30 June is Fast Approaching...

With the end of the financial year fast approaching this is a timely reminder of some things you may need to act on before 30 June, such as:

- Pension payments
- Are the fund's assets in the name of the fund?
- Valuation of assets
- Unpaid present entitlements
- Review your investment strategy

Pension payments

For those drawing a pension from their SMSF - on completion of your fund's 2012 financial accounts we would have calculated the minimum and maximum pension limits applicable for the 2012/13 financial year. Over the past couple of weeks we would have also touched based with you again to remind you of your obligations.

Super funds paying pension payments benefit from additional tax concessions to funds with accumulation members. However, to be eligible for those additional concessions the fund must pay at least the minimum pension requirements and not exceed the maximum limits prior to 30 June each year. If you have not done so already, you need to ensure your pension is drawn from the fund's bank account prior to 30 June.

Fund assets in the correct name

Although it has always been a requirement to have the fund's investments in the name of the trustees of the fund the ATO has earmarked this as an area that they will be paying particular attention to in the future. Where possible an account designation identifying the SMSF should also be utilised.

Have you changed the trustee of the fund recently and not updated the records for the assets? Have you accidently purchased investments with fund money and recorded them in the wrong name? If you haven't already done so, you need to correct these to show the correct trustee and the correct account designation.

Auditors have been looking for such things over the past few years and will need to report such errors to the ATO in the future.

Valuation of assets

As mentioned in our recent seminar rules governing the valuation of fund investments have changed. All investments must now be recorded at market value on a yearly basis. We are able to obtain market values for shares and most managed funds each year. However, if you have other assets such as artwork, property, units in private unit trusts, shares in private companies or other investments where a market price is not easily obtained you will need to provide us with a market value each year. Although you are not required to obtain a qualified valuation you will need to provide an explanation of how the value was derived e.g. real estate agent estimate/ rates notice. Valuing art work or units/shares in private trusts/companies may prove a little more problematic but must still be done.

Unpaid present entitlements

Does your fund have an investment in a related unit trust? Have all distribution entitlements been paid to the fund? Another area to which the ATO is paying closer attention is unit trusts that do not pay entitlement to fund beneficiaries. Any entitlements that remain outstanding 12 months after the end of the financial year will be treated as a loan from the fund to the unit trust. Strict rules and limits apply to loans to related parties and these unpaid entitlements may push the fund beyond acceptable limits. With a new penalty regime coming into effect from 1 July 2013 (see separate article below) it's advisable to try and get the house in order sooner rather than later.

Review of your investment strategy

There has always been a requirement for a SMSF to have a documented investment strategy. Recent changes to the law indicate that this will also become an area to which the ATO will be paying close attention.

When formulating an investment strategy the trustees of a fund must consider the following:

Risk and return: the risks involved in, and likely return from the SMSF's investments, having regard to its objectives and expected cash flow requirements;

Diversity: the composition of the SMSF's investments as a whole, including the extent to which they are diverse or expose the SMSF to risks from inadequate diversification;

Liquidity: the liquidity of the SMSF's investments, having regard to its expected cash flow requirements;

Liabilities: the ability of the SMSF to discharge its existing and prospective liabilities; and

Insurance: whether the fund should hold a contract for insurance that provides cover for the members of the fund

The investment strategy must also be reviewed regularly. This would be considered at least annually or whenever there is a change in the structure of the fund such as a member going into pension phase or the removal/admission of a member.

To ensure compliance with the law Horizon has always had a generic investment strategy. We are in the process of reviewing this as it may no longer meet current legislative requirements, particularly with the new requirement to consider insurance.

However, it is advisable that you consult your financial adviser/planner to discuss your investment requirements and strategy as they are the best placed people to assist you in determining and meeting your desired strategy. As part of attending to the accounts each year Horizon Management can discuss with you whether or not you are adhering to your investment strategy.

However, as we are not licensed to give financial advice our discussions regarding your investment strategy will be somewhat limited.

Post 30 June action

It's getting to that stage that some people are starting to collate their paperwork in order to assist us in compiling the 2013 financial accounts. As your fund needs to be audited the more supporting documents we have the easier the process of collating the accounts and having them audited will be. Although not exhaustive, here is a general list of paperwork we will need:

All bank statements for all bank accounts

Details of cheques drawn and cash deposits made from/to bank accounts

All documentation for term deposits showing amounts investment, interest received and maturity date (where a term deposit matures after the end of the financial year it is also a good idea to supply paperwork received for that maturity date as this assists the auditors confirm the deposit is still held by the fund as at 30 June)

Contract notes for all sales and purchases of shares and units

Dividend & distribution statements. If you are receiving distributions the fund should also receive an Annual Tax Statement after the end of the year (anywhere between July to October). This will also need to be supplied along with the distribution entitlement statement for 30 June which is generally paid after the end of the year

Any paperwork received in relation to corporate restructures of shares and units e.g. demergers, consolidation of shares, return of capital payments etc.

Contract notes for any sale or purchase of properties or any other investments such as artwork, gold/silver etc. (remember when buying such investments the receipts/invoices should be in the name of the trustees of fund on behalf of the fund not in the members' names

Copy of lease agreement for properties rented to related parties

Rental summary paperwork from real estate or other documentation verifying rent received if not using an agent

Copies of expenses relating to properties and other investments (rates & taxes, insurance, repairs etc.)

Portfolio valuation as at 30 June from your adviser/planner or internet trading facilities such as CommSec

Copies of insurance premiums. Evidence of who owns the policy, the name of the insured, what is covered e.g. life, TPD and whether the TPD is any or own occupation

Copies of invoices from advisers/auditors etc.

Any other paperwork in relation to the fund that will assist in completing the accounts and having them audited

Please note we do not need to see the originals, copies will suffice. Emailing information through as PDF documents to anthony@horizonmanagement.com.au is also acceptable.

Legislation Update

In our recent seminar we advised that the government was looking to ban Off Market Transfers between SMSFs and related parties. The government was also looking to introduce a requirement that any other assets transferred between a fund and a related party must have a qualified independent valuation performed to determine the value of the asset. These changes were proposed to have come into effect from 1 July 2013.

Earlier this month the government decided not to proceed with either change. Although you may not need a qualified independent valuation on an investment transferred to/from your fund to a related party you will still need to transfer it at market value and provide some evidence of how the value was determined. There are still rules in place that require funds to deal with related parties on an arm's length basis.

As part of the budget announcements on 8 May 2012 the government proposed that taxpayers earning $300,000 or more would have their concessional contributions tax at 30% rather than the normal 15% from 1 July 2012. It may have taken a year to do but the draft legislation was released in early May 2013 and introduced to parliament on 15 May 2013. The legislation passed the House of Representatives in late May and is expected to pass the Senate before the end of the current financial year.

New SMSF Penalty Regime from 1 July 2013

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Please contact us if you have any questions in relation to any of the matters discussed in this newsletter