SMSF Strategy Series

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Episode 6 - Tax Planning

In this episode, Business Concepts Group's Sarah Power joins Chris to delve into tax planning strategies for your SMSF. Chris shares 5 key strategies every SMSF fund should consider to maximise tax benefits.

The success of an SMSF is closely tied to the strategies implemented, and trustees should seek some level of advice from an SMSF professional to ensure that they are up to date with the latest strategies. Chris emphasises that an SMSF enables you to increase the tax effectiveness of Superannuation, making it a powerful wealth creation vehicle.

Sarah discusses how investing in listed Australian shares enables your SMSF to use franking credits to offset the tax payable on the fund's other income. With the franking credit attached to fully franked dividends being 30%, and the maximum tax paid by an SMSF on its investment income being 15% in the accumulation stage, and 0% in the pension stage, this offers you significant taxation benefits.

For funds with a property investment, a claim for depreciation may be able to be made. Depreciation is the process of claiming tax deductions for the natural wear and tear on an investment property and its fixtures and fittings. Depreciation deductions can substantially increase an investment property's cash flow as the deduction itself is a non-cash flow item whilst still obtaining the tax benefit. Every dollar of depreciation claimed annually, reduces your taxable income by the equivalent amount, which can add up to thousands of dollars per year. The money goes right to your bottom line and improves the cash flow of your SMSF.

BCG can help provide depreciation schedules for a range of investment properties with team of expert Quantity Surveyors working with you by actually visiting the site and carrying out a detailed inspection of the property and complete a tax depreciation schedule outlining the deductions your SMSF is entitled to.

Gearing or borrowing to invest is the third strategy looked at. In exactly the same way the interest is deductible outside of Super when borrowing to invest, it is also deductible inside of Super. Being able to offset any income means that these deductions can be used to even offset salary sacrifice and employer contributions.

Anti-detriment payment is another strategy. This is closely related to estate planning where an additional amount included in a lump sum death benefit is paid to eligible beneficiaries.

This is broadly designed to restore the deceased's death benefit to what it would have been if a 'contributions tax' (of up to 15 per cent) had not be paid on the taxable contributions as it essentially refunds the tax paid on super contributions made by (or on behalf of) the member during their period of fund membership. The Super fund is able to claim a tax deduction, which generally results in a large carried forward loss.

The funding of anti-detriment payments cannot be taken from other members' accounts, so the SMSF will need other options available to fund the increased death benefit, which is usually done with the use of reserves. Reserves can be maintained in a fund provided the deed allows them and can only be populated with investment earnings.

Pensions are the final strategy discussed. Both transition to retirement pensions and also multi-pension strategies.

Under the transition to retirement rules, if you have reached your preservation age, you can access your Superannuation without having to retire. There are tax advantages in commencing pensions as when a fund is in pension phase it moves into a no tax environment.

Having a look at a combination of these strategies can really magnify their benefits.