

Deadline looms on balances

What you need to know about the \$1.6 million cap

Rowan Jones

If you have an SMSF with more than \$1.6 million in tax-free pension phase chances are you know you are going to need to make some changes before July 1.

The reason you need to take action is the Federal Government has specifically targeted you in what many are calling the most complicated set of super rules ever introduced.

Although most are aware they need to do "something", it's fair to say not too many know exactly what that "something" is.

To quickly recap why this is an issue in the first place — one of the Government's super changes states that from July 1 you'll only be allowed to have \$1.6 million in tax-free pension phase.

Currently there is no limit. This new rule will be called the Transfer Balance Cap.

As the June 30 deadline approaches the number of questions relating to this change has increased dramatically.

The most common questions being: what needs to be done, who does it and when does it have to be done by? Not to mention the fact that with so many moving parts to value inside an SMSF, how can you be exactly sure what dollar value needs to be moved by the June 30 deadline? As a result of this increasing level of concern the Australian Taxation Office has released PCG 2017/5, a practical compliance guideline. You're probably asking what's that? It's a document the tax office releases to

assist taxpayers in complying with relevant tax laws.

According to the tax office, this guideline has been released to "outline the circumstances in which the tax office will not apply compliance resources to review commutations made before July 1, 2017 by a member of an SMSF to avoid exceeding the \$1.6 million transfer balance cap". In other words, the tax office has outlined the correct steps you need to take to make sure you are not breaking the rules.

According to the document there are three steps that need to be taken.

Step 1

The member of the SMSF makes a written request to the trustees (remembering in an SMSF members must be trustees and trustees members, so in effect you are writing yourself a letter) that states on June 30 the trustees commute amounts in excess of \$1.6 million. Importantly, if you have more than one pension inside your SMSF or have multiple super funds your request needs to specify which income streams you want the trustees to take into account when working out what needs to be commuted.

Step 2

The trustees, again in writing, accept the member's request to commute the amounts in excess of \$1.6 million.

It's important this acceptance (which may be in the form of a trustee resolution) is made by July 1.

MONICA'S TAKE ON RULES

In the super changes that take effect on July 1, the number \$1.6 million figures in three key areas. Self-managed superannuation fund expert Monica Rules looks at all three.

TRANSFER BALANCE CAP

■ The maximum net assets that a person can have in a retirement pension account is \$1.6 million.

■ If a member has more than \$1.6 million in their retirement pension account at July 1, they will incur a 15 per cent excess transfer balance tax calculated on the notional earnings of the excess amount.

■ However, any excess amount of less than \$100,000 at June 30 will be disregarded by the Australian Taxation Office as long as the excess is removed from the member's retirement account by December 31.

TOTAL SUPER BALANCE

■ Total super balance is a figure derived adding all of a person's super account balances.

■ If their total superannuation balance is \$1.6 million or more at June 30 then they cannot make any non-concessional contributions in the 2017-18 fiscal year.

■ However, an SMSF member can still make concessional contributions of up to \$25,000 each financial year regardless of their total superannuation balance.

TAX EXEMPTION

■ Generally speaking, super assets of up to \$1.6 million supporting a retirement pension are exempt from the 15 per cent tax on earnings.

■ If an SMSF is paying a retirement pension, the way it calculates a tax exemption on the investment earnings of assets supporting the pension is based on several factors, including whether the fund member accessing a retirement pension has a superannuation balance of more than \$1.6 million in total across their funds at the start of the financial year. If they do, the exemption must be calculated using the unsegregated assets method.

SOURCE: MONICA RULE, WWW.MONICARULE.COM.AU



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Step 3

The exact dollar amount of the commutation is required to be worked out by the trustees of the SMSF and be reflected in the SMSF's financial accounts for the year ended June 30. This has to be done no later than the due date of the SMSF's annual return for 2016-17.

Don't panic if you think as trustees you will be required to work out the dollar amount of the commutation. Even though the PCG says that, the reality is it will be calculated by your SMSF's accountant and as trustees you will be required to sign off on it.

An example: On May 1 Liz has a single superannuation interest supporting a superannuation income stream in her SMSF that is valued at about \$2 million. Liz makes a written request to the trustees of her SMSF to commute amounts on June 30 in excess of \$1.6 million. The trustee accepts this written request before July 1. The amount Liz will need to commute is worked out by the SMSF trustees and reflected in the fund's financial accounts by the due date of the fund's 2017 annual return.

Rowan Jones is an adviser at Entrust Private Wealth Management

A proved market leader with a good track record

YIELDHUNTER

with Patrick Taylor



It helps to be a pupil of the markets and have confidence in your investment process when buying a stock near record highs, but in this particular case we see it as being far-sighted.

With excellent historical performance and strong forecasts, financial technology provider Iress has an investment profile that is very easy on the eye.

Iress has grown to provide technology solutions to financial markets, wealth management and mortgage services across Australia, New Zealand, Britain, Canada, South Africa and Asia.

It is a proved market leader, benefiting from defensive, recur-

ring revenue streams and carrying little debt. This is significant in the light of their recent aggressive acquisition strategy — adding extra potential to their already robust performance and providing a clearer vision of their future growth.

Taking a close-up view of fundamentals we see that Iress pays a dividend of 3.71 per cent — leaving us short of our benchmark return target by 4.99 per cent. At current pricing they offer a discount of 3.27 per cent to consensus targets, which leaves us still needing something extra to patch the gap.

Looking ahead, we should see that hole covered by strong fundamental forecasts, where earnings are set to improve on already eye-catching results that showed 8 per cent revenue growth, with even greater strength predicted across

profits, margins, earnings and dividend yield through to 2019.

Focusing on Iress through a technical lens we can see a strong historical performance that has seen their shares rise by more than 600 per cent from \$1.50 in 2003 to peak under \$10 by 2007. The GFC forced them into a nine-year battle to break that same peak resistance level, before finally reaching and breaching \$10 by mid-2016.

For the past year they have been bedding down support on top of old resistance at \$10 and moving through a sideways consolidation that came after a recent shorter-term rally to \$12. Here Iress look to be moving forward into a new longer-term uptrend that combines fresh positive signalling with good momentum.

Patrick Taylor heads Taylor Securities

THE PLAY

Iress Ltd (IRE)

Professional information services

Price: \$12.25

Market capitalisation: \$2.1B

Forecast EBITDA growth: 16.81 per cent

Estimate gross yield: 3.71 per cent

Consensus price target: \$12.65

Covering analysts: 7

Discount at current price: 3.27 per cent

Price target trend: Increasing flat

Signal time frame:

Quarterly-monthly-daily

Trend Bias: Up flat long-medium

INDICATORS

Short-term: Positive

Medium-term: Neutral negative

Long-term: Positive

Recommendation: Buy

Focus: Dividend income and capital growth

KEY POINTS

■ Trying to break out of a mostly sideways consolidation that has been unfolding for the last year — these consolidations are fairly regular.

■ Fundamentals look good with strong growth in earnings, forecasts, price targets and dividends.

■ Technicals also look strong after successfully testing support throughout 2017.

■ Within long-running uptrend, has shown significant volatility. We expect that to continue with \$12.50 resistance just above and good support layered down to \$11.00 if needed.