Horizon Management Client Newsletter

Autumn 2014

Introduction

Welcome to the Autumn Edition of the Horizon Management Client Newsletter. As Easter is already upon us, the majority of funds have had their 2013 fund annual returns lodged and are now moving into the phase of ensuring that minimum pensions have been withdrawn from the fund or are making the most of contributions limits and planning for end of year.

We will be contacting you in the coming weeks to assist you manage your pension withdrawals and contributions for the 2014 financial year as well as providing additional information for those members affected by the SuperStream obligations (see below).

Client Event - Reminder

This is a reminder that you and your partner are invited to a briefing on the:

- ***Latest changes impacting SMSFs***
- ***Federal budget and its impact on your fund***
- ***Current Investment outlook***

The briefing will be held on Wednesday May 14th 2014 commencing at 5.30pm for pre-briefing drinks and canapés. The briefing itself will be from 6.00 to 7.00 and will include a Q and A session, and be followed by further refreshments.

The venue is the One Room at the Adelaide Oval.

John Dimas will spend a few minutes bringing you up to date on recent changes impacting your SMSF. Additionally, we are delighted to have David Sokulsky, Head of Investment Strategy at UBS Wealth Management to provide an overview of the impacts of the Federal budget which will be tabled the day before on 13 May and to share his insight into the current investment environment.

Please respond by 7 May to martin.turner@horizonmanagement.com.au or call Martin on 08 8110 0970 to reserve your seat.

What's been happening in the industry?

Increase in the Concessional Contributions general cap

In late February 2014 the Australian Taxation Office (ATO) announced that it would be resuming the indexation of Concessional Contributions cap, which had been frozen at $25,000 since 2009/10.

As a recap, Concessional Contributions include:

- Employer contributions (including contributions made via salary sacrifice)
- Personal contributions claimed as a tax deduction by a self-employed person.

The table below summarises the contributions cap applicable to this financial year and the next.

Financial year	Amount of general cap
2014/15	$30,000
2013/14	$25,000

And as many of you are aware, the Tax and Superannuation Laws Amendment Bill 2013 (passed on 28 June 2013) which temporarily increased the Concessional Contributions cap, remains in place, operating in conjunction with the increase in the Concessional Contributions general cap. The table below summarises the temporary concessional contribution limits that apply.

Financial year	Cap for members aged 59 years or over on 30 June 2013	Cap for members aged 49 years or over on 30 June 2014
2014/15	$35,000	$35,000
2013/14	$35,000	$25,000

Flow on effects from the increase in the Concessional Contributions general cap

Non-concessional contributions include personal contributions for which you do not claim an income tax deduction. The Non-concessional contributions cap is six times the Concessional Contributions general cap (as discussed above, currently $25,000). As a result of the increase in the Concessional Contributions general cap in the 2014/15 year to $30,000, the Non-concessional contributions cap for the 2014/15 financial year subsequently increases to $180,000. Resulting from this increase, using the 3 year bring forward rule, fund members will be able to contribute a total of $540,000. Fund members may be better served not triggering the 3 year bring forward rule this financial year and waiting until 1 July 2014 to take advantage of the increased cap. Members who trigger the 3 year bring forward rule in 2013/14 will be locked in at the lower $450,000 amount as additional contributions cannot be made over the next two years to increase this amount to $540,000.

Financial year	Value of cap
2014/15	$180,000
2013/14	$150,000

SuperStream Reforms

The SuperStream reforms are designed to address inefficiencies in 'back office' processing. A superannuation member must provide their employer with:

- Their SMSF's Australian Business Number
- Their SMSF's bank account for receipt of contribution payments (BSB and account number)
- An electronic service address for receipt of a contribution data message.

Employers with 20 or more employees must contribute using the new standard from 1 July 2014. Employers with 19 or fewer employees are included from 1 July 2015. SMSF members will also need to ensure your SMSF bank account is able to receive electronic contribution payments and can receive a contribution message with information about these payments in the SuperStream format. Contributions made to an SMSF from a related party employer are exempt from SuperStream. Contributions can therefore be made using existing processes. A related party employer, for example, is a business run by one or two members and the business contributes to their SMSFs.

Note that our SMSF software provider is "SuperStream ready" and we will be advising SMSF members individually about the information they need to provide their employer to ensure that their fund can accept contributions.

Account Based Pensions - New Deeming Rules from 1 January 2015

In late March 2014, the Social Services and Other Legislation Amendment Bill 2013 was passed which changes the deeming rules for the Age Pension income test. As a result of this legislation the deeming rules will include Account Based Income Streams commenced after 1 January 2015, ensuring that people with similar financial investments are treated consistently under the income support system.

Account Based Income Streams in place before 1 January 2015 will continue to be assessed under the current Age Pension income test rules. Different rules currently apply for assessing income to certain income streams with Centrelink and Veterans' Affairs which are not subject to income deeming and also benefit from a deductible amount calculated using an individual's life expectancy. If a member's income support payment ceases to be payable and is subsequently recommenced, then that member's income support payment will be subject to the new deeming rules from the day that the income support payment ceases to be payable.

A pension may cease in several ways that could impact an income support payment including:

- Failure to comply within the pension rules (e.g. not taking the minimum pension)
- Full commutation of an income stream
- Death of a member.

What is deeming?

Under the current rules, if you intend to rely either fully or partially on the Age Pension to assist you with your living expenses, the income under the Age Pension income test assessed derived from any financial investments that you own, such as shares and term deposits, is not the actual income earned on those investments. Income counted from financial investments when working out your eligibility for the Age Pension, is known as deemed income. Deemed income is an assumed rate of a financial investment, which differ from the income you actually earn from that financial investment.

Under the new deeming rules, it may mean that you will receive less Age Pension than is currently the case even though you have not changed the nature of the Financial Investments you hold.

What are the regulators focusing on?

SMSF changes taking effect from 1 July 2014

The following changes will come into effect on 1 July 2014:

- **New administrative penalties**
  The ATO will have the power to impose a new list of administrative penalties. Penalties range from 5 penalty units up to 60 penalty units. Each penalty unit currently equates to $170. The maximum administrative penalty for a single breach is $10,200.

- **Power to force rectification**
  The ATO will have the power to force trustees to rectify specific contraventions by giving trustees a 'rectification direction' that will require a person to undertake specified action to rectify the contravention within a specified time frame. The specified person will need to provide the ATO with evidence of compliance with the direction.

- **Mandatory trustee education**
  The ATO can now force SMSF trustees to attend mandatory trustee education via an 'education direction' which will require a person to undertake a specified course of education within a specified time frame The ATO will also require evidence of completion of the course. Trustees will also be required to sign, or re-sign the SMSF trustee declaration to confirm that their understanding of their obligations and duties.

- **Approved courses**
  The ATO can direct trustees to attend an 'approved courses' for the purposes of the education direction.

Please contact us if you have any questions in relation to any of the matters discussed in this newsletter