June 2014

ConnectionPoint

financial services partners

# A wake up call on your SMSF responsibilities

## Deciding to run your own self-managed super fund (SMSF) has distinct benefits, but also serious responsibilities.

The Australian Tax Office (ATO) has now been given greater powers to enforce these responsibilities on trustees, so it is more critical than ever that your SMSF is fully compliant.

The ATO is responsible for monitoring SMSF compliance, but up until now it has been limited in the way it is able to enforce the rules. From 1 July 2014, a new regime will come into play which will add substantial clout to their ability to penalise SMSF trustees.

Under the new rules, the ATO will now be able to issue a rectification direction, an education direction or impose administrative penalties. A rectification direction requires a person to fix the breach within a certain period. If the trustee of the fund does not satisfy this direction they will be liable for administrative penalties. These penalties cannot be paid from the fund's assets, which means they will come out of the trustee's own pocket. The same penalising powers will also apply to non-compliance with an education direction.

**Don't take any chances**

The ATO seem keen to enforce a higher standard of compliance, so it is simply not worth the risk of falling down on any of your responsibilities as an SMSF trustee. This includes vital tasks such as keeping true to the sole purpose test, ensuring you maintain and review the fund's investment strategy, appointing an approved auditor for each income year and keeping your personal or business assets separate from your super fund's assets.

When run properly, they can be a powerful financial planning vehicle, so feel free to contact us for some helpful advice if you are concerned about keeping your SMSF on the straight and narrow.

### How does this impact your clients?

There will always be competing business and life pressures that may distract an SMSF trustee from their responsibilities, so it is wise to involve a financial adviser in the set up and management of the SMSF. We also recommend clients with an SMSF arrange a review now, so they can check their fund is compliant and they understand their responsibilities as a trustee.

# Commonwealth Seniors Health Card (CSHC) and deeming of account based pensions

## In the Federal Budget, the Government proposes to include deeming on account based pensions as income for the purposes of the CSHC from 1 January 2015.

Currently, the income test for the CSHC is based on adjusted taxable income. From age 60, account based pension income payments (and withdrawals) are received tax-free and therefore no amount is captured as income for the purposes of the CSHC.

Under the proposals, any new holders of the CSHC from 1 January 2015 will have their account based pensions deemed using the existing Centrelink deeming rules for financial investments, regardless of income stream's commencement date.

If an individual holds the CSHC as at 1 January 2015, the assessment of the account based pension depends on the commencement date:

- If commenced before 1 January 2015, the account based pension is grandfathered and not impacted by the proposed changes.
- If commenced from 1 January 2015, the account based pension is deemed.

### How does this impact your clients?

- Those clients eligible for the CSHC who have an account based pension in place before 1 January 2015 continue to have the income exempt from assessment and the account balance is not deemed. Prior to 1 January 2015 there may be an opportunity to reset the deductible amount, consolidate, add or remove a reversionary pensioner or change to a different account based pension provider.
- Caution should be exercised to ensure that the grandfathering of an account based pension is not lost where this will impact eligibility for the CSHC.

Financial Services Partners Pty Ltd
Level 23, 242 Pitt Street, Sydney, NSW 2000, Australia
ABN 15 089 512 587 AFSL 237590
T 1800 006 216 W www.fspadvice.com.au

financial services partners

# Medicare levy increase from 1 July 2014

## The Medicare levy increases from 1.5% to 2% from 1 July 2014.

For those who pay the Medicare levy, the increased rate results in the following amount extra payable per annum:

| Taxable income | Increased Medicare levy (pa) |
|---|---|
| $25,000 | $125 |
| $50,000 | $250 |
| $75,000 | $375 |
| $100,000 | $500 |
| $150,000 | $750 |
| $200,000 | $1,000 |

Low income earners continue to receive relief from the Medicare levy with thresholds for singles, families, seniors and pensioners. The current exemptions from the Medicare levy also remain, eg blind pensioners and sickness allowance recipients.

### How does this impact your clients?

As the Medicare levy is generally based on taxable income, clients may wish to speak to their financial adviser and their tax specialist about how they might be able to reduce their assessable income and/or increase allowable tax deductions to possibly reduce the impact of this Medicare levy increase.

# End of financial year planning

## The end of one financial year and start of a new financial year is a great time to talk to your clients about financial planning strategies.

The checklist below may be useful for making suggestions your clients can consider now:

- Personal super contributions to receive the Government Co-contribution
- Super spouse contributions
- Super contribution splitting
- Super personal contributions to claim a tax deduction
- Utilising the concessional contribution cap
- Utilising the non-concessional contribution cap
- Salary packaging
- Salary sacrificing
- SMSF trustee satisfy minimum payment for pensions.

Financial Services Partners Pty Ltd
Level 23, 242 Pitt Street, Sydney, NSW 2000, Australia
ABN 15 089 512 587 AFSL 237590
T 1800 006 216 W www.fspadvice.com.au