



Self Managed Super Newsletter

January 2009

Uiton offers Audit and Administration Services to our Self Managed Super Fund (SMSF) clients.

In addition, Kylie McIntosh is a SMSF Specialist Adviser who provides high level advice to clients including:

- Pensions
- SMSF establishment
- Investment strategies and investment advice
- Reserving strategies
- Life insurance
- Borrowing for property inside SMSF



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Corporate Trustees need Special Power of Attorney

Many Trustees of Self Managed Super Funds now have a company as Trustee of their Fund.

This has a number of benefits including:

- The fund can be structured to provide either pension or lump sum benefits for members;
- As the SMSF assets are held in the name of the trustee/s it can become difficult to distinguish between those assets held by an individual in their own right and those assets held in the name of the corporate trustee of the fund. Corporate ownership of the Funds' assets helps to create a clear distinction between the assets of the Fund, and those of the individual member;

- In the event of the death of a member, divorce or adding new members (children), the ownership of the Fund's assets will need to be changed if held in the name of an individual trustee/s, whereas if held in the name of a corporate trustee, the title details of each individual investment does not need to be changed. This saves significant time and costs in the long run.

If you have a Corporate Trustee what happens if you lose the capacity to manage your affairs?

Normally an Enduring Power of Attorney should be in place to ensure that in the event that you become incapacitated, your attorney can act on your behalf. However where a Corporate Trustee is involved a special Company Power of Attorney needs to be created.

If you have a Corporate Trustee it is imperative that you implement a Company Power of Attorney. We have negotiated a discounted price from MRH Lawyers to implement this on your behalf. Please let Kylie McIntosh know by the 20 February 2009 if you require this established.

Powers of Attorney can then be used if you are mentally or physically incapable of acting for yourself, or in the event that you may be travelling and not available to sign documents.

Why Shares are still a good investment for SMSFs

After 2008, it is easy to question whether shares are still a good investment for your retirement. Many clients are also asking if they should continue to contribute to super?

Scenario 1

John is aged 50 and has an annual income of \$280,000. In past years he has put \$100,000 a year of his salary into super as a tax deductible contribution. However after seeing the share market drop by 35% during 2008, John thinks that Super is terrible and swears never to invest in shares again.

A. What is the situation if the additional \$100,000 is not put into superannuation?

Taxable Income	\$100,000
Tax	(\$46,500)
Funds available	\$53,500
Bank interest at 5%	\$3,210
Total Funds	\$56,710

B. The stock market meltdown – 35%

Funds Contributed to Super	\$100,000
Contributions Tax	(\$15,000)
Balance invested in shares	\$85,000
Decrease in value 35%	(29,750)
Dividend yield on purchase price @ 5%	\$4,250
Total Funds	\$59,500

Key points

- The investor is still in front, having put their funds into Super.
- The decrease in value of the shares is not a real loss until the shares are sold. If the shares were "blue chip" they should recover.
- Money going into super has to be preserved and is a form of enforced savings.
- Money held in super is protected from bankruptcy
- The share option would also have the added benefit of franking credits.

Scenario 2

Jane is aged 65 and has a SMSF paying her a pension of \$50,000 per annum. Her Fund was worth \$800,000 and had the following mix at 01 December 2007:

Investment	\$	Yield	Yield \$
Cash & Term Deposits	\$280,000	7%	\$19,600
Shares	\$320,000	5%	\$16,000
International Funds	\$120,000	3%	\$3,600
Property Funds	\$80,000	7%	\$5,600
	\$800,000		\$44,800

At December 2008 her portfolio looks as follows:

Investment	\$	Yield	Yield \$
Cash & Term Deposits	\$274,800 ⁽¹⁾	5%	\$13,740
Shares	\$256,000	6%	\$16,000
International Funds	\$84,000	3%	\$2,520
Property Funds	\$80,000	6%	\$4,800
	\$694,800		\$37,060

(1) after capital draw down of \$5,200



What should June do?

June should consider investing \$124,000 from her Cash and Term Deposits into shares. This would still leave her with three years worth of pension income held in a secure environment and would allow her to take advantage of historic share market weakness. It would also increase the yield on her portfolio as share dividends are currently holding up in comparison to cash rates.

She has not made a real loss unless she actually sells shares, which would be the worst thing to do.

Buying more shares now, will leave June extremely well placed when the market recovers. At that time she could take her profits and move them back into cash/term deposit.

Although June is 65, her time frame is still long term, as potentially her Super Fund could be funding her retirement lifestyle for another 20 plus years.

Use the Tax Rates

After all of the talk of shares and investments it is easy to forget that Superannuation is **not** an investment. It is a tax vehicle!

There are many strategies that can be undertaken for clients to make use of Superannuation's beneficial tax rates.

For example, Steven is aged 59 and has a SMSF. He runs his own business and intends to retire in the next 12 months. The major asset of the SMSF is a commercial property which Steven's company rents from the SMSF. The property was purchased in 1990 for \$400,000 and is now worth around \$700,000. Steven doesn't particularly want the hassle of tenants in retirement and has decided to sell the property.

Steven has asked for our advice in the run up to retirement and we have advised him as follows:

- Commence a Transition to Retirement Pension (TRIP) **now**. A TRIP can be started anytime after turning age 55 and the maximum pension is limited to 10% of the Super Fund account balance.
- Because Steven is under 60, he will pay some income tax on the TRIP.
- However, because the Super Fund has commenced paying a pension it is now a **tax free vehicle**. This means that there is no tax payable on any earnings within the Super Fund from that point forward.

A few months later, Steven finds a buyer for the property and signs a contract. Ordinarily the capital gains tax in the Super Fund would have been \$22,500. However because the Fund is in pension phase, there is now no tax payable on the capital gain.

We have given advice to many clients over the last few years which has saved them substantial amounts in tax payable. It is important that you get advice early before making any decisions which could affect the outcome.

To discuss a new or existing SMSF and to review how best to utilise your SMSF so that you achieve all of the benefits you are entitled to, please phone 07 4154 425 to make an appointment.

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Meet the Team

The Financial Planning Team has 8 members all dedicated to providing outstanding service to our clients. In addition to Kylie, you may also deal with:



Gemma O'Shanesy – Gemma provides Financial Planning advice to our Bundaberg and Fraser Coast clients;



Krystan Bird – Provides client service to our Gladstone, Gayndah and Bundaberg clients;



Carey Payne – Provides client service to our Sunshine Coast, Brisbane, Fraser Coast and Bundaberg clients.