KordaMentha

End of Year Update

December 2017

With the end of the calendar year fast approaching, I wish to draw to your attention some important matters to focus on with your personal finances in the New Year.

New Tax Starting 1 January 2018 – Vacant Residential Land Tax

Why not start the New Year with a new tax!

A new State Tax starts on 1 January 2018, known as the Vacant Residential Land Tax. It is calculated by reference to 1% of the capital improved value of taxable land. It is an annual tax. It applies to residential properties located in Melbourne's inner and middle suburbs left unoccupied for more than 6 months in the calendar year ended 31 December 2017. The tax is designed to increase the availability and affordability of housing access across 16 Council areas by encouraging home owners to rent or sell their vacant properties.

The vacancy period starts to be measured during the 2017 calendar year. It only applies to properties within the following Council areas:

Banyule	Melbourne
Bayside	Monash
Boroondara	Moonee Valley
Darebin	Moreland
Glen Eira	Port Phillip
Hobsons Bay	Stonnington
Manningham	Whitehorse
Maribyrnong	Yarra

The 6-month period does not have to be a continuous 6 months and there are a number of exemptions to the tax.

However, if you have a residential property within the above-mentioned Council areas and that have been vacant for more than 6 months during the calendar year ended 31 December 2017, you need to further explore if one of these exemptions to the tax applies.

If not, you need to notify the State Revenue Office via an online portal of your liability to the tax by 15 January 2018.

Please feel free to contact me if you believe this tax may apply to you.

Cashflow Management

Accessing Cash for Lifestyle Expenses

We are now fully immersed into the new taxing regime for Self-Managed Superannuation Funds. Where you had more than $1.6 million per member in accrued superannuation entitlements as at 30 June 2017, from 1 July 2017, your superannuation entitlements have been split between a $1.6 million concessionally taxed pension and the balance of your superannuation entitlements allocated to accumulation. Your 30 June 2017 accounts for your Self-Managed Superannuation Fund will reflect this.

This change in the taxing regime for SMSF's drives the necessity for a change in the mindset as to how you access cash to manage your day-to-day living needs.

The attached analysis describes in detail the considerations in determining how you choose where you obtain your cash from to meet your cost of living.

The source of cash to fund your lifestyle costs has important current tax ramifications and Estate Planning considerations. If you would like to discuss this with me, feel free to make contact.

Reporting Movements in Pensions

As a result of the introduction of the $1.6 million Pension Transfer Balance Cap from 1 July 2017, the Australian Taxation Office has introduced a new reporting regime for Self-Managed Superannuation Funds (SMSF's). The reporting mechanism deals with movements in Pension Accounts (ignoring movements purely due to investment market changes).

The following matters now need to be reported periodically in a Transfer Balance Account Report (TBAR):

(i) Pensions that were in existence on 1 July 2017.

(ii) New pensions that commenced post 30 June 2017.

(iii) When a pension has been fully or partially commuted.

(iv) Where a Transition to Retirement Pension converts to an Account Based Pension on a person turning 65 years of age or retiring.

Why is this important to know?

There are two very important reasons you need to be aware of this reporting mechanism:

(i) Your Self-Managed Superannuation Fund compliance provider now needs to most likely lodge for you, where you have a pension in existence on 1 July 2017, a Transfer Balance Account Report. This is now a further compliance obligation that you need to meet; and

(ii) You need to be conscious of events that happen to your Fund during the course of a financial year (and not waiting until at the end of the financial year) that may need to now be reported to the ATO.

The first reporting period for SMSF's is no later than 30 June 2018 in relation to events that happen during the 30 June 2018 year and in relation to pensions that were in existence on 30 June 2017.

However, in the next 6 months we need to conscious of reporting obligations if you:

(i) Turn 65 or retire and convert an existing Transition to Retirement Pension into an Account Based Pension.

(ii) You decide to start a new pension; or

(iii) You draw more than the minimum amount from your current pension during the year. This could be classified as a partial commutation of your pension.

As I mentioned before, the source of cash to meet your day-to-day lifestyle costs, not only has important taxation ramifications currently and for your Estate, but also now has reporting obligations.

As such, if you are planning to draw more than the minimum pension in the 30 June 2018 year, you need to talk to your SMSF compliance provider to ensure that information is available to lodge the appropriate Transfer Balance Account Report.

I wish you a safe and restful Christmas break and look forward to working with you during the course of the 2018 year.

Anthony Jackson

Anthony Jackson

KordaMentha

Cash Flow Management post the SMSF Tax Changes

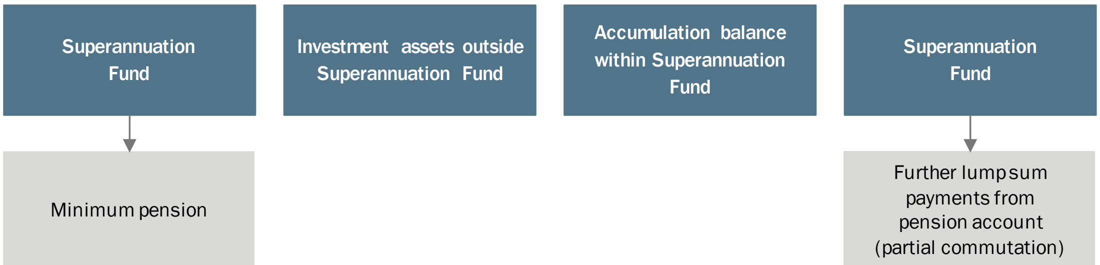
December 2017

The capping of concessionally taxed pensions at an asset value at 30 June 2017 of $1.6 million requires a revised mindset as to how we now fund our day-to-day lifestyle costs. The drawing of cash from various sources will have differing taxation outcomes, depending upon the characteristics of your investment asset base.

This of course will depend upon your own personal circumstances as there is not a ‘one size fits all’.

Sources of cash to fund lifestyle

There are four possible sources of cash with different tax characteristics to fund your day-to-day lifestyle:



Minimum superannuation pension

The law requires a minimum per annum pension withdrawal based on:

1. Your age; and
2. The capital value of your pension account balance

at 1 July, each year.

With the maximum Account Based Pension balance set at $1.6 million on 1 July 2017, for those with at least $1.6 million in superannuation as at that date, we now know what your minimum pension withdrawal will be for the 30 June 2018 year.

Accordingly, for those who have reset their Account Based Pensions to the maximum Pension Transfer Balance Cap of $1.6 million, your minimum pension for the 30 June 2018 year is as follows:

Minimum Account Based Pension* 30 June 2018 Based on Utilising Maximum Transfer Pension Cap of $1.6 million		
Age at 1 July 2017	**Percentage Factor**	**Minimum Pension per Annum**
Under 65	4	$64,000
65 – 74	5	$80,000
75 – 79	6	$96,000
80 – 84	7	$112,000
85 – 89	9	$144,000
90 – 94	11	$176,000
95 or Over	14	$224,000

** Does not apply to Transition to Retirement Pensions*

To help you fund your cash flow management for the current financial year, you could withdraw the minimum pension now and put that amount in your day-to-day living account. Remember the minimum pension is a per member test. For example, if you have two 66-year-old members each with a pension balance at 30 June 2017 of $1.6 million in account based pensions, then the minimum withdrawal for the Fund is $160,000 for the 30 June 2018 year (i.e. $80,000 per member).

Accessing resources outside superannuation

If you have investible assets outside superannuation, you need to turn your attention to how you will access those assets over your lifetime tax effectively.

The taxation characteristics of these assets need to be considered.

For example:

(i) Will the conversion of such assets to cash to fund your lifestyle costs trigger a Capital Gains Tax liability?
(ii) What structure currently hold these assets (e.g. Individual Trust or Company) and will accessing the cash trigger a tax liability?
(iii) What is the tax liability on the income derived by these assets in their current structure?

Remember, if you have an amount in superannuation in excess of $1.6 million then the Superannuation Fund is likely to have a taxation liability for the 30 June 2018 year. Accordingly reviewing the investable asset base outside superannuation is important to analyse how the overall tax position on those assets compares with the tax profile of your assets within your superannuation fund.

Accessing your accumulation balance within superannuation

Post 30 June 2017, where you have in excess of $1.6 million per member in assets within the superannuation, those assets in excess of $1.6 million not in pension mode will be classified as being in ‘Accumulation Mode’.

The income from those proportion of assets in Accumulation Mode as a percentage of the total asset pool within the Fund will now attract a 15% income tax rate (10% Capital Gains Tax rate).

To further fund your lifestyle (subject to your investable assets outside superannuation) it is preferable to draw down from assets representing those within your Accumulation Account. This will decrease those assets, therefore decrease the proportion of income referable to those assets and hence the tax payable within the Fund.

Once you have drawn down the minimum pension and wish to commence drawing from your Accumulation account, you need to prepare documentary evidence of your intentions in this regard.

Lump sum payable from pension accounts

If you do not have resources outside of superannuation and have exhausted your Accumulation balance within the Fund, you will then need to most likely access further payments from your pension account within the Superannuation Fund. The amount drawn from the pension account in excess of the minimum per annum amount mentioned above should be classified as a partial commutation of the pension and therefore a lump sum withdrawal. This will reduce the amount held in your Pension Transfer Balance which may be useful for estate planning purposes in the future.

This to needs to be documented from 1 July 2018 and reported to the Australian Taxation Office.

Action required

Knowing what your minimum pension is for the 2017/18 financial year provides you with the first ‘port of call’ for funding your lifestyle costs. Whilst you are currently accessing that money, you should now work towards updating your 30 June 2017 financial position by having your Tax Agent prepare the 30 June 2017 Accounts and Tax Returns for entities within your Group. This will provide the appropriate source of information to then determine the next source of cash to fund your lifestyle.