CARISMA SOLUTIONS

# INTEREST, ROLL IN ,REBATE AND NRAS

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# Interest Income -Introduction

Interest income within a Self-Managed Super Fund (SMSF) is the revenue generated from interest-bearing assets held in the fund.

This can include interest from sources like savings accounts, term deposits, or bonds.

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# Interest Income - Types

- **Bank Accounts:** Interest earned on savings accounts or cash management accounts.
- **Term Deposits:** Interest from fixed-term deposits, which typically offer higher rates than regular savings accounts.
- **Bonds and Fixed Income Securities:** Interest from government or corporate bonds and other fixed-income investments.

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# Interest Income - Taxation

**Accumulation Phase:** In the accumulation phase, interest income is taxed at 15%. This is part of the fund's overall tax obligations, which also include tax on capital gains and other earnings**.**

**Pension Phase**: When the SMSF is paying pensions and is in the pension phase, interest income is generally tax-free, provided the fund meets the relevant pension requirements.

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# Interest Income - Reporting and Compliance

**Record Keeping:** The SMSF must accurately record all interest income earned. This includes maintaining documentation for interest-bearing investments and statements from financial institutions.

**Annual Tax Return:** The SMSF must report interest income in its annual tax return. The ATO requires accurate reporting to ensure proper tax calculation and compliance.

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# Interest Income -Investment Strategy

Interest-bearing investments are typically considered low-risk and can be a part of a diversified investment strategy.

They are often used to provide steady income and preserve capital.

Including these in an SMSF can help balance the overall risk profile of the fund.

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# Interest Income - Managing and Compliance

**Managing Interest Income :**

**Reinvestment**: Interest income can be reinvested within the SMSF to purchase additional investments or to grow the fund's asset base.

**Distributions:** For funds in the pension phase, interest income can be used to meet pension payment obligations to members.

**Compliance Considerations:**

**In-house Assets**: Ensure that any interest-bearing investments comply with the rules regarding in-house assets. These are assets that are owned by the SMSF and used by related parties (like a business owned by the fund's members).

**Sole Purpose Test**: All investments, including those generating interest income, must meet the sole purpose test, meaning they should be made primarily for providing retirement benefits to fund members.

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# Interest Income - Practical& Strategic Considerations

**Practical Considerations:**

**Interest Rate Fluctuations**: Interest rates can vary, affecting the amount of income generated. It's important to monitor interest rates and adjust investments as needed.

**Diversification**: Relying solely on interest-bearing investments might limit growth potential. Balancing interest income with other investment types can help achieve a diversified portfolio.

**Strategic Considerations:**

**Risk Management**: Consider the risk-return profile of interest-bearing investments. They are typically lower risk, but also offer lower returns compared to equities or other higher-risk investments.

**Cash Flow Management**: Managing cash flow effectively is crucial, especially if interest income is used to support pension payments or other fund needs.

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# Roll in SMSF - Introduction

Rolling in, or "rolling over," into a Self-Managed Super Fund (SMSF) refers to transferring superannuation assets from other superannuation funds into your SMSF.

This process is a common strategy for individuals who want to consolidate their superannuation into a single fund for better control and management.

It is a legal requirement for rollovers to be processed electronically, using 2 components:

- a data message
- a separate payment transfer.

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# Roll in Process

- **Determine Eligibility:** Ensure that your SMSF meets all regulatory requirements and is properly set up to accept rollovers. The fund must be compliant with Australian Taxation Office (ATO) regulations.
- **Check Fund Details:** Verify that the SMSF's trust deed and investment strategy allow for the types of assets you wish to roll in.
- **Contact the Existing Fund:** Notify your current superannuation fund(s) of your intention to roll over your superannuation assets. You'll need to complete a rollover request form provided by the fund.
- **Complete Rollover Documentation:** Fill out any required forms for the rollover process, which may include:
  - A rollover form from your existing fund.
  - A rollover request form from your SMSF.
  - Proof of identity and other documentation as required by the funds involved.
- **Transfer Assets:** The existing fund will process the rollover and transfer the assets to your SMSF. This can be done as cash or in-specie (where assets are transferred directly without being sold).
- **Confirm Receipt:** Ensure that your SMSF receives and correctly records the rolled-in assets. This includes updating your fund's records to reflect the new assets.

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# Roll in -Types of Assets

**Types of Assets That Can Be Rolled Over**

- **Cash**: Transfer of cash balances from other super funds.
- **In-Specie Assets**: Transfer of specific assets like shares or property directly into the SMSF. Note that some funds may not allow in-specie transfers, or specific rules may apply.

# Roll in - Tax and Compliance Considerations

- **Capital Gains Tax**: When rolling over assets in-specie, be aware of potential capital gains tax implications if the assets are sold and then repurchased by the SMSF.
- **In-House Asset Rules**: Ensure that any assets rolled in comply with in-house asset rules, which limit the extent to which an SMSF can hold assets related to members or their related parties.
- **Sole Purpose Test**: The SMSF must continue to meet the sole purpose test, meaning the fund's investments must be intended solely for providing retirement benefits to members.

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# Roll in - Benefits to SMSF

- **Control**: Greater control over investment decisions and asset selection.
- **Consolidation**: Simplifies the management of superannuation by consolidating multiple super funds into one.
- **Cost Efficiency**: Potentially lower fees compared to multiple retail or industry funds, especially if the SMSF has a large balance.

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# Roll in - Risks and Challenges

- **Administrative Responsibility**: Managing an SMSF requires a significant administrative effort, including compliance with regulatory requirements and record-keeping.
- **Investment Knowledge**: SMSF trustees need a solid understanding of investment strategies and risk management.
- **Costs**: There are costs associated with running an SMSF, including accounting, auditing, and legal fees, which may outweigh benefits if the fund balance is relatively small.

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# Rebate - Introduction

A rebate in the context of Self-Managed Super Funds (SMSFs) generally refers to a refund or return of a portion of the cost associated with managing the fund or certain types of expenses.

SMSFs may still be able to claim a rebate for the GST charged on financial advice fees from 1 July 2024.

A sector specialist has confirmed SMSFs can still claim a partial rebate for the GST charged to a fund for financial advice fees despite some misunderstanding arising from ATO guidance on the matter.

# Tax Rebates

**Investment Rebates**

- **Fees and Costs**: Sometimes, SMSF trustees may negotiate lower fees with service providers or receive rebates on certain investment products. For example, if an SMSF invests in managed funds or financial products, the provider might offer rebates on management fees.

**GST Rebates**

- **Input Tax Credits**: SMSFs may be eligible for input tax credits on certain expenses if they are registered for Goods and Services Tax (GST). This means the SMSF can claim back GST paid on specific costs related to running the fund, such as professional services or management fees.

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# Tax Rebates

**Insurance Premium Rebates**

- **Group Insurance Policies**: Some SMSFs may benefit from rebates or reduced premiums on group insurance policies for members, such as life or income protection insurance.

**Professional Fee Rebates**

- **Advisory Services**: In some cases, financial advisors or service providers may offer rebates or discounts on their fees as part of a service agreement.

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# NRAS -Introduction

The National Rental Affordability Scheme (NRAS) is an Australian government initiative designed to increase the supply of affordable rental housing.

Under NRAS, property investors receive financial incentives to rent properties at below-market rates to eligible low and moderate-income tenants.

NRAS, which commenced in 2008, provides an annual financial incentive for up to 10 years to approved participants who rent dwellings to eligible people on low to moderate incomes at a rate at least 20 per cent below market rent.

NRAS dwellings are not social housing–they are affordable private rental homes.

# NRAS - Overview

- **Purpose:** To address housing affordability by providing incentives for investors to build and maintain rental properties at reduced rents.

- **Incentives:** Investors receive a combination of tax benefits and cash subsidies for each property they make available to eligible tenants.

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# NRAS – Key Features

- **Financial Incentives**: Investors are provided with annual incentives, which include a cash subsidy and a tax offset. The value of these incentives is indexed annually.
- **Eligibility Requirements:** Properties must be rented at least 20% below the market rent to qualify for NRAS incentives.
- **Property Standards:** Properties must meet certain quality and compliance standards set by the NRAS guidelines.

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# NRAS – Financial Incentives

- **Cash Subsidy:** A cash payment is made to the property owner or investor, designed to offset the reduced rental income**.**

- **Tax Offset:** Investors receive a tax offset on their annual tax return, reducing their taxable income. The offset amount is fixed and indexed annually.

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# NRAS – Eligibility Criteria

- **Tenant Income:** Tenants must fall within specific income brackets, which are adjusted according to household size and location. These brackets are updated periodically.

- **Property Standards:** Properties must meet minimum standards of habitability and quality as defined by the NRAS.

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# NRAS – Benefits

- **For Investors:** NRAS offers financial incentives and tax benefits, potentially improving the return on investment despite lower rental yields.
- **For Tenants**: Provides access to affordable rental housing, helping to alleviate rental stress for low and moderate-income households.
- **For the Community: Increases the supply of affordable housing, contributing to broader housing affordability goals.**

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# NRAS – Benefits to SMSF

**Investment Opportunities:**

- **Diversification:** SMSFs can invest in NRAS properties, allowing for diversification within the fund's portfolio.

**Stable Income:**

- **Tenant Demand:** NRAS properties often attract reliable tenants, which can lead to stable rental income and reduce vacancy risks**.**

**Tax Benefits:**

- **Tax Efficiency:** SMSFs can benefit from the same financial incentives as other investors, enhancing the overall return on investment.

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THANK YOU!