SUPERMATTERS

SUPERANNUATION STRATEGIES FOR YOU AND YOUR BUSINESS

ISSUE 14
2017

INSIDE

- Strategies to bulk up your super before retirement
- Carrying on a business in an SMSF
- Super vs mortgage

Shorrock Partners

New measures to crack down on super non-compliance

The Australian Taxation Office (ATO) will receive additional funding for a Superannuation Guarantee Taskforce to crack down on non-compliance by employers.

The Government has announced a package of reforms to close a legal loophole used by dishonest employers that short-change employees who make salary-sacrifice contributions to super.

Funding for the Taskforce coincides with new data released by the ATO reporting a significant estimated Super Guarantee gap. This gap is the difference between the theoretical amount payable by employers to be fully compliant and actual contributions received by funds.

The ATO estimates the net SG gap as 5.2 per cent or $2.85 billion of the total estimated $54.78 billion in SG payments that employers were required to pay in 2014-15.

The gap exists because some employers are not meeting their super guarantee obligations either by not paying enough or not paying at all.

Employers who are deliberately not paying their workers' super entitlements are robbing their workers of their wages. The new package aims to take action on this so employers cannot hide from their legal obligation.

Some of the measures included in the package involve:

- A requirement for superannuation funds to report contributions received more frequently (at least monthly) to the ATO. This is aimed to better identify patterns of non-payment and allow for immediate action;
- The rollout of Single Touch Payroll to further improve visibility on reporting, simplify tax and super for employers while allowing the Tax Office to better detect patterns of non-compliance;
- Improvements to the effectiveness of the ATO's recovery powers, including strengthening director penalty notices and the use of security bonds for high-risk employers, to ensure unpaid super is better collected by the ATO and paid to employees' super accounts; and
- Allowing the ATO to seek court-ordered penalties in the most shocking cases of non-payment, including employers who are repeat offenders.

The crackdown serves as a strong reminder for businesses to do the right thing. The ATO deals with roughly 20,000 complaints annually regarding unpaid super from both former and current employees.

Superannuation is a legal entitlement for employees; failure to pay employee super guarantee is illegal and can result in harsh penalties.

SHORROCK PARTNERS

CHARTERED ACCOUNTANTS AUSTRALIA + NEW ZEALAND

Liability limited by a scheme approved under Professional Standards Legislation.

SUITE 604
99 BATHURST ST
SYDNEY, NSW 2000

TEL 02 9229 8200
FAX 02 9229 8248

ABN 37 136 424 112

EMAIL
office@shorrock.com.au

WEBSITE
www.shorrock.com.au

DIRECTORS
Bill Shorrock
Rohit Gupta
Will McDougall
Caitlin Rowe

Accounting & Taxation
Self Managed Super Funds
Estate Planning
External CFO Services
Charitable Funds

Strategies to bulk up your super before retirement

To retire comfortably, you should be doing everything you can while still in the workforce to make sure your superannuation is as fruitful as possible.

Consider the following:

Consolidate super into one account

Super account fees can eat away at your super balance, especially if you have numerous accounts. If you find yourself in this position, take the time to organise your super contributions into the one account to reduce unnecessary and excessive fees.

Outstanding super payments

Check you have been paid all the super you are entitled to, as well as interest, as this can uncover large amounts of unpaid super. Employers have a legal obligation to pay all employees who have earned more than $450 in the space of a month, and these payments are required to be paid at least quarterly. If you have not been paid what you are owed, you are also missing out on accumulated interest. It is now compulsory for employers to report the super contributions they make, but this was not always the case, meaning you may need to contact previous employers or the ATO to access unpaid super you are entitled to.

Salary sacrifice

This is an efficient way to grow your superannuation while also incurring worthwhile tax benefits. To practice salary sacrificing, you will have to come to an agreement with your employer. You can contribute money from your pre-tax salary into your superannuation account, on top of the 9.5 per cent SG contribution that your employer must make. You will only be taxed 15 per cent on this additional contribution amount, but it does mean taking home a smaller figure each paycheck.

Spousal contributions

From 1 July 2017, if your spouse is a low income earner who is receiving less than $37,000 per year, you can make the after tax contribution of up to $3,000 on their behalf and receive an 18% tax offset.

Super vs mortgage

The decision between living debt free and having sufficient savings for retirement is often a difficult one.

There are benefits to allocating money to both your super and your mortgage. Take your personal circumstances into consideration with the following pros and cons of each:

Mortgage

Paying down your mortgage may seem favourable for many homeowners but proceed with caution. It is wise to check if your mortgage has restrictions on making additional repayments. If it does not have extra costs, making additional repayments may be beneficial as you'll reduce your total interest and pay down your mortgage quicker.

Another benefit of extra mortgage repayments is the ability to redraw extra repayments if you need cash in the future. Paying down your mortgage also means your house equity will increase. House equity can be used to take out a line of credit for significant costs such as a renovation or can be used towards the purchase of another property, i.e., a holiday house.

Making extra repayments towards your mortgage is generally a good approach to reducing the interest paid on your loan and ensuring your mortgage is paid off before retirement.

Super

Contributing to your nest egg via salary sacrifice is tax effective and can make a big difference to your balance, and ultimately, your lifestyle come retirement. Those earning a marginal tax rate higher than 15 per cent will benefit the most from salary sacrificing. For example, if you earn $80,000 a year your marginal tax rate is 32.5 per cent plus the Medicare levy.

Say you decide you can spare $1,200 a year from your after-tax income, this equates to $1,832 before tax. If you salary sacrificed $1,832 into super, paying only 15 per cent tax, $1,557 would go into your super fund. Where salary sacrificing is not feasible, you can make additional contributions from your after-tax income, although it doesn't have any tax advantages.

Making additional super contributions has its risks and limitations. Super fund returns can fluctuate regularly and probably more than your current mortgage rate. There are also contribution caps on the amounts of super you can contribute each year and there will be additional tax where you exceed contributions.

One way to compare super contributions against contributions to your mortgage is to compare the 7 or 10 year long-term average after-tax return on your super to your current mortgage rate.

Carrying on a business in an SMSF

SMSFs can carry on a business providing the business is allowed under the trust deed and operated for the sole purpose of providing retirement benefits for fund members.

Carrying on a business through an SMSF does have restrictions that other businesses do not have, such as entering into credit arrangements or having overdrafts.

SMSF trustees that carry on a business through their fund must adhere to the sole purpose test.

The ATO looks for cases where:

- the trustee employs a family member;
- the 'business' is an activity commonly carried out as a hobby or pastime;
- the business carried on by the fund has links to associated trading entities;
- there are indications the fund's business assets are available for the private use and benefit of the trustee or related parties.

The same regulatory provisions still apply to funds that carry on a business, i.e, SMSF investments must be made on a commercial 'arm's length' basis, business activities must be conducted in accordance with the SMSF's investment strategy, collectables and personal use assets cannot be displayed at the business premises and so on.

The SMSF cannot be involved in the following business activities:

- selling an SMSF asset for less than its market value to a member or relative of a member
- purchasing an asset for greater than its market value from a member or relative of a member
- acquiring services in excess of what the SMSF requires from a member or relative of a member
- paying an inflated price for services acquired from a member or relative of a member.