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CGT concessions to top up superannuation

BRYAN ASHENDEN

We are both in our mid-50s and are in the process of selling our restaurant business. We also own the property which we'd like to keep. We've put most of what we've made back in the business and so don't have much set aside in super? Should we be looking to put the property into super for our retirement?

If you, like many readers, have closely followed the changes to superannuation coming into effect from July 1, 2017, you may be feeling that the reduction to the amount you can contribute to super — or the restriction to the amount you can transfer to a retirement pension — may impact your ability to implement certain pre-retirement strategies.

With the right advice, however, this need not be the case as there are still numerous super and pre-retirement strategies available to everyone, with some unique strategies only available to small business owners.

While many pre-retirement strategies don't need to involve super, many do because super provides one of the most concessional taxed retirement vehicles available.

To reflect the fact many small business owners have reinvested most of their surplus time and money into their businesses, they may be able to access a number of capital gains tax concessions not available to individuals.

In addition, small business owners may be able to make additional contributions to super under a unique small business capital gains tax cap, which falls outside the more common concessional and non-concessional contribution limits.

While we are going to see a reduction in both the concessional and non-concessional contribution limits from July 1, 2017, there has been no change to the amounts which can be contributed to super under the small business CGT cap for eligible small business owners.

There may be an opportunity to make the most of these concessions, from both a tax concession and super contribution point of view.

Keeping the property may prove beneficial for a number of reasons such as providing an

additional source of income in retirement, primarily in rent.

There are also a number of strategies where you can purchase or hold direct property in a self-managed super fund either outright or using borrowed money. Such strategies have been around for years, and assuming the property from which the business operated meets the super definition of being business real property (broadly, commercial property) the property could be contributed to or sold to an SMSF.

Keep in mind when choosing to run your own SMSF, although you may and indeed should seek assistance from professional advisers, the responsibility for the operations of your fund ultimately rests with you as trustee. Given the extra responsibilities involved SMSFs aren't for everyone, although an SMSF may provide you with the opportunity to hold your property within the concessional taxed superannuation environment.

If you did want to move your property into super you will also need to take into account the relevant contribution limits available, or look to establish a strategy for your SMSF to purchase the property from you. Both avenues can present challenges from a cost, tax and contribution limit point of view, so you should seek professional advice to determine if such a strategy is appropriate for you.

Finally, while super is likely to be a relevant piece in your unique retirement planning puzzle, be aware that any contributions you make to super will be preserved and unable to be accessed by you until such time as you at least reach your preservation age (currently age 56, increasing to age 60 over time based on your date of birth) and look to retire.

There are likely to be a number of opportunities for a small-business owner to make strategic and ultimately beneficial decisions now as they transition out of running their business. Seek professional advice early in the process to make sure no opportunities are missed.

Bryan Ashenden is head of financial literacy & advocacy at BT Financial Group.

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Why passive investors are losing as returns go south

Index investing can only go so far when the outlook is poor

JOHN ABERNETHY



Today, investors generally and retirees specifically, are confronting the very real prospect of lower returns from both bonds and shares during the next few years.

This poor outlook results from two key factors.

First, the sustained period of low inflation has crunched yield and interest rates, and second, the continued interference in bond markets by international central banks has pulled yields even lower.

It is the manipulated low or negative “real” yields of the bond market, (along the maturity curve of five to 10 years), which is acting to reduce the returns of all asset classes, particularly those where prices have been inflated by sustained low interest.

Consequently, balanced portfolio returns (spread across asset classes) may average about 5 per cent a year for the next few years with returns dragged down by bond or fixed income returns.

What's more, though we can expect better returns from shares than bonds in the next few years, it seems that the sharemarket has its own unique issues.

Of immediate concern is the pedestrian returns of the Australian equity indices over the last decade. Today the equity market price index is still about 15 per cent below the 2007 high that was reached a full 12 months before the height of the GFC.

This period of underperformance by the Australian equity market should not be glossed over. Shares have historically generated superior risk-adjusted returns and have been critical in contributing to the total returns of long term investment funds in Australia.

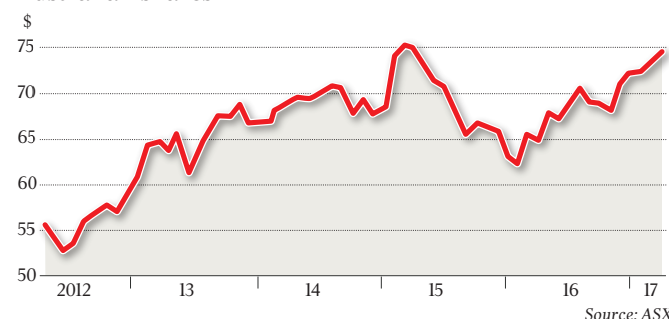
However, 10-year share returns have now fallen to well below long-term norms. Without the benefit of franking, the Aus-



Investors face the prospect of lower returns from bonds and shares in the next few years

Balanced portfolio returns may average about 5 per cent a year for the next few years with returns dragged down by bond or fixed income returns

Five-year performance of Vanguard's Australian shares ETF



Source: ASX

tralian sharemarket indices have returned about 5 per cent per annum, below their long-term averages over the past decade.

While the bulk of investment capital (i.e. superannuation assets) is long-term focused, it seems clear that an increasing amount of these funds is being managed with a short-term focus.

Indeed this short-term focus appears most pronounced in the share asset class because it lends itself to short term trading.

The liquidity of the market has been extended by stock lending and leverage.

While a small amount of actual stock trades, it does so endlessly giving the impression of

massive turnover when really there is not.

The equity asset class is confronted by developments (such as the proliferation of high-frequency trading, hedge funds and passive equity funds) that are acting against proper capital formation and therefore affecting the returns of the equity market. If they remain unchecked, and I suspect that they will, then the returns from the sharemarket (in particular, the indices) will remain sub-optimal.

Passive ETF index investing simply does not work in Australia.

Observing the problem is one thing, but designing a solution is more important — there are a number of things that self-directed investors can do.

John Abernethy is managing director of www.clime.com.au.

The two contributions exemptions that SMSF members need to know about

MONICA RULE



Most investors who operate their own super fund are now aware how important the new notion of a total superannuation balance will be from July 1.

It is particularly important when considering a member's eligibility to make non-concessional contributions into their self managed superannuation fund (SMSF).

To recap, if a member's total superannuation balance at June 30, 2017 is \$1.6 million or more, they would not be able to make any non-concessional contribution into their SMSF in the 2017-18 financial year. The test is applied on June 30 of the previous year in which the contribution is made and is tested each financial year.

What SMSF members may not realise is there are two other types of contributions that may affect their ability to make non-concessional (or post-tax) contributions into their SMSF.

One is the special circumstance payment known as the “structured settlement contribution” and the other is the “capital gains tax cap amount”.

Structured settlements

Payments from structured settlements or orders for personal injuries that are contributed into SMSFs can be excluded from a member's non-concessional contributions cap. This is provided certain requirements of taxation law are met, as well as two doctors certifying that, because of the injury, it is unlikely that the member can ever be gainfully employed in a capacity for which they are reasonably qualified.

For the contribution to be excluded as a non-concessional contribution, the member must make an election using the ATO form NAT 71162 for the payment to be treated as a structured settlement contribution. The election must be

made before or when the contribution is made into the SMSF. The structured settlement contribution will not only be excluded from the member's non concessional contributions cap but also from being counted towards the member's total superannuation balance.

If the member decides to commence a retirement pension using the money from the structured settlement contribution, it is also excluded from the \$1.6m transfer balance cap.

Capital gains tax cap

There are two situations where a member may qualify to contribute money into their SMSF and have it treated as what is known as “a

CGT cap amount” instead of a non-concessional contribution.

The first is under the “small business 15 year CGT exemption”. This is where an SMSF member at least 55 and who qualifies as a small business taxpayer (i.e. they have a turnover of less than \$2m or a maximum net asset value not exceeding \$6m), sells an active business asset and contributes the total proceeds from the sale of up to \$1,445,000 (for 2017-18) into their SMSF. To do this, they must have owned the asset for at least 15 years, and the reason for selling is retirement or permanently incapacitated.

The second situation is under the “small business retirement CGT exemption” where a member under 55 and who qualifies as a

small business taxpayer contributes capital gains from the sale of an active asset of up to \$500,000 into their SMSF.

In order for the personal contribution to be treated as a CGT cap amount and not as a non-concessional contribution, the member must make an election using the ATO form NAT 71161. The election must be made before or at the time the member makes the contribution into their SMSF. If the election is made after the money is contributed into their SMSF it will be counted towards the member's non-concessional contributions and may result in excess non-concessional contributions tax.

Another thing to consider is although the CGT cap amount is

not counted towards non-concessional contributions cap, it is counted towards total superannuation balance. If a member is considering contributing non-concessional contributions as well as a CGT cap in the same financial year, they may wish to assign their non-concessional contribution before contributing their CGT cap amount. They will make non-concessional contributions while their total balance is below the \$1.6m limit.

A good understanding of the new laws enable members to understand what does and does not count towards their total superannuation balance.

Monica Rule is an SMSF specialist at www.monicarule.com.au

FLOAT WATCH

After a century, time to hit boards

Big River Industries

ASX CODE: BRI
SHARES ON OFFER: 11.6 million
LISTING PRICE: \$1.46
MARKET CAPITALISATION: \$76.8m

SIMON HERRMANN

After nearly a century in operation, timber manufacturer Big River Industries is planning to list on the ASX in a deal that values the company at almost \$80 million.

Over the past 12 months ASX-listed competitors in the building industry such as James Hardie (JHX), Boral (BLD) or Fletcher Building (FBU) have performed in a mixed fashion, so how can Big River create value in this highly competitive \$45 billion market?

Founded in 1920, Big River sells hardwood and softwood-engineered flooring products to professional builders and construction companies in the infrastructure construction markets.

The largest risk for IPO investors is Big River's exposure to the residential and commercial housing market

The company acts as a global distributor but also owns manufacturing facilities in Grafton and Wagga Wagga, where it produces its timber and steel products. Big River's management intends to grow the business organically and through acquisitions.

The fragmented timber distribution market consists of more than 2000 competitors and consolidation in the sector is a potential value driver.

In its prospectus, the company forecasts it will grow revenue and earnings over the next two financial years averaging a mid-single digit growth rate.

The largest risk for IPO investors is Big River's exposure to the residential and commercial housing market. A fall in business activity or a lift in interest rates could have a negative impact on demand for its building products.

Big River Industries may not be the most exciting IPO of the year, but the company is fundamentally sound and projects to pay a fully franked dividend as early as the 2018 financial year, yielding more than 5 per cent.

With a track record of almost 100 years, more than 2700 customers and a valuation broadly in line with industry peers, the float offers a balanced income opportunity for investors seeking to gain exposure to the domestic construction industry.

Simon Herrmann is an analyst at wise-owl.com

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