Is your SMSF ready for the End of the Financial Year (EOFY)?

With the end of the financial year fast approaching, now is the perfect time to make some final checks and ensure everything is in order for your SMSF before 30 June. The following are some matters that you might want to know more about, particularly if you have taken advantage of some of the COVID-19 relief measures.

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

Contributions

From 1 July 2020, if you were under the age of 67 you were able to make voluntary contributions without meeting a work test. This was previously restricted to people below age 65. In addition, if 2020-21 is the first year that you no longer satisfied the work test, you may still be able to make voluntary contributions under the work test exemption if you had a total superannuation balance (TSB) of less than $300,000 on 30 June 2020.

Therefore, it is important to review your contribution strategies before 30 June 2021, to make sure you maximise your contribution opportunities whilst ensuring you are below your contribution caps.

Non-concessional (after-tax) contributions are limited to $100,000 for the 2021 financial year and only available if your TSB was less than $1.6m on 30 June 2020.

If you were under 65 at any time during the 2020-21 financial year, you can potentially contribute up to three times the non-concessional cap (or $300 000) at once. The maximum bring forward non-concessional contribution amount you can make will depend on your TSB on 30 June 2020. Please note that draft legislation to allow older individuals to make up to three years of non-concessional superannuation contributions under the bring forward rules, has yet to be passed.

Concessional (before-tax) contributions are limited to $25,000 for the 2021 year. You may also be eligible, subject to your TSB, to make larger concessional contributions if you have any unused concessional contribution cap from the 2019 financial year onwards.

Where you have made personal contributions and intend to claim a tax deduction in 2020-21, it is important that you reconcile all employer contributions and salary sacrificed amounts to superannuation to make sure you do not breach the annual concessional contributions cap. It is also important to ensure that the relevant notice requirements are met so that you can claim a deduction.

These annual limits will increase on 1 July 2021 to $110,000 for non-concessional contributions and $27,500 for concessional contributions.

The Government also announced in the latest Federal Budget that the work test will be removed altogether to allow voluntary non concessional contributions and salary sacrificed contributions to be made up to the age of 75. If passed, these changes are expected to be available from 1 July 2022.

Meeting new pension requirements

To help manage the economic impact of COVID-19, the Government reduced the minimum drawdown requirements by half on account-based pensions and market-linked pensions for 2020-21. The Government recently announced the 50% reduced minimum pension drawdown requirements will be extended for 2021-22.

Whether or not you have taken advantage of this reduction, it is important that you reconcile all pension payments received to ensure you do not underpay the minimum pension payment required by 30 June 2021. Where this requirement is not met, SMSFs will be subject to 15% tax on pension investments instead of being tax free.

All pension withdrawals for 2020-21 must be paid in cash by 30 June 2021 and cannot be accrued or adjusted using a journal entry so it is important to attend to this as soon as possible. For example, if you are making pension payments via an electronic transfer, you need to ensure that online transfers show the money coming out of the fund’s bank account by no later than 30 June.

$1.6 million transfer balance cap and total superannuation balance

Ensuring that member’s benefits are shown at market value is important in calculating each member’s TSB and in determining whether a member will exceed their transfer balance cap (TBC).

The $1.6 million TBC applies to SMSF members who are receiving a pension and limits the amount of tax-free assets that can support a pension. To track the relevant events against your personal TBC, SMSFs are required to lodge with the ATO a transfer balance account report (TBAR). The TBAR is separate to an SMSF's annual return and TBAR lodgment obligations, depend on members' TSBs.

With the general TBC set to index to $1.7million on 1 July 2021 it is more important than ever to ensure that all your TBAR lodgments are up to date and that you seek help in correctly calculating your entitlement to any proportional indexation of the TBC.

Investments & COVID Relief Measures

SMSF trustees are required to value the fund's assets at their market value as at 30 June each year in the annual financial accounts. Although it can be a straightforward process to value assets when it comes to term deposits or listed shares and managed funds, it can be quite difficult to ascertain the value of real estate or private companies and units trusts. When valuing SMSF assets, you must comply with the ATO valuation guidelines for SMSFs. Contact us if you have any questions or require assistance.

For the 2020-21 financial year, getting the value of the fund's assets correct is important in assessing the impact of COVID-19 on your superannuation benefits. It is even more important for SMSFs relying of the ATO's in-house asset COVID-19 relief. These SMSFs will have till 30 June 2022 to ensure that in-house asset levels are reduced to less than the allowable 5% limit.

For those SMSFs that took advantage of the property relief measures the ATO implemented to reduce rent in 2020-21, any form of rental relief must end by 30 June 2021. From 1 July 2021, COVID-19 will not be a valid reason for any rental relief and SMSF trustees will need to ensure that all rent is at an arm's length rate.

For those SMSFs with a limited recourse borrowing arrangement (LRBA), there are additional considerations. Where your SMSF was provided with COVID-19 loan repayment relief to assist in meeting loan repayment obligations, this relief should cease by 30 June 2021. From 1 July 2021, any LRBA should revert to the original terms of the loan to ensure that the arm's length requirements continue to be met. Where the COVID-19 loan relief has resulted in a variation to the original term of the LRBA, provided that interest continues to accrue on the loan and you repay any deferred principal and interest repayments in accordance with the varied terms, the LRBA will be considered to be consistent with an arm's length dealing.

How can we help?

If you have any questions, require assistance or would like further clarification with any aspect of your end of year superannuation matters, please feel free to give us a call to arrange a time to meet and discuss your particular requirements in more detail.