SMSF Owners' Alliance
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SMSFOA Members' Newsletter

#7 /2014

Practical and Innovative Strategies for SMSFs
Upcoming Event hosted by the SMSF Owners Alliance at the ASX in Sydney 9 October – see below for details.

Dear Members

This month we're sending you the SMSFOA newsletter embedded in an email so you don't have to open it as an attachment. This makes it easier for us and hopefully for you too. Let us know if you have any problems with it.

SMSFOA's Response to the FSI Interim Report

This has kept us busy over the last little while but we got it finished and lodged on time. You can find the full submission on our website – http://www.smsfoa.org.au/advocacy.html or, from Friday, on the FSI website – www.fsi.gov.au where you can also submissions made by others if you are interested.

We tackled the SMSF issues raised in the Interim Report and summarised our key points in this media release:

Need for stability in superannuation policy settings

26 August 2014

SMSFOA's response to the Interim Report of the Financial System Inquiry, lodged today, supports the FSI's comments on stability of superannuation policy. Unexpected changes of policy, e.g. the taxation of superannuation, corrode confidence in superannuation as a long-term savings vehicle.

The Government should not view superannuation savings as a handy source of revenue when its Budget repair measures are politically frustrated.

Nor should it be swayed by claims that superannuation tax incentives are unfair.

The FSI's statement that "the majority of superannuation tax concessions accrue to the top 20% of income earners" fails to take into account that the proportion of superannuation tax benefits they receive is comparable to the proportion of income tax they pay and in fact *lower. The Interim Report shows 57% of superannuation tax concessions go to the top 20% of taxpayers. ATO tax statistics show that these same taxpayers also pay 64% of all income tax collected.*

SMSFOA also questions the FSI's suggestion that "the large number of individuals with very large superannuation balances suggests the superannuation system is being used for purposes other than providing retirement income." No evidence is provided for this statement. In fact, a relatively small number of people have high value SMSFs. The asset value of SMSFs depends on a number of factors including the performance of the fund over time, the number of fund members, the amount of non-concessional contributions they make, the transfer of related party assets and borrowings to build fund assets.

Policy recommendations and decisions should be based on the full facts – in this context the ATO should provide a more detailed analysis of SMSF assets including the amount accounted for by non-concessional contributions and the net value of assets against which borrowings have been made.

In other sections of SMSFOA's response to the FSI Interim Report we say:

- *Changes to the structure of superannuation that make economic sense, i.e. moving from the current TTE (tax on contributions, fund earnings but not on withdrawals) system to an EET (tax exemption for contributions and fund earnings but tax on withdrawals) system, should be undertaken after careful policy consideration, consultation with stakeholders and transition measures to ensure that people who have saved under the existing rules are not disadvantaged.*
- *SMSFOA does not believe there should be any restrictions on the establishment of SMSFs on the basis of running costs. While low balance SMSFs are more costly to manage than accounts with APRA regulated funds, the majority of SMSFs have sufficient assets to make them cost effective. One of the motivations of people starting SMSFs is to escape the high percentage based fees of APRA-regulated funds as they grow their funds over time. Concern over SMSF costs should not distract from the relatively high cost of APRA-regulated funds in which most Australians are compelled to place their retirement savings.*
- *Dividend imputation was introduced, correctly in our view, to eliminate double taxation of corporate profits and remove the distortion that this would otherwise cause in the markets. We do not agree that the refunding of imputation credits to superannuation funds is a benefit. It is merely refunding tax that has been paid by corporations so that the only relevant tax rate is that of the investor in a corporation's shares.*
- *While SMSFOA shares the FSI's concern about leverage in SMSFs, particularly for SMSFs set up to invest in highly geared residential property, the answer may not be a return to a blanket ban on borrowings, as the Interim Report contemplates. A distinction should be made between residential and commercial/industrial property. SMSF investment in commercial/retail is four times higher than residential and less risky. If it is felt that a restriction on SMSF gearing is necessary, an option worth*

considering is to limit gearing to 50% of the value of an asset. This would effectively curtail the spruiking of highly geared residential property. SMSFOA supports ASIC's crackdown on property spruikers. Lending sources should also be identified and APRA should ensure regulated institutions have appropriate lending criteria.

- *SMSFOA supports the FSI observation that the market for retirement income products is limited and needs to be further developed. However, we strongly maintain that SMSF investment in these products, e.g. annuities, should not be mandated.*
- *SMSFOA also sees benefits in further developing a retail bond market, acknowledging factors that have effectively made bonds a wholesale market product, and making them more accessible to SMSF investors, noting the ASX now offers government and corporate bonds. We believe bonds need to compete on their merits (price, liquidity and yield) for a place in SMSF portfolios.*

SMSFOA looks forward to the opportunity to discuss points raised in our submission with members of the Inquiry panel.

$200m SMSF anyone?

Hands up if you know someone with a $200 million SMSF. No takers? Well, KPMG think they know of at least one. Their head of superannuation used it as an example in the Financial Review to support KPMG's view that tax free earnings by SMSFs in the retirement phase should be re-examined.
As we point out in our FSI submission, there are very few very large SMSFs.

If there is a $200 million SMSF out there it would be literally one in half a million and certainly not typical. Only 1.8% of SMSFs have more than $5 million in them. The average is $929,000 and the average account balance is half that.

The issue of the taxation of superannuation funds in the retirement phase is back on the front pages with the Financial Review running articles this week saying SMSFs overall are not paying tax on earnings because of the offsetting benefit of franking credits and because SMSFs don't pay tax in the pension phase.

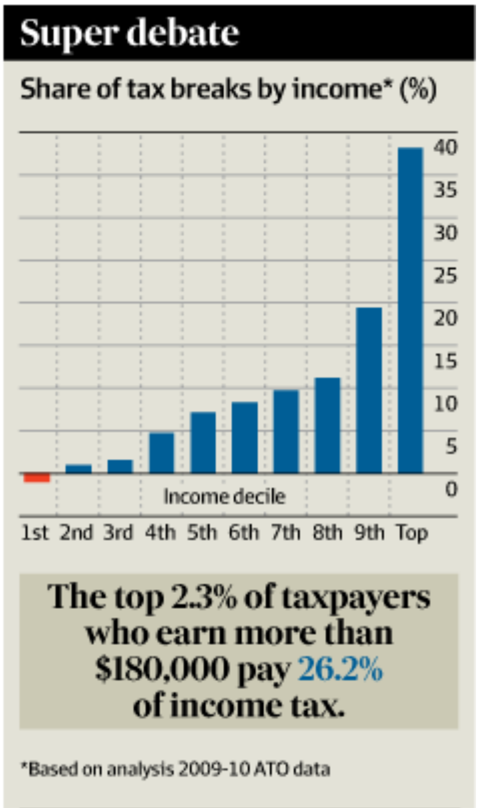
The Grattan Institute is proposing a 15% tax along the same lines as the one announced by Wayne Swan and Bill Shorten last year and dumped by the Abbott Government because it was unworkable and the tax would be costly to collect.

This view is shared by DeLoitte who claimed in their FSI submission that APRA-regulated funds are being disadvantaged because of the tax breaks (enjoyed by SMSFs).

However, KPMG's man pointed out that in practice such a tax would be administratively impossible or very difficult and noted that in most respects there is broad equity in the available tax concessions for contributions across most income bands.

And the Chartered Accountants' Liz Westover said SMSFs should not be singled out as taking an unfair advantage (AFR 26 August).

In what's becoming an open season on SMSF's, the AFR did give us a chance to point out on Thursday this week that: "people who work harder and save more are going to have larger super balances – it doesn't mean you are rorting the system." And the AFR picked up the point we made in our FSI submission that while the top 20% of taxpayers get 57% of the super tax concessions, they also pay a bigger chunk – 64% - of income tax, illustrated in this chart.



But we can expect that imposing a tax on retirement earnings will continue to be a topic aired in the media with suggestions that it might be considered by the government to make up for Budget spending cuts blocked by Bill Shorten and Clive Palmer.

Robert Gottliebsen in Business Spectator is having none of it:

Business Spectator – 27 August 2014

Abbott must not be fooled by Treasury's super trickery

If Tony Abbott and his Coalition want a second term in government, they must keep their hands off superannuation.

In the election campaign, Tony Abbott promised that there would be no major changes to superannuation in his first term. In fact, he did make one significant change: his government abolished a reasonable superannuation taxing arrangement devised by the now opposition leader Bill Shorten on superannuation funds in pension mode.

That was six months ago. Now, once again, Treasury is trying to trick a government into attacking self-managed funds and superannuation pension tax rates.

It's important to remind all those involved of the facts.

Self-managed funds are required by Australians to administer an increasing number of superannuation funds because the big institutions charge huge fees. It's true that some self-managed funds have been established to leverage residential property, but that's a very new development and is a side issue that can be dealt with very easily by changing recent rules.

As has been shown in survey after survey, self-managed funds equal or outperform the high-fee managers. We are going to see more than 60 per cent of our retirement pension mode income in self-managed funds until the overpaid sleepy managers decide to manage properly and charge sensible fees.

Attacks by Treasury and others on the fact that funds in pension mode pay no tax have been disguised as an attack on self-managed funds. Those who want to attack tax-free retirement incomes are entitled to do so, but attacking self-managed funds misses the issue. They are merely a low-cost way of maximising the legislated benefits.

Anything Treasury says about superannuation should be ignored. Normally you can rely on Treasury to give you the facts but in its reports on superannuation, it operates in a fact-free, highly opinionated zone, which makes their advice useless. That makes it hard for politicians on both sides. In the Labour years, Treasury put out a statement which claimed that Australian taxpayers were subsidising superannuation by some $30 billion dollars a year. That statement was complete nonsense, with gaping mathematical errors that would have been picked up by most year 7 students.

Not only did Treasury get the mathematics wrong but, to boost the numbers, it assumed a 7 per cent return in future years when much lower return assumptions would have been be far more realistic. Then it forgot about the revenue benefit that comes from reducing dependence on the aged pension -- a key reason why superannuation exists. More recently it put out another report, which showed it has learned nothing. This time it avoided mathematical errors but presented the material in a way that the ignorant media and others would conclude that the cost of superannuation was still $30bn, which is mathematical nonsense.

Evaluating the cost and benefits of superannuation requires proper analysis. It needs accurate sums, realistic returns, and calculations of pension cost reductions etc. When you have done that, you can have a realistic discussion.

The previous Labor government correctly worked out that the Treasury figures were total nonsense, so used some of my sums and came up with a taxing arrangement on superannuation funds in pension mode. It said that the first $100,000 of pension mode superannuation income (indexed) will be tax-free, but you will pay 15 per cent on any income above that.

There were unfair complexities created that needed to be sorted out but it was a genuine attempt at fair treatment. My friends in the retirement community gave me a terrible time when I said that the basic underlying Shorten proposal was fair. (At one stage I was good-naturedly booed!)

Then came along good old Arthur Sinodinos, who was told by his mates in the Sydney banking and big institutional community that the Shorten plan was too complex for their systems (it was simple for self-managed funds), and so Joe Hockey and Arthur Sinodinos abolished it. I cheered because I benefited -- I have a fund in pension mode. But I knew the issue would eventually return and because Treasury does not deal in facts in this area; a gullible future minister (on either side) might be tricked into something far worse.

We need to keep reminding the current government of its election promise and ensure politicians make clear policy statements on superannuation during election campaigns. However, that still does not provide certainty when false statements abound.

SMSF Workshop coming up in October

We're running a workshop at the ASX in Sydney on the afternoon of Thursday 9 October that many members will find interesting. It will provide practical information that will be helpful in running your SMSF – it's not about selling products.

Tickets are $55 (incl. GST) which will help to sustain our limited finances and keep on fighting for SMSFs.

If you'd like to come along, please click on the link in the flyer below or go to our website:

http://www.smsfoa.org.au/events.html

Offer from the *Switzer Super Report*

The Switzer Super Report is offering SMSFOA members a free copy of a new eBook by Peter Switzer and Paul Rickard on their *5 Big Investment Ideas for the New Financial Year*. This eBook covers the main themes that Switzer thinks are going to come into play over the next 12 months and beyond, and which listed companies could be set to benefit from these themes.

The eBook offer includes a free 3-week trial to the *Switzer Super Report*, a newsletter and website for self-managed super fund trustees. If members aren't interested in the trial and only wanted the eBook you can simply unsubscribe. To download the e-book, click here.

The web page to link to is: http://www.switzersuperreport.com.au/ebook-trial-offerv2/ on this pages users will have to put their details in, then they will be directed to a page where they can view the eBook.

Practical and Innovative Strategies for SMSFs

Upcoming Event hosted by the SMSF Owners Alliance

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SMSFOA Technical Workshop

Practical and Innovative Strategies for SMSFs

Thursday 9 October 2014

1.30pm - 5.30pm

ASX Auditorium

20 Bridge Street,

Sydney NSW 2000

SMSF's are used to enhance control of investments and retirement planning - and ultimately, as a key part of estate planning. You'll hear about sound investment strategies to produce a secure retirement income stream while avoiding risky and imprudent investments on poor advice.

SMSFOA is pleased to host this important event which includes presentations from some of Australia's most highly credentialed SMSF advisers - leaders in their field, with proven capacity to provide clear and workable advice while remaining fully compliant with SMSF law and regulations

- Overview of the economic and market settings for the next 12 months **- David Bassanese**, AFR/Chief Economist, BetaShares
- What I'm worried about with investments - Portfolio Construction for SMSFs **Graham Hand**, Editor, Cuffelinks
- The new way to access unlisted managed funds and diversify your portfolio - the ASX mFund settlement service **- Ian Irvine**, Head of Customer & Business Development – Managed Investments, ASX
- Optimising the SMSF within the overall family and small business structure (inc CGT concessions for SME) **- Andrew Frith**, Senior Partner, Leenane Templeton/Founder, SMSF Advice Solutions
- Understanding and implementing "Transition to Retirement" ("TTR") strategies with your SMSF **- Mark Geldens**, Principal, Sherlock Geldens
- Estate Planning and Your SMSF - bulletproofing your estate planning using Binding Death Nominations **- Andrew Frankland**, Principal, Bartier Perry

Tickets: $55 per person (incl. GST)

Buy Tickets

For more information on the SMSF Owners' Alliance: www.smsfoa.org.au

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