurance cover held (or not held) on behalf of fund members.

SMSF investment strategies need to demonstrate appropriate portfolio diversification across all asset classes and within all assets classes, based on an asset allocation rationale which includes regular investment risk profile analysis for fund members. Investment strategies which have in the past relied on the notion of retaining investment selection 'control' based on a gut-feel around a few favourite stocks or asset classes, or a broad-brush investment analysis 'cut and pasted' from a basic accounting package, will not meet SMSF compliance requirements.

With the role of a SMSF trustee becoming increasingly complex, there may well be a case for a formal education qualification to ensure that trustees are adequately equipped to carry out their legal responsibilities, particularly when there are complex assets involved.

Now that TBAR has ratcheted up the responsibilities, it is our view that a cost benefit analysis on the merits of providing for retirement via an SMSF will almost certainly need to be brought forward.

SMSF trustees (with fund members in draw-down phase) who decide to 'go it alone' will need to get much closer to their professional advisers.

This need will be particularly important as they approach the point of no longer enjoying managing their investments and the associated administration, and in some cases, no longer having the ability

do so (with the risk of potential compliance breaches and significant cost for their families and eventually, their estates).

Whilst SMSFs remain popular, and indications are that they will continue to grow, we are now regularly seeing older SMSF trustee/members requesting assistance to wind up their funds and transfer their retirement savings into mainstream funds.

TBAR has effectively rendered traditional 'shoe-box' accounting dead and buried (forcing SMSF trustees in draw-down phase to rely heavily on specialist accounting and financial advisory professionals for compliance) but it will also have some unintended outcomes for the accountancy profession.

There will an inevitable quality lift in terms of the way SMSFs are managed as a result of TBAR, however, real-time reporting will increase administration, and therefore, costs. Inevitably these costs will flow onto the client as more professional advice time is required.

Similarly, trustees who still want to go it alone will now need to access more costly and professional SMSF software packages.

Given that accountants are generally protective of their client base, TBAR is likely to cause some reckoning for those accounting practices who have in the past provided an SMSF administration service (without necessarily having the requisite specialist knowledge) due to a resistance to outsourcing that expertise. This logic is flawed, however, if the client is not receiving the specialist service they require.

Our analysis also shows that for accounting firms to continue to provide in-house SMSF administration, the increase in costs (ultimately passed on to the client) would increase to a price level which would no longer be cost-effective, forcing many accountants to outsource to an SMSF administration services provider.

We anticipate the following possible scenarios in the accounting industry:

- The continued provision of SMSF services, with increased costs absorbed through 'other' entities.

- The increase in SMSF service costs absorbed to the point of making little to no profit, with increased risk of an inferior service delivery.

- The realisation by smaller firms that it is in their clients' best interests to engage a third party SMSF specialist to provide service to their clients.

Accounting firms should not be discouraged from administering SMSFs, but they will need to specialise, or outsource.

To use a medical analogy, your GP should not operate on your hip; a specialist must be called in – and so it is under the new TBAR standards. Don't leave it to a generalist.

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The SMSF time bomb

By Robert MC Brown

| April 17, 2018

By Robert MC Brown

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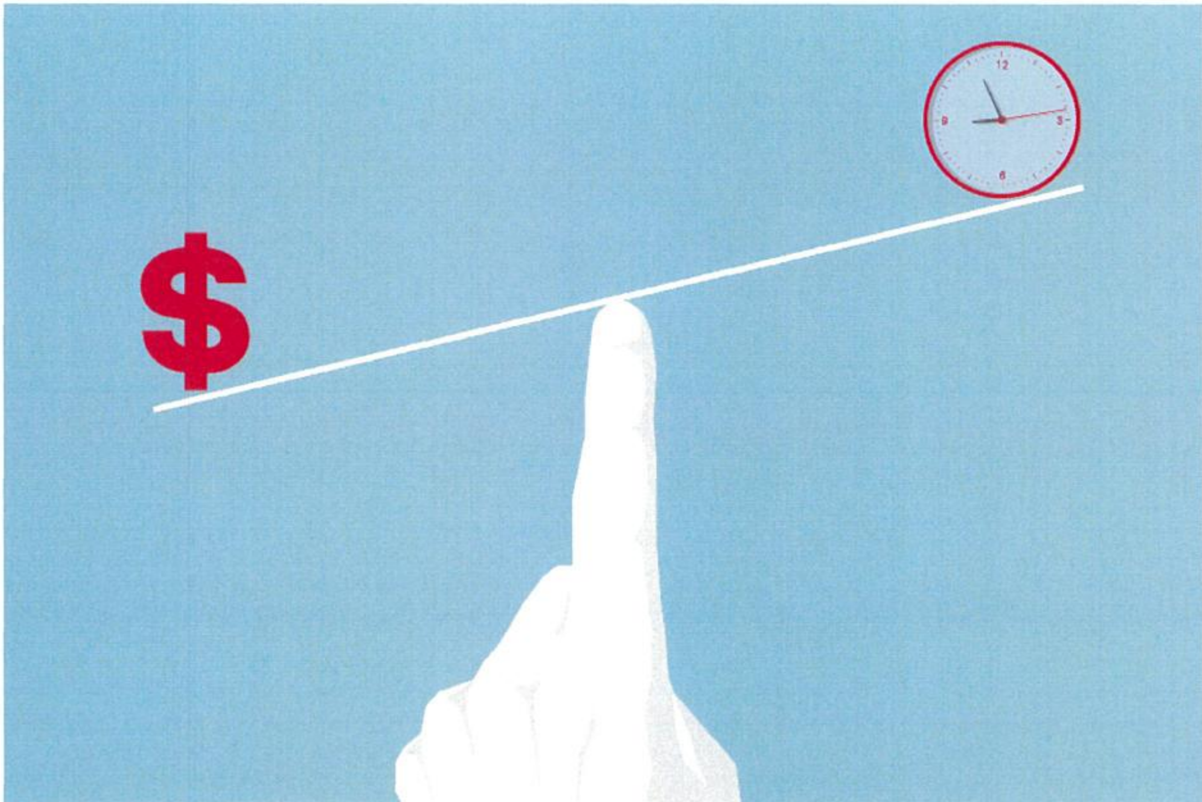

It's been said there are no certainties beyond death and taxes. Even the latter appear to be truly optional for many large corporations, high net worth individuals and the growing number of citizens inhabiting the cash economy.

There is another certainty, however, namely the enthusiasm with which Australians embrace self-managed superannuation funds (SMSFs). The statistics are remarkable. There are more than 650,000 SMSFs, which now account for more than

99.7 per cent of all superannuation funds and more than 30 per cent of superannuation assets, with an average balance of more than $1 million.

What is driving this astounding growth? Could it be the generous tax breaks? I suggest not. The same breaks apply to the superannuation system as a whole, not just to SMSFs. Three decades observing and advising thousands of superannuants has convinced me that it's all about a desire to exercise control. This often misguided and irrational desire has never diminished and there are no strong signs that it will do so any time soon.

Over the three decades since the inception of this form of superannuation, clients have rarely needed any convincing about the merits of establishing an SMSF. By the time they consult a financial adviser or an accountant, many have already persuaded themselves that they can achieve a better rate of return than the "professionals" and that even if they can't, at least the money will be kept out of the hands of the forces of darkness (the financial institutions) they love to hate. Even when a superior return is not achieved, it makes no difference. Clients want to keep control at almost any cost.

This phenomenon has given birth to an industry within an industry – representing the so-called SMSF sector. The new industry contains articulate and well-funded lobby groups claiming to be professional associations supporting the public interest, while enthusiastically promoting the merits of SMSFs over any other form of superannuation. And in the most recent decade, we have seen the rise of 'SMSF educators', whose principal purpose appears to be to convince hapless (and poorer) members of the public to use SMSFs to gear into the great Australian dream on the basis that real estate is always a winner.

This sector's inexorable growth has somewhat disturbed the traditional superannuation industry, which is principally inhabited by large financial institutions operating retail superannuation funds. Initially, their reaction was to criticise SMSFs as irresponsible tax avoidance schemes that were risky for members and regulators alike. However, in recent years, realising that they couldn't beat them, they've joined them, buying ownership in existing SMSF advisory and administration firms or establishing such a service from scratch.
There's considerable irony here because many fiercely independent clients have ended up in the commercial clutches of the very institutions they were so carefully seeking to avoid in the first place.

So where does the industry go from here? There is no doubt that recent legislation moderating tax breaks at the high end has taken the edge off superannuation as a vehicle for the rapid accumulation of vast sums of tax-effective savings that may be passed on to the children. The days of the $30 million SMSF are over, and so they should be. Once its consequences filter through to the public, the legislation may have a heavy impact
on the SMSF sector in terms of a diminishing growth in numbers of new funds established. Having said that, reports of the death of SMSFs have been greatly exaggerated on many occasions. Therefore, making a prediction about their imminent demise would be premature, such is the desire by members of the public for direct control of their superannuation savings and the unlimited creativity of advisers in working out ways to use and abuse the system. (I could write a book on that subject and may well do so one day.)

The real challenges to the viability and credibility of the SMSF sector are twofold. The first is the ability of trustees to legally borrow (gear) to buy real estate and other assets, such as shares. This law, which the Murray Financial System Inquiry wisely recommended be repealed, introduced an element of unnecessary investment and regulatory risk into the system.

The second challenge is much greater than the first, although it is rarely discussed because a politically acceptable solution is not obvious. The issue is the diminishing ability of an ageing cohort of SMSF trustees to manage and control their superannuation affairs – and their diminishing enthusiasm for doing so. In the not too distant future, there will be tens of thousands of SMSF trustees in their 70s, 80s and beyond. This presents risks at many levels. There is the regulatory risk that trustees will fall short in their compliance obligations. That's the least of our worries. There is the risk of poor investment decisions. Then, sadly, there is the risk of elderabuse by professional advisers and relatives seeking access to the large sums of money SMSFs typically hold. These risks, particularly the latter, are not theoretical. They are a real and present danger, as
the Australian Law Reform Commission recently acknowledged. I confidently predict that unless we urgently develop and implement public policy responses to combat these risks, they will result in many personal tragedies. The problems will be widespread and will seriously damage the robust superannuation system that has been developed in this country since the 1980s. And that's not to mention the billions of dollars in costs to the taxpayers to remedy the situation.

I do not claim to have all the answers, but I express the hope that an urgent conversation might be started in the industry to offer solutions before extensive damage is done. This is one subject on which the financial services industry has the practical experience and knowledge to make a meaningful contribution to public policy development without waiting for government to act through legislation.

https://www.professionalplanner.com.au/superannuation/2018/04/17/the-smsf-time-bomb-61899/