YOUR 2020 END OF FINANCIAL YEAR (EOFY) CONSIDERATIONS

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The COVID-19 pandemic has affected everyone's lives, and SMSF trustees are no exception.

While the worst of the pandemic is (hopefully) behind us, trustees still have difficult questions to ponder as they focus on how best to position their SMSF in 2020-21, as well as meet their annual regulatory obligations for 2019-20.

If there is anything in this paper that you are unsure about, we encourage you to contact me to discuss your specific circumstances in more detail.

Meeting new pension requirements

To help manage the economic impact of COVID-19, the Government has reduced the minimum drawdown requirements by half on common pensions, such as account-based pensions and market-linked pensions, for 2019-20 and 2020-21. This also occurred after the GFC in 2008, and you will need to consider and amend your pension strategies for these two financial years.

This includes ensuring that the minimum pension has been paid for this financial year. Where this requirement is not met, SMSFs will be subject to 15% tax on pension investments instead of being tax free.

Where you have been receiving regular pension payments, it's likely you may have received more than the required minimum payment for this year. Unless you meet contribution eligibility rules, these funds cannot be returned.

It is also important to amend your pension strategies for 2020-21 to reflect the "new" minimum pension standards. Specialist SMSF advice should be sought to help you determine the most effective way to structure benefit payments, please get in contact with me to discuss further.

Contribution Changes

Before 30 June, you should review your contribution strategies to ensure you have contributed what you intended to and ensure you are below the contribution caps.

Non-concessional (after-tax) contributions are limited to $100,000 for the 2019 financial year and concessional (before-tax) contributions are limited to $25,000. These will remain the same for 2020-21.

However, SMSF trustees should be aware of the legislation that is slated to pass before the end of the financial year. If passed it will allow people aged between 65 and 66 to make voluntary contributions (previously restricted to people below 65) without meeting a work test. These older individuals will also be able to make up to three years of non-concessional superannuation contributions under the bring forward rule, so it will pay to get advice in order to maximise their contributions.

Investment strategy and property assessment

Your fund’s investment strategy is a key consideration on the cusp of 2020-21.

It is important to understand that an SMSF’s investment objectives and strategy are not set in stone, with the strategy needing to be reviewed at least once a year and signed off by an auditor.

Before any investment decision is implemented, particularly in a COVID-19 environment, you should examine the impact it will have on the overall portfolio to ensure you are investing in line with your strategy.

For those exposed to property, in some cases with a limited recourse borrowing arrangement (LRBA), there are new considerations. Many SMSF commercial properties (and, to a lesser extent, residential property) will not be receiving full rental payments under their lease agreements because of COVID-19, meaning less income.

All efforts should be focused on negotiating with tenants and using the Government support packages to ensure they will be able to withstand the effects of COVID-19. This includes considering the property relief measures the ATO have implemented and the use of the National Cabinet's Mandatory Rental Code to plan out rental income for this and next financial year.

$1.6 million transfer balance cap and total superannuation balance

A delayed lodgement date of 30 June 2020 is in place for all SMSF trustees as the sector navigates the COVID-19 pandemic. It is important that you, as an SMSF trustee, understand the position of your SMSF at 30 June before taking any actions which could cause you to breach superannuation laws.

The $1.6 million transfer balance cap applies to SMSF members who are receiving a pension. A $1.6 million transfer balance cap limits the amount of tax-free assets that can support a pension. Ensure you are aware of the consequences of excess transfer balances and avoid exceeding the cap.

Different total superannuation balance thresholds exist for SMSF. Ensure you are across your fund's total superannuation balance which may be relevant for contributions, exempt pension income or transfer balance account reporting.

How can we help?

If you need assistance when making decisions about your fund before the end of the 2020 financial year, please feel free to give me a call so that we can discuss in more detail. We will be able to work together to ensure you are maximising your fund to reach your financial goals. Alternatively, you can refer to the SMSF Association's trustee education platform, SMSF Connect