

**HIDDEN
HARBOUR
MARINA**

**TAKE CONTROL OF YOUR FUTURE.
LEARN ABOUT THE BENEFITS OF
A SELF MANAGED SUPER FUND**

www.hiddenharbourmarina.com.au/news/smsf-event



Is a SMSF right for your future?

A photograph of an ASX stock market board displaying various stock listings with columns for stock names, bid, offer, last price, and volume.

STOCK	BID	OFFER	LAST	VOL	STOCK	BID	OFFER
EUR GROUP	0.080	0.070	0.000	0	FARM PRIDE	0.100	0.140
EURGOLD	0.080	0.140	0.000	0	FE LIMITED	0.026	0.030
EURO GAS	0.335	0.335	0.335	77T	FEO AX	0.120	0.130
EURO	1.000	1.020	1.000	4T	FERRONVEST	0.024	0.033
EVOLUTION	1.935	1.940	1.935	2M	FERRUM	0.052	0.057
EVZ LTD	0.041	0.050	0.050	5T	FIDUCIAN	0.800	0.810
EXALT RES	0.000	0.000	0.000	0	FEAX	0.110	0.125
EXCAX	0.040	0.049	0.040	50T	FINBAR	1.075	1.080
EXCALIBUR	0.001	0.012	0.000	0	FINDERS	0.200	0.220
EXELA	0.010	0.050	0.000	0	FIRSTONE	0.008	0.009
EXOLUTION	0.180	0.155	0.180	30T	FIRSTFOLD	0.014	0.015
EXO RES	0.260	0.265	0.260	5HT	FISISON EN	0.020	0.035
EXORNER	0.072	0.075	0.072	35T	FITZROYRES		
EXRAK	0.430	0.480	0.000				



Presented by Chris Hill and Tricia Hill

Disclaimer

The material contained in this power point presentation is general reading only information only and does not constitute personal advice on the subject matter. While every effort has been made to ensure accuracy you should not rely on the information provided without specialist financial planning or SMSF advice on your individual needs and circumstances and the relevance and appropriateness of the ideas and strategies mentioned. No representation is given, warranty made or responsibility taken as to the accuracy, timeliness or completeness of any information or recommendation contained in this publication and Hill Legal, lawyers and Life Solutions, Financial advisers will not be liable to the reader in contract or tort (including for negligence) or otherwise for any loss or damage arising as a result of the reader acting upon any such information or recommendation.

OUTLINE



- How much do I need for retirement?
- Is a SMSF the best option?
- Property & other investment options
- The pro's & cons of transferring property into an SMSF



How much do I need for retirement ?

- Australia's population is ageing at rapid rate however many people are not prepared for retirement and more choosing to stay in workforce longer.
- By 2020, 50% of Australians will be age 55 +
- Average life expectancy for male=79.9, woman 84.2 years.
- If you are 55, you can expect to live another 30.53 years if female and 26.95 if male.

How many years will you need to fund in retirement?

From	 Men	 Women
55	26	30
60	21	25
65	16	20
70	11	15

Many Australians are not prepared for retirement



- Estimated Australia facing a \$1 trillion retirement savings shortfall;
- The average super balance for Australians aged 55-59 is just \$85,561;
- For most women it is even less.

Retirement isn't cheap:

Assuming you've been living on above average income and have already paid off your home loan, research suggests you need 67% of your current income to maintain your life style in retirement.

A comfortable lifestyle for a couple, including entertainment, a car, and clothing and private health insurance can cost a couple about \$65,000 a year.

The aged pension is not adequate

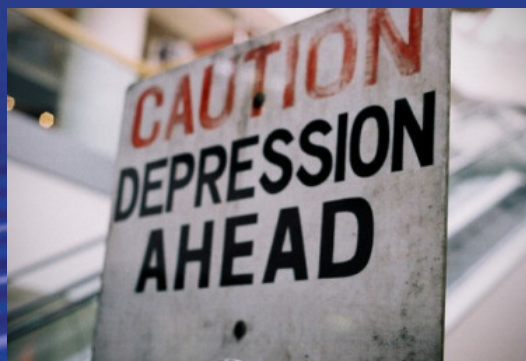
The Full Government Age Pension is

Single \$22,542

Couple \$33,982 per year



86% of Australians do not believe the age pension is enough to live on in retirement



People who are fully dependant on the age pension have significantly higher levels of stress, anxiety and depression than their financially independent peers.

How do you set yourself up in your early years to be financially independent in retirement?



**The Decisions you make now can
have a big impact on your future
and the earlier you start planning,
the easier it will be to
reach your goals**



1) Have a plan and a road map of what will be needed

How many years do you need to plan for?

2) Make use of your Super Fund contribution caps when available

(a) up to age 50:- \$25,000 of concessional contributions (includes SGC)

over age 50:- \$35,000 (until 30/06/2017)

(b) \$500,000 life time limit of non concessional contributions (as measured from 1/7/2007)

Does not include purchases

3) Diversify your portfolio



Make sure;

- (a) You have an understanding of where you want it to GO
- (b) Work within the time frames available

Employer Contribution

2015/2016

9.5%

Increasing to

2025/2026

12%



Is a SMSF the best option?

- A SMSF does give you more flexibility and a wider range of investment options and opportunities.
- But if you want property, commercial, or residential investment, collectables or artwork, then you need to have a SMSF.

SMSF investment Options

Possible Fund Investments

- Shares
- Bonds
- ETF's
- Managed Funds
- Cash
- Property Trusts
- Private Trusts
- Artworks/Collectables
- Taxi Plates
- Abalone Licenses
- Rental Property
- Boat Berth

ATO Responsibilities for Trustees

The investment strategy: Regulation 4.09

Trustees are required to prepare and implement an investment strategy and regularly review it.

As Trustees you must consider:

- Risk involved, likely returns and Fund objectives.
- The investments of the Fund must provide for retirement.

- As a Trustee you must consider insurance for the Fund.
- Your Financial Planner and Accountant can help you with this but ultimate the responsibility is YOU the Trustee.

The value and importance of insurance inside the SMSF

- New investment strategy operating standard:

Reg 4.09(2) the Trustee must formulate, *review regularly*, and give effect to an investment strategy that has regard to the *whole* of the circumstances of the fund, including in particular:

- *For an SMSF-whether the Trustee of the Fund should hold a contract of insurance that provides insurance cover for one or more members of the fund.*

Fund Investment Strategy v Financial Plan

- Investment Strategy = Regulators requirement
- Investment Strategy looks at the investment decisions of the Fund
- Financial Plan = Macro view of the Fund at number level
- Plan asks “What is my long term Financial goals or objectives?” “Will the decisions of the Fund meet my objectives?”

Property investment options



- Direct or indirect property acquisition;

Direct Ownership:

- Purchase direct in name of the Trustee from Funds resources
- Purchase with borrowed funds (Limited recourse borrowing)
- If borrowing-no property improvement allowed
- Purchase in conjunction with Member (tenants in common)

Direct Ownership:

- Residential property
- Commercial property
- Freehold/Leasehold interests e.g. Boat Berth

Direct Ownership Consideration:

- Investment Strategy
- Cash Flow
- Future Growth
- Member age/ Retirement income?
- For future use - Transfer
 - Retirement

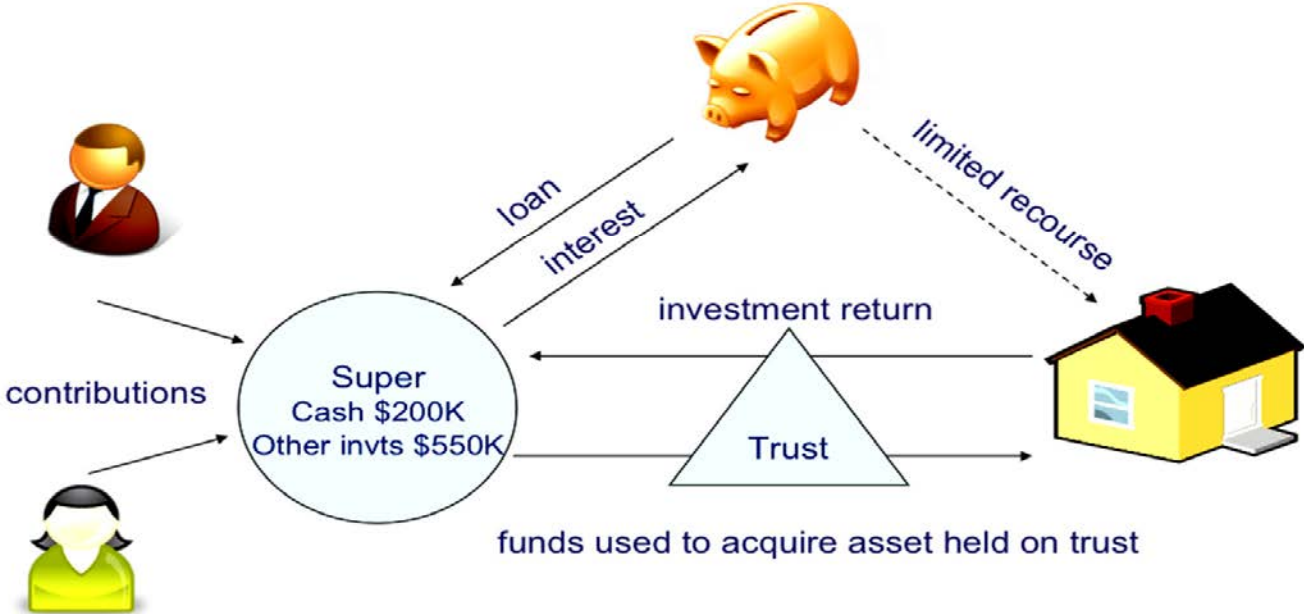
Indirect Ownership:

- Acquisition of listed property Trusts
- Investment in Unit Trusts holding direct property



Limited Recourse Borrowing- A Recap on how it works

CLASSIC SCENARIO :



“Single acquirable Asset Restriction”

- Created by legislative changes that came in on September 2007
- Now clarified in SMSFR 2012/1
- What is it?
 - Any form of property- e.g. proprietary rights; physical objects
 - Property that the SIS Act otherwise permits

Features of a Single acquirable Asset

- Money CAN be borrowed to repair or maintain an asset
- Can't borrow to “improve” the Asset
Improvement changes the form or function of an asset
- While money cant be borrowed to improve and asset, other (non borrowed) money can be used
- But the use of other money cant change the character or function of the asset which results in a different asset

Features of a Single acquirable Asset cont

Examples-Not permitted

- Subdividing land
- Building a house on residential land
- Replacing house burnt by fire, with superior home
- Renovating a building which changes its use
- Apartment with separate car park without “Notice of restriction” on the strata plan

Features of a Single acquirable Asset cont.

Examples- Permitted

- Property over more than one title=SAA
- Apartment with separate car park - if with a “Notice of Restriction”
- Improving a house e.g. Building pool, extension to home, driveway etc. permitted with non borrowed funds

Hot topics and recent issues raised by the ATO



Australian Government
Australian Taxation Office

(a) Off the Plan Purchases & House and Land packages

- Permitted under a single borrowing
- House and land is a package
- No need to wait for title details to create Holding Trust
- Can use a single borrowing to fund the deposit and the balance

Hot topics and recent issues raised by the ATO cont.



Australian Government
Australian Taxation Office

- Can make multiple payments (Dec 2012 NTLG minutes)
- Can enter into a contract package for the land & construction
- Settlement must occur after completion of building
- Holding Trust does not need to exist at time of contract (March 2013 NTLG)

Hot topics and recent issues raised by the ATO cont.



Australian Government
Australian Taxation Office

(b) Financing with two Lenders

- ATO confirmed (June 2012 NTLG Minutes) that you can borrow to fund deposit and borrow from another Lender to fund balance
- E.g. Related party loan

Related Party Loans

- Loan made by Member to fund
- Usually backed by personal (home) loan
- New practical compliance guidelines (ATO) - 6th April
 - Must be on Principal & Interest basis
 - Max term is 15 years
 - 70% LVR
 - Based on Reserve Bank standard bank home loan rate
 - Must be supported by a mortgage

Case Study

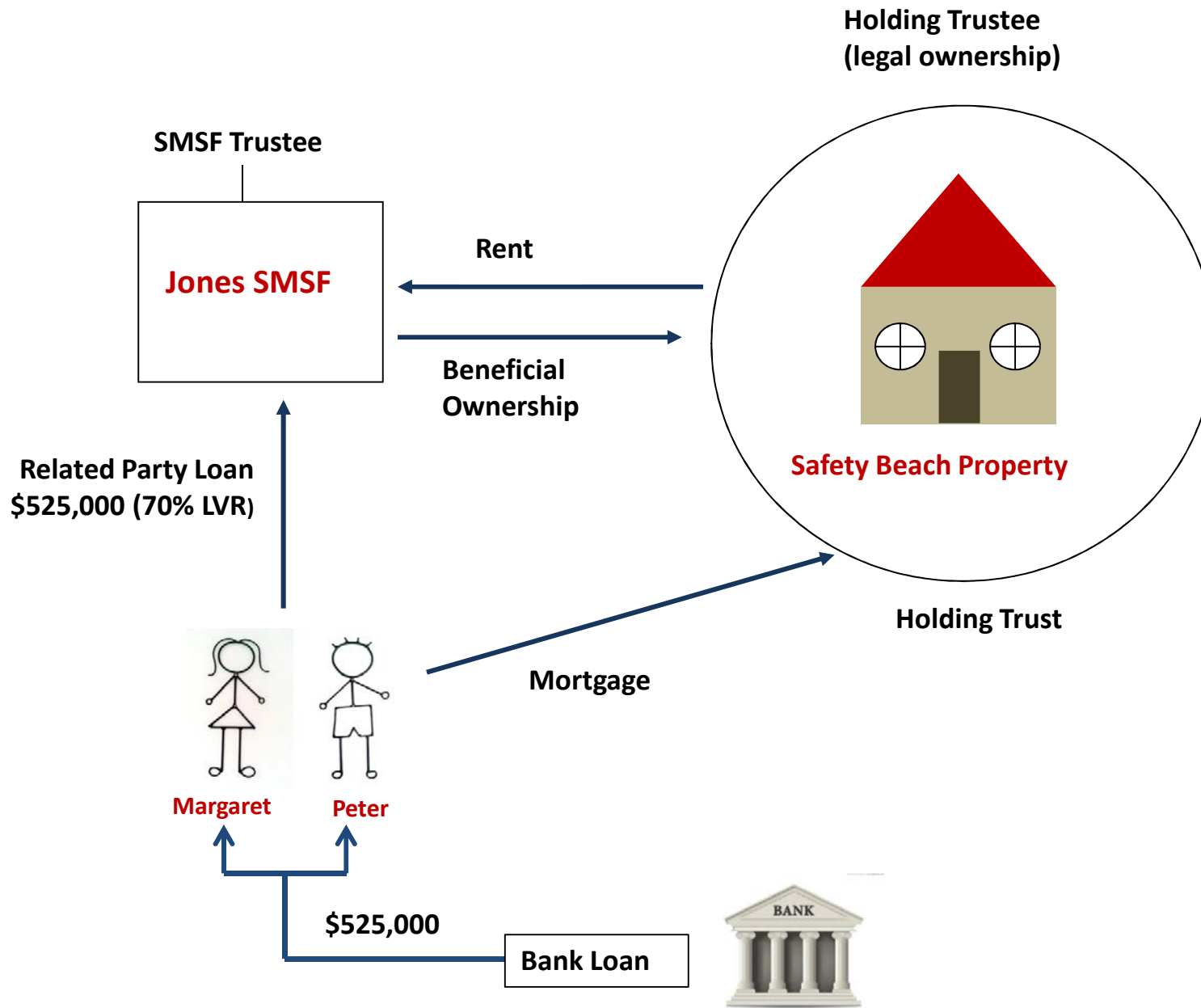
- Peter & Margaret Jones – aged 56 & 52
- Live in Brighton
- Own their own home – valued at \$1.3M
- Peter works as an Engineer & Margaret works as a Hairdresser
- Peter & Margaret want to retire when Peter is 60
- Want to live in Safety Beach when Peter retires
- They have an SMSF that has \$250K in free cash

Case Study cont.

- They find an off the plan apartment: \$750K
- The SMSF purchases the apartment under a Limited Recourse Borrowing arrangement
- Peter & Margaret borrow \$525K from the Bank (70% LVR) against their personal home
- On lend to the SMSF (related party loan)
- The loan pays interest at 5.75% p.a, Principal & Interest over a 15yr term

Case Study cont.

- When Peter retires:
 - (a) The loan is repaid by the SMSF
 - (b) Peter & Margaret use the cash to repay the loan against their personal home
 - (c) The Safety Beach property is transferred out of the Fund as a member benefit payment
 - (d) Peter and Margaret claim an exemption of duty under section 41A of the Duties Act
 - (e) There is no Capital Gains Tax as the property is transferred at the time when the Fund is in “Pension Mode”



Setting up a SMSF

- Create Trust Deed/Governing Rules
- Appoint Trustee(s) – each Member must be a Trustee
- If a Corporate Trustee – each Member must be a Director of company
- Appoint Auditor
- Register with the ATO
- Establish Bank account
- Prepare Investment Strategy
- “Roll over” / transfer other Super Funds

Questions?