SMSF YEAR END PLANNING GUIDE 2020

The government introduced a number of stimulus measures in response to the COVID-19 economic situation. These may impact your 2019/20 planning, in addition there are a number of other planning opportunities

COVID -19 Early access to super

The government has allowed individuals who meet certain conditions to withdraw up to $10,000 from their superannuation account for the 2020 and 2021 financial years respectively. please refer to the ATO website for more information.

If you are eligible for the withdrawal, the first $10,000 must be withdrawn from the fund by 30 June 2020. For the 2021 financial year, the withdrawal of up to $10,000 must be made before 24 September 2020. If you miss these dates, you are unable to access your super.

As part of the application process, the individual will need to authorise the ATO to provide to the superannuation fund, the ability to release the money and deposit it into the nominated bank account. The ATO guidelines make it very clear that the member applying for the early release needs to certify that they are eligible, and it highlights there are consequences for making a false application.

Current legislation would appear to allow individuals to get a tax deduction for a contribution made personally, then access that cash under the early release rules that exist until 24 September, however caution should be taken – this arrangement may come under the scrutiny of the ATO who may check the claim of reduction in a person's income given their ability to make additional taxable contributions.

It is very important to keep all documentation surrounding eligibility and approval, along with records of the withdrawal to ensure there are no compliance issues for your fund.

Supernova has some standard templates to assist trustees meet these obligations

Key points

- *Ensure you meet the eligibility criteria*
- *Ensure the withdrawal is made well before the cut-off*
- *Ensure the process is fully documented*
- *Beware of schemes such as re-contribution to avoid ATO scrutiny*

COVID-19 Reduced Pension Drawdowns

The Government is temporarily reducing superannuation minimum drawdown requirements for account-based pensions and similar products by 50 per cent for the 2019-20 and 2020-21 income years.

This measure will benefit retirees with account-based pensions and similar products by reducing the need to sell investment assets to fund minimum drawdown requirements.

The reduction applies for the 2019-20 and 2020-21 income years.

Age	Default minimum drawdown rates (%)	Reduced % for 2019/20 & 2020-21
Under 65	4	2
65-74	5	2.5
75-79	6	3
80-84	7	3..5
85-89	9	4.5
90-94	11	5.5
95 or more	14	7

To receive the favourable tax treatment, minimum pensions must be physically paid in cash by 30 June and show as withdrawals from the fund bank statements

Key points

- *50% reduction in pensions drawdown rates in 2019/20 and 2020/21*
- *All pension requests and acceptance should be documented*
- *Ensure pensions are physically paid from the fund account by 30 June*

COVID-19 Rental Relief

The Australian Taxation Office has responded to widespread concerns from the superannuation industry on whether SMSF landlords providing rent relief to tenants – in particular related parties – due to the financial impacts of the novel coronavirus, is a contravention of the SIS Act.

The ATO will allow auditors to use professional judgment to form an opinion on the commerciality of the arrangement that involve reduced rent providing:

- the relief looks reasonable, and
- the trustee is able to show evidence the relief was documented and offered as a result of the adverse financial impacts of COVID-19.

Irrespective of the broadly accepting approach by the ATO, SMSF Trustees are still required to carefully document all decsisions of this nature to ensure there are no unintended breaches of SIS act. These potential breaches include:

To assist Trustees property document these matters Supernova provides draft templates whcih can be updated with your fund details

- *Tennant request letter to Landlord (Trustee)*
- *Trustee Minutes documenting the approval*
- *Trustee (Landlord) confirmation of arrangements*

Key points

- *Ensure any rent relief is reasonable*
- *Ensure any rent relief is linked directly to impacts of Covid-19*
- *Carefully document all requests and decisions*

Contribution Strategies

2020 contribution caps

When making contributions into your superannuation account, you must not exceed your contribution caps. If the caps are exceeded, you may have to pay excess contributions tax. The contribution caps for the 2020 financial year are.

Type of contribution	Cap
Concessional (pre-tax)	$25,000
Non-concessional (after-tax)	$100,000

Bring forward non-concessional contributions

The bring-forward cap for non-concessional contributions applies for those under 65 years of age*. This cap is three times the non-concessional contribution cap, which remains the same as prior years but the bring forward cap reduces where your super balance is $1.4m or above and cuts out when reach $1.6m

Contribution splitting

Up to 85% of your taxable contributions can be allocated to your spouse to increase their super balance. This is an ideal strategy to manage account balances for transfer balances

Government superannuation co-contribution

The government will make a maximum co-contribution of $500 for a non-concessional contribution of $1,000 made to a superannuation fund. If the non-concessional contribution is less than $1,000, the government will contribute half of the non-concessional contribution made.

Low-income superannuation tax offset

Those with an adjusted taxable income of $37,000 or less are entitled to a low-income superannuation tax offset payment to their superannuation fund. This offset is calculated at 15% of the total concessional contributions made in the income year up to $500.

Spouse superannuation tax offset

If you have made a contribution to your spouse's fund, you are able to claim a maximum tax offset of $540 provided the requirements are met. To claim the full amount, your spouse's adjusted taxable income must not exceed $37,000. If the amount exceeds $37,000, the amount progressively reduces until it reaches nil when the total income reaches $40,000.

Key points

- *Review your member year to date contributions to see any potential issues or opportunities*
- *take advantage of any of the above contribution strategies*
- *Ensure contributions are physically received in the fund bank account and show in the bank statement by 30 June*

Investment Strategy Documentation

investment strategies are coming under more attention by auditors. It is no longer acceptable to have a generic document that covers all and any situation. Investment strategies should be one of the key "living" documents of a fund as this demonstrates the trustees vision and decision-making. Should a trustee who doesn't understand how to formulate an investment strategy be allowes to invest large sums of money

In addition COVID-19 has had a significant effect on markets worldwide, and this is likely to continue for a number of years to come. It is worth taking the time to consider how your fund's investments and cash flow will be affected to pay fund administrative expenses, pension payments or tax etc

Where fund assets are predominantly in one asset clasee (eg Real estate) auditors will need to see documentary evidence that you understand and have a management plan around the additional risks this create

Key points

- *Review and update your investment strategy regularly. At least once a year and more often during economic uncertainty*
- *All significant investment decisions - eg the purchase of a real estate property should be documented and refer to meeting the objectives of the strategy*
- *Be aware of the risks of the documented strategy and how these can be mitigated*
- *Treat the strategy as an important living document – not as an audit requirement.*

Investment Valuations

As a generally rule auditors will require properties to be formally independently valued once every 3 years and accept a trustee valuation in the interim. However this assumes a stable economy and market. With the potential impact of COVID-19 on the property market it would be prudent for trustees to have a valuation at 30 June 2020 in any case due to the potential abnormal changes in value

Key points

- *have properties independently valued*
- *supported with a trustee minute confirming this*