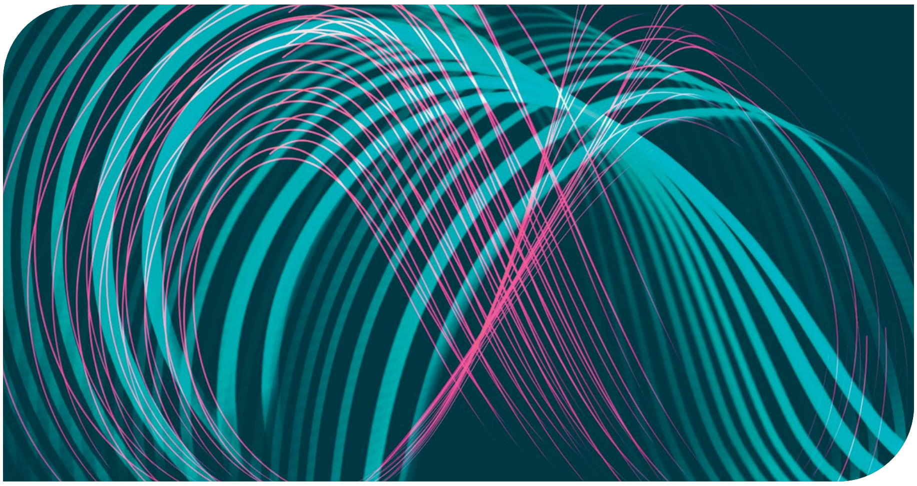
Nexia Australia

Superannuation Solutions

Edition 20



Welcome

Welcome to the latest edition of our Superannuation Solutions Newsletter.

In this edition we discuss concessional contribution caps increasing, whether you need to take action on the contribution cap bring forward, research demonstrating how SMSFs out perform APRA funds and the ATO's focus on SMSF compliance to value assets each year at market value.

We hope you find this newsletter informative. Should you have any questions in relation to how these changes may impact you, please contact one of our SMSF Specialists.

Important Dates

28 April 2024
March quarter superannuation guarantee contributions due by employers.
March quarter transfer balance account reports due by funds.

15 May 2024
2023 tax returns and payment due for all super funds being lodged under a tax agent with tax payable in this year or the prior year.

28 May 2024
Lodge and pay Superannuation guarantee charge statement if the employer did not pay enough contributions on time for the March 2024 quarter.

Increased Contribution Caps from 1 July 2024

On 1 July 2024 the concessional contribution cap (indexed to movements in Average Weekly Ordinary Time Earnings) will increase from $27,500 to $30,000. The non-concessional cap, which is set at four times the concessional cap, will increase from $110,000 to $120,000. The general transfer balance cap remains unchanged.

Clients are probably aware of the rules which permit a super fund member to make a non-concessional contribution of up to three times the general non-concessional contributions cap, by bringing forward the non-concessional caps for up to the next two years.

These indexation changes will have a significant effect of the tests used to calculate if the non-concessional contributions caps of future years can be brought forward.

The **first test** compares the member's total super balance at the previous 30 June to the general transfer balance cap (currently $1.9m) in the year the bring forward is triggered.

These situations translate into the following table with the indexation of the non-concessional contributions cap from 1 July 2024:

Total super balance on 30 June of previous year	Non-concessional contributions cap for the first year	Bring-forward period
Less than $1.66m	$360,000	3 years
$1.66m to less than $1.78m	$240,000	2 years
$1.78m to less than $1.9m	$120,000	No bring forward period. General non-concessional contributions cap applies.
$1.9m or more	Nil	Non-concessional contributions cap is zero.

The maximum amount of the brought forward cap is set by reference to the general non-concessional cap applicable in the year the bring forward is triggered. So if you trigger a bring forward on or before 30 June 2024, the increased non-concessional caps which would otherwise apply in 2025 and 2026 are ignored.

There may be situations where two or three years of non-concessional contributions caps are brought forward but the full amount of possible non-concessional contributions is not made in the first year. In this case the member's total super balance at the previous 30 June must be measured against the general non-concessional contributions cap in each of the second and third years, and this might rule out making planned contributions in those years. No non-concessional contribution can be made in a year where the member's total super balance on the previous 30 June is equal to or greater than the general transfer balance cap for that year, currently $1.9m.

The **second test** concerns the member's age. The member must be under 75 years of age at any time in a financial year.

With these changes, clients should take care in deciding whether to trigger the bring forward before or after 30 June 2024, and whether to use the full brought forward cap in one year. Please contact your Nexia advisor if you have any questions or need any further information or advice.

You may need to take action on the Concessional Contributions Cap Bring Forward

The 2023-24 financial year is the last chance to use any unused concessional contributions cap from the 2018-19 year under the concessional cap bring forward provisions. Clients should consider if they need to take action before 1 July.

Under the concessional cap bring forward rules, if a super fund member does not fully use their concessional contributions cap in the 2018-19 financial year or a later year, the used cap amount can be carried forward to be used within the next five years, provided the member's total super balance is less than $500,000 at 30 June of the previous financial year. For example, if your total super balance at 30 June 2023 was $450,000 and you had not used $3,000 of your concessional contributions cap from 2018-19, you could potentially have a concessional contributions cap of $27,500 + $3,000 = $30,500 in the 2023-24 year. But on 1 July 2024 any unused 2018-19 concessional cap will "drop off".

If you have available unused concessional caps from previous years, it might be advantageous to make concessional contributions in the 2023-24 year, before the amended Stage 3 personal tax cuts come into effect on 1 July 2024. Please contact your Nexia advisor if you have any questions on this or any other super issue.

SMSFs out perform APRA Funds in 2022

Research from the University of Adelaide's International Centre for Financial Services (ICFS), conducted for the SMSF Association, demonstrates the strong performance of the SMSF sector relative to APRA benchmarks during the 2021-22 financial year.

As with past studies conducted by the ICFS for the SMSF Association, the study is based on de-identified data taken from the three major SMSF software suppliers: Class, BGL and Super Concepts. The study included data from 394,415 SMSFs, which represents 67.3% of the total SMSF population.

2021-22 was a period of generally negative financial returns.

According to the study, the median rates of return of SMSFs were:

All sampled SMSFs	-1.0%
SMSFs larger than $200,000	-0.9%
SMSFs with less than 80% cash	-1.1%
SMSFs meeting both conditions	-1.0%

In contrast, the median rate of return for APRA funds was -5.1%.

The difference of 4.1% in medians is the largest annual margin observed by the ICFS in favour of the SMSF sector between 2017 and 2022.

The study suggests that the financial performance of the SMSF sector might have been helped by the tendency for SMSFs to hold more defensive assets allocations the be underweight in international equities relative to APRA funds.

Market Valuation of SMSF assets attracts ATO attention

The ATO has recently announced a focus on ensuring that SMSFs are complying with the requirement to value assets each year at market value.

The valuation of super fund assets also has a direct flow-on effect in the calculation of a member's balance in the fund, and therefore the member's total super balance. There are many aspects of super funds that are affected by a member's total super balance, including:

- The ability to bring make use of unused concessional contributions caps of the last 5 years
- The ability to bring forward non-concessional caps of future years
- A member's non-concessional contributions cap
- Eligibility to receive government con-contributions
- Eligibility to receive the spouse contribution tax offset, and
- Eligibility for the one year work test exemption

With the likely introduction of the Division 296 tax, which will impose an additional tax on members' balances over $3m, there has been an increased focused on the valuation of assets.

SIS regulation 8.02B provides that super funds must value their assets each year at market value in preparing accounts and financial statements. SMSF auditors are required to obtain sufficient audit evidence to be satisfied that this requirement has been met. Section 10(1) of the SIS Act defines "market value" as the amount that a willing buyer of the asset could reasonably be expected to pay to acquire the asset from a willing seller if they were dealing at arm's length, there was proper marketing of the asset, and both acted knowledgably and prudently in relation to the sale.

It is worth noting that this definition of market value does not take into account selling costs. However, a member's total super balance is calculated on the basis of the total value of the benefits that would become payable if the member voluntarily caused their interest in the fund to cease, which will be net of selling costs. So it is possible for there to be a difference between a member's interest in the market value of fund assets, and a member's total super balance.

The ATO has announced it is scrutinising more than 16,500 SMSFs which have reported certain classes of assets at the same value for at least 3 years. These include residential and commercial property, and unlisted companies and trusts.

The ATO is concerned that funds might not be meeting the requirement to value assets at "market value" each year. Failure to meet these requirements could potentially result in the imposition of administrative penalties on funds for failing to meet the SIS regulations.

We expect that the valuation issue will become only more critical with the introduction of Div 296 tax from 1 July 2025, especially in situations where a member's balance is approaching $3m.

Please contact your Nexia advisor if you have any questions or concerns in relation to the valuation of assets in your SMSF.

Who we are

At Nexia Australia, our purpose is to connect you with your true potential. With education specialists in each state, we are your personal and financial partners in making quality lifelong learning possible. From taxation, to reporting, audits, and general advice — get accounting solutions designed to identify risks and create realistic plans to meet statutory obligations and grow your business.

With the wealth of knowledge that comes with 30 years of excellence, a global network, and connections like Bursars' Associations, Independent Schools Associations, the Department of Education, Employment, and Workplace Relations, as well as consulting and bank executives — you can focus on setting 'new' goals instead of worrying about 'how' to reach your current ones.

We take pride in being responsive, progressive, and proactive in identifying and implementing the solution to your success.

Contact us

Learn how Nexia Australia can help set you and your organisation up for success. Contact your local Nexia Advisor below to get started.

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