CARISMA SOLUTIONS

ACCOUNTANCY,AUDIT FEES

DEDUCTIONS & NON-DEDUCTIONS

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CARISMA SOLUTIONS

Accountancy Fees -Introduction

Accounting Fees means accounting and/or administrative management fees for preparing tax returns and other financial reports.

Covers the preparation and lodgement of the SMSF's annual return, financial statements, and tax return. This is essential for meeting regulatory obligations.

Generally, ranges depending on the complexity of the fund and the service provider.

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Accountancy Fee - Factors

Factors Influencing the Cost

1. **Complexity of the SMSF**: Funds with multiple members, complex investment structures, or significant transactions may incur higher fees.
2. **Size of the Fund**: Larger funds may benefit from economies of scale, potentially lowering per-member costs.
3. **Service Provider**: Fees can vary depending on whether the services are provided by a large firm or a smaller boutique provider.

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Accountancy Fee - GST

Applicability:

- **GST Registered Providers**: If the accounting firm or service provider is registered for GST, they are required to charge GST on their fees. This applies to most accounting services provided to SMSFs, including annual compliance, audit services, and administration.
- **Non-GST Registered Providers**: If the provider is not registered for GST, they will not charge GST. However, this is less common for professional accounting services.

Accounting Fees:

- **With GST**: Accounting fees are generally quoted excluding GST. GST is then added to the quoted fee. For example, if the annual compliance fee is $2,000 and GST is 10%, the total fee including GST would be $2,200 ($2,000 + $200 GST).
- **Exclusions**: Some specific accounting services may be exempt from GST, but this is relatively rare for standard SMSF services.

Example: If an accountant charges $2,000 for annual compliance and the GST rate is 10%, the total invoice will be $2,200 ($2,000 + $200 GST).

Audit Fees - Introduction

Audit fees are charged by independent auditors who review the SMSF's financial records and ensure that the fund complies with relevant legislation and regulations, including the Superannuation Industry (Supervision) Act 1993 and associated regulations.

Audit fees is an important part of maintaining compliance with regulatory requirements.

Audit Fees - Components

1. **Financial Statement Review**:
   - **Description**: The auditor examines the SMSF's financial statements to ensure they are accurate and complete.
   - **Cost**: Included in the overall audit fee.
2. **Compliance Check**:
   - **Description**: The auditor verifies that the SMSF is adhering to all relevant superannuation laws and regulations.
   - **Cost**: Typically included in the audit fee.
3. **Investment and Transaction Verification**:
   - **Description**: The auditor checks the fund's investments and transactions to ensure they are properly documented and compliant with the fund's investment strategy.
   - **Cost**: Part of the audit fee.
4. **Member and Employer Contributions**:
   - **Description**: The auditor verifies that all contributions are accurately recorded and compliant with contribution rules.
   - **Cost**: Included in the audit fee.

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Audit Fees - Factors

1. **Complexity of the Fund**: Funds with complex structures, numerous investments, or high transaction volumes may attract higher audit fees.
2. **Size of the Fund**: Larger funds might benefit from economies of scale, potentially leading to lower per-member audit costs.
3. **Audit Firm**: Fees can vary depending on the auditor's experience, reputation, and the level of service provided.

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Audit Fees - GST

Fee Structure: Audit fees are usually quoted excluding GST. GST is then added to the quoted fee.

Invoice Requirement: The auditor should issue a tax invoice that clearly specifies the GST amount. This invoice is essential for accurate record-keeping and compliance.

Example: If an audit fee is $500 and GST (10%) applies, the total cost would be $550 ($500 + $50 GST).

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Deductions in SMSF

A deduction is an expense that a taxpayer can use to reduce their gross income, thereby reducing the overall taxes they pay.

By claiming these deductions, an SMSF can lower its overall tax liability, which is crucial for maximizing the fund's performance and growth.

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Deductions in SMSF - Types

- **Operating Expenses**: Costs related to the day-to-day management and operation of the SMSF.
- **Investment Expenses**: Costs associated with managing and maintaining the SMSF's investment portfolio.
- **Professional Fees**: Fees for services provided by professionals, such as accountants, auditors, and financial advisors.
- **Insurance Premiums**: Premiums for insurance policies held within the SMSF, like life insurance or total and permanent disability insurance.
- **Property-Related Expenses**: Costs related to property investments owned by the SMSF, including maintenance, management, and insurance costs.

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Deductions in SMSF - Purpose

- **Reduce Taxable Income**: Deductions are used to lower the taxable income of the SMSF, thereby reducing the amount of tax the fund must pay.
- **Optimize Financial Performance**: By lowering taxable income, SMSFs can increase their after-tax returns, benefiting the fund's overall financial health.

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Deductions in SMSF - Expenses

1.Accounting and Audit Fees

Description: Costs related to the preparation of financial statements, tax returns, and mandatory annual audits.

Claimable: These fees are generally deductible against the SMSF's income.

2. Investment Expenses

Description: Expenses incurred in managing and maintaining the SMSF's investments, including:

- **Management Fees**: Fees paid to investment managers.
- **Transaction Costs**: Costs associated with buying and selling investments.
- **Custodian Fees**: Fees for custodians who hold the fund's investments.

Claimable: These are deductible as they are related to earning investment income.

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Deductions in SMSF - Expenses

3. Bank Fees and Charges

Description: Fees related to the SMSF's bank accounts, such as account-keeping fees or transaction fees.

Claimable: These fees are deductible as they are incurred in the course of managing the fund.

4. Legal and Professional Fees

Description: Costs for legal advice, tax advice, or other professional services related to the fund.

Claimable: These fees are deductible if they relate directly to the operation and management of the SMSF.

5. Insurance Premiums

Description: Premiums for insurance policies held within the SMSF, such as life insurance or total and permanent disability insurance.

Claimable: Premiums are deductible if they are for insurance that is in the best interests of the members and complies with regulatory requirements.

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Deductions in SMSF - Expenses

6. Investment Management Costs

- **Description**: Fees for professional services managing the SMSF's investments, such as financial planners or investment advisors.
- **Claimable**: These fees are deductible as they are related to managing the fund's investment portfolio.

7. Depreciation

- **Description**: Depreciation of assets owned by the SMSF, such as office equipment or certain investments.
- **Claimable**: Depreciation expenses can be deducted based on the asset's depreciation schedule.

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Deductions in SMSF - Expenses

8.Property Expenses

- **Description**: Costs associated with property investments held within the SMSF, such as:
  - **Maintenance and Repairs**: Costs for maintaining and repairing property.
  - **Property Management Fees**: Fees paid to property managers.
  - **Council Rates and Insurance**: Ongoing costs related to property ownership.

Claimable: These expenses are deductible if they are incurred for the purpose of earning income from the property.

9. Other Administrative Costs

- **Description**: Costs related to the administration of the SMSF, including:
  - **Postage and Printing**: Costs for sending documents and printing statements.
  - **Software Costs**: Costs for accounting and management software used for the SMSF.

Claimable: These are deductible as they are necessary for managing the fund.

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Non – Deductions in SMSF

Non-deductions " refer to costs that the fund incurs which cannot be claimed as tax deductions.

In other words, these expenses cannot be claimed as tax deductions, and they do not reduce the SMSF's taxable income.

Tax deductions - are specific types of expenses that you can subtract from the SMSF's income to reduce the amount of tax the fund has to pay.

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Non – Deductions in SMSF

Personal Expenses:

- Personal Travel Costs: Expenses related to personal travel or vacations that are not connected to the management or investment of the SMSF.
- Personal Living Costs: Costs such as personal groceries, utility bills for your home, and other household expenses.

Fines and Penalties:

- Regulatory Fines: Penalties or fines imposed by regulatory bodies for non-compliance with SMSF rules or regulations.
- Late Payment Penalties: Fines for late payment of taxes or contributions.

Charitable Donations:

- Donations to Charities: Donations made from the SMSF to charities are generally non-deductible. SMSFs are not eligible for tax deductions on charitable contributions, unlike individuals or businesses.

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Non – Deductions in SMSF

Certain Legal and Professional Fees:

- **Personal Legal Fees:** Legal costs incurred for personal matters unrelated to the fund's investments or compliance.
- **Non-Investment Related Professional Fees:** Fees for professional services that are not directly related to the investment activities of the SMSF.

Excess Contribution Tax:

- **Tax on Excess Contributions:** Taxes paid on contributions that exceed the concessional or non-concessional limits set by the ATO are not deductible.

Private Expenses:

- **Personal Insurance Premiums:** Premiums for personal insurance policies, such as health or life insurance, that are not related to the SMSF's investment strategy.
- **Private Loan Repayments:** Repayments on personal loans or mortgages not related to the SMSF's property investments.

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Non – Deductions in SMSF

Gifts and Entertainment:

- Gifts: Expenses related to personal gifts or entertainment that do not relate to the SMSF's activities or investments.
- Social Events: Costs associated with personal social events or entertainment.

Non-Investment Related Repairs:

- Maintenance of Personal Property: Costs for repairs or maintenance of personal property or assets not used for SMSF investment purposes.

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Non – Deductions -Purpose

1. Clearer Financial Reporting:

Enhanced Transparency: Clearly distinguishing non-deductible expenses from deductible ones helps in maintaining accurate and transparent financial records.

This separation improves the clarity of financial reporting and aids in better financial management.

2. Compliance and Avoidance of Penalties:

Regulatory Adherence: Properly handling non-deductible expenses ensures compliance with Australian Taxation Office (ATO) regulations. Accurate reporting helps avoid penalties and issues during audits.

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Non – Deductions -Purpose

3. Improved Financial Planning:

Expense Management: By tracking and categorizing non-deductible expenses, an SMSF can gain insights into its spending patterns. This information can help in identifying areas where cost-saving measures can be implemented or in adjusting the fund's budget.

4. Investment Strategy Considerations:

Focused Investment Decisions: Knowing which expenses are non-deductible helps in making informed decisions about the fund's investment strategy. It ensures that

The fund focuses on investments that maximize tax benefits and aligns with its overall strategy.

5. Operational Efficiency:

Better Resource Allocation: Understanding and tracking non-deductible expenses can contribute to more efficient allocation of resources within the fund. This can help in optimizing operational costs and enhancing the fund's financial health.

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Non – Deductions Implications

1. **Tax Reporting**
    - **Accurate Tax Returns**: Non-deductible expenses must be excluded from the SMSF's tax deductions to ensure accurate tax reporting and compliance. This prevents the fund from incorrectly reducing its taxable income.
2. **Financial Management**
    - **Expense Tracking**: Identifying and tracking non-deductible expenses helps in managing the fund's budget and operational costs effectively. It ensures that only allowable expenses are claimed for tax purposes.
3. **Compliance and Audits**
    - **Regulatory Compliance**: Properly categorizing non-deductible expenses is crucial for regulatory compliance and for passing SMSF audits. Non-deductible expenses should be clearly documented and segregated from deductible costs.
4. **Strategic Planning**
    - **Investment Decisions**: Understanding which expenses are non-deductible helps in making informed investment decisions and managing the overall financial strategy of the SMSF.

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THANK YOU!