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Budget Booster

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Self Managed Super Fund (SMSF) trustees need to be aware of any issues that could impact the taxation or compliance of their fund. Here are a couple of tips and traps to consider.

Tip: Record amount and timing of indirect contributions
The Australian Taxation Office defines a contribution to include the following indirect contributions:

- paying an amount to a third party for the benefit of the superannuation fund
- forgiving a debt owed by the superannuation fund
- increasing the value of an asset owned by the fund

Trap: Fail to retain evidence of in-specie contributions
Where a member makes an in-specie contribution to a fund, for example by transferring listed shares, the contribution will be made when the fund obtains ownership of the asset. This can occur at the time the fund becomes the beneficial owner of the asset, which can be earlier than legal ownership. If there is insufficient evidence to identify precisely when the fund obtained beneficial ownership, the in-specie contribution will be taken to have been made when legal ownership is acquired. This could then impact the contributor׳s ability to claim a tax deduction for the contribution in a particular year.

Tip: Acknowledge receipt of valid deduction notice
For a member to be eligible to claim a tax deduction on a personal contribution, the member must provide a valid notice to the trustee of their intention to do so and the trustee must acknowledge that notice. The member should ensure they receive and keep this confirmation notice before they lodge their tax return, to ensure their eligibility to claim the deduction.

Trap: Failing the residency test when members move overseas
An SMSF needs to satisfy the definition of an Australian superannuation fund at all times during the income year. When a fund is no longer an Australian superannuation fund it becomes a non-complying fund taxed at 45% on the market value of the fund׳s assets less any contributions it has received that are not subject to tax. Then, for every year that the fund remains non-complying, its assessable income is taxed at 45%.

SMSF members can go overseas for up to two years and still maintain for residency purposes. However, if the members become non-residents for tax purposes, they must generally cease contributing to their SMSF if it is to remain an Australian superannuation fund.

Tip: Value assets at market value
SMSF trustees are required to value fund assets at market value on an annual basis. Market value is defined as an amount an arm׳s length buyer of an asset could reasonably be expected to pay a willing seller to acquire the asset.

Tip: Assess the fund's in-house asset levels
Where an SMSF has in-house assets it should regularly monitor the value of those assets against the 5% in-house asset limit. If changing asset values mean the fund will be close to or exceed the 5% in-house asset limit, the members may consider making additional personal contributions to dilute the level of the fund׳s in-house assets. Otherwise, if the 5% asset limit is exceeded at the end of the financial year, it will be too late to make any additional contributions.

Trap: Allocations from fund reserves can count towards concessional contribution caps
An allocation from a SMSF reserve will be counted towards a member׳s concessional contribution cap unless:

- the amount allocated is used by the fund to discharge its pension liabilities, or
- it is allocated on a fair and reasonable basis to every member, and
- the amount allocated is less than 5% of the value of the membersô balance at the time.

Source | *Colonial First State*

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