CARISMA SOLUTIONS

FORMATION & BORROWING EXPENSES

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Formation- Introduction

Formation expenses for a Self-Managed Superannuation Fund (SMSF) are generally considered capital expenses and are not deductible under tax law.

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

It includes a range of fees and can vary depending on how you set up your fund. The cost can be as low as $500 and go up to around $3,000.

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Examples for Formation Expenses

1. Preparing trustee minutes
2. Stationery and postage fees
3. Legal expenses which includes costs for trust deed amendments.
4. Establishment Costs:

Trust Deed : Legal document outlining the rules for creating and operating the SMSF.

ASIC Registration Fee: Fees for registering a special purpose company if using a corporate trustee.

Professional Fees: Cost for legal and financial advice on setting up the SMSF.

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Advantages of Formation Expenses

- **Fund Establishment:** Costs related to the establishment of the SMSF, such as setting up a Corporate Trustee, are considered non-deductible. These are necessary expenses for the creation and operation of the fund.
- **Regulatory Compliance:** Certain regulatory and legal expenses, which are essential for the fund's compliance with superannuation laws, fall under non-deductible expenses.
- **Asset Protection:** Non-deductible expenses often include costs related to the protection of the fund's assets, such as insurance premiums.
- Remember, while these expenses do not provide immediate tax relief, they are crucial for the fund's operation and long-term growth. It's always recommended to seek professional advice when considering setting up an SMSF.

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How to do in BGL 360

If the Fund has paid for an amount such as an SMSF Establishment, best practice for SMSF is to allocate using a **NON-Tax-Deductible Expenses** account**.**

If you do wish to amortise the Formation Costs, then allocate the payment to account 64000 Formation Expenses. Each year you would journal a Credit to this account and debit the expense account.

Borrowing Cost- Introduction

1. Borrowing within an SMSF is primarily done through Limited Recourse Borrowing Arrangements (LRBAs). An LRBA involves an SMSF trustee taking out a loan from a lender and purchasing a single acquirable asset (or collection of identical assets with the same market value)with the borrowings.
2. The borrowing costs in an SMSF can include the interest on the loan, which starts from around 6.97%. If total borrowing expenses are more than $100, the deduction is spread over five years or the term of the loan, whichever is less. If the total deductible borrowing expenses are $100 or less, they are fully deductible in that Financial year they are incurred whichever is less.

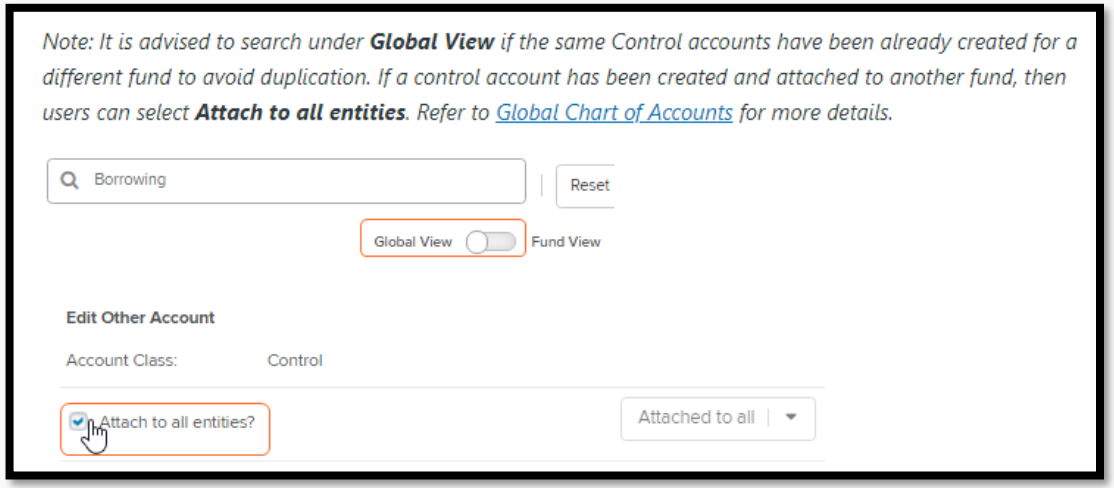
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BGL Accounting

Two Control accounts first need to be created: namely Property Borrowing Expense account (Expense type) and Property Borrowing Cost account (Asset type). In this case, it will be created as below.

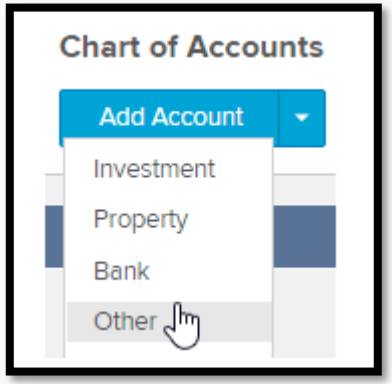
Expense account: 42200 > Property Borrowing Expense

Asset account: 65550 > Property Borrowing Cost (to be amortised)



BGL Accounting

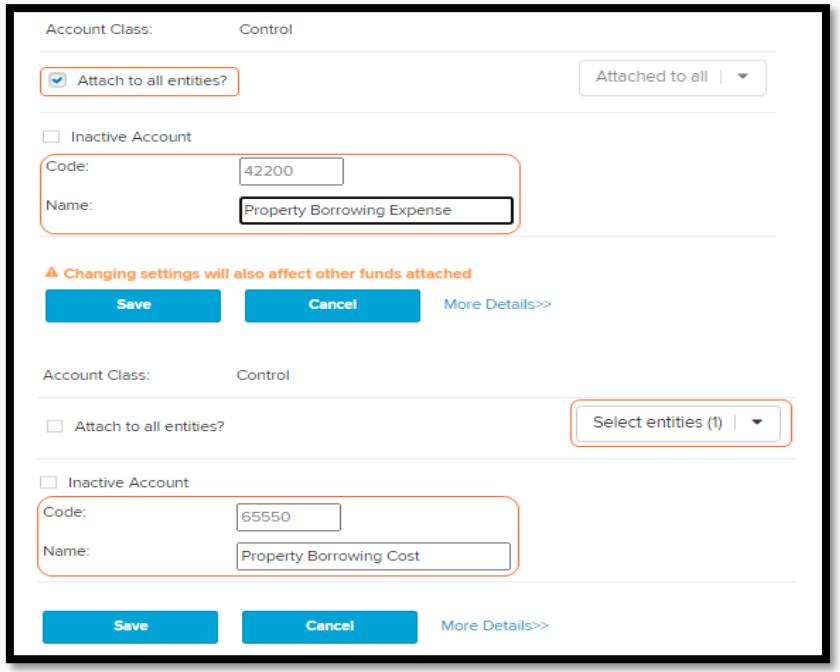
1.To create new accounts, navigate to from the Main toolbar and select Chart of Accounts. Select **Other** from the drop-down list under **Add Account**.

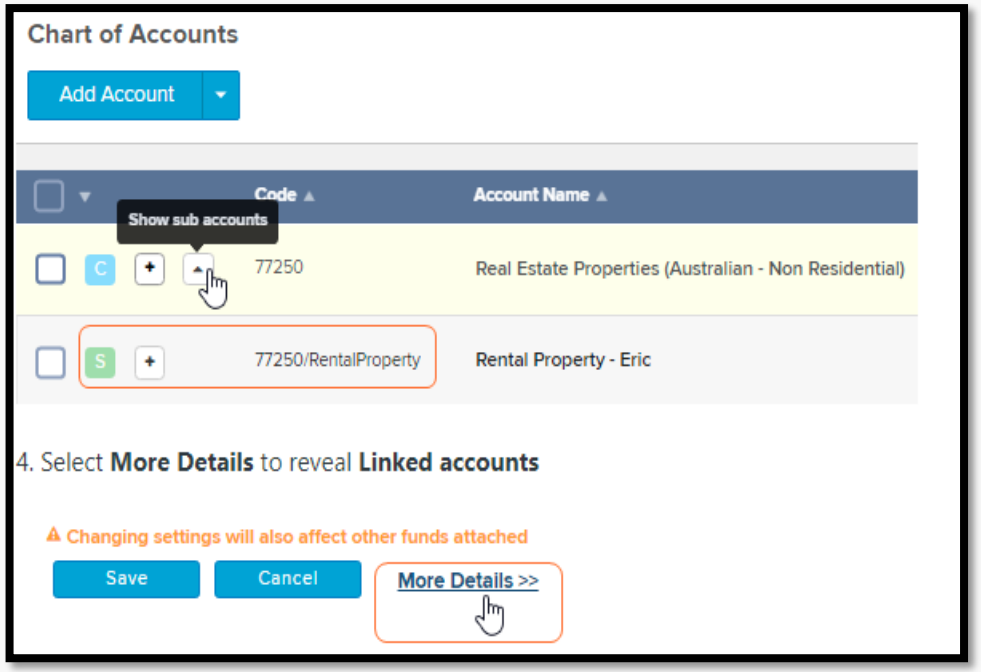


2. Input Code and Name for two accounts respectively. Users can choose to attach the accounts to all entities or select specific fund from the drop-down list to attach to. Select **Save** once completed.

BGL Accounting

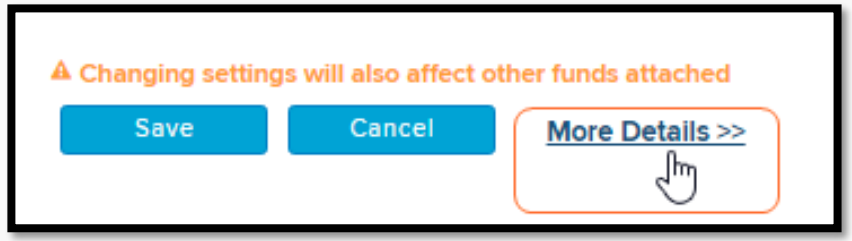
3. Under **Chart of Accounts**, search for the relevant property account (e.g. 77250) using the filter on the top right of the page. Select the arrow to reveal sub accounts and click into the relevant sub account



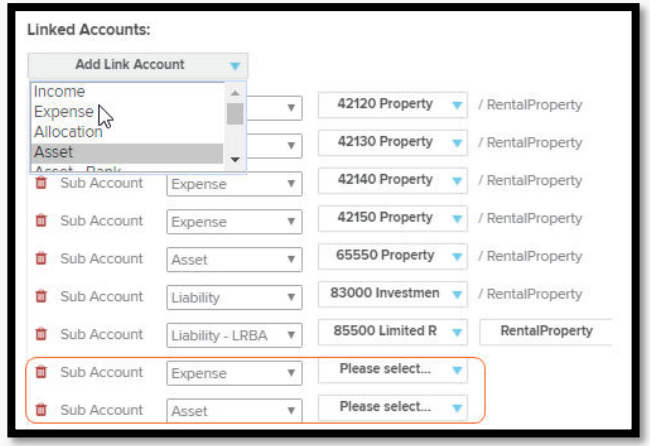


BGL Accounting

4. Select **More Details** to reveal **Linked accounts**

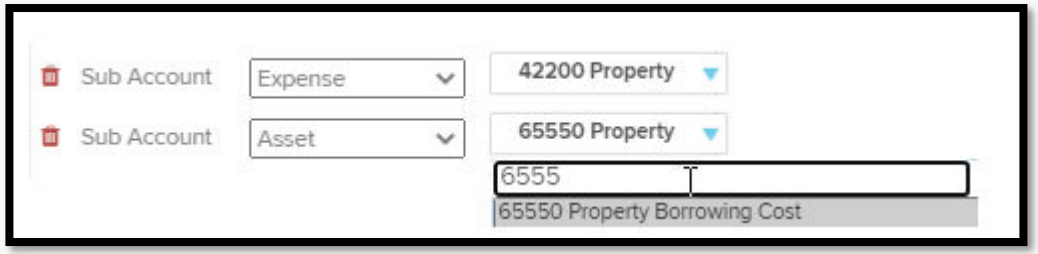


5.Select Expense & Asset type respectively from the drop-down list under **Add Link Account** and the accounts would display at the bottom correspondingly for users to select.

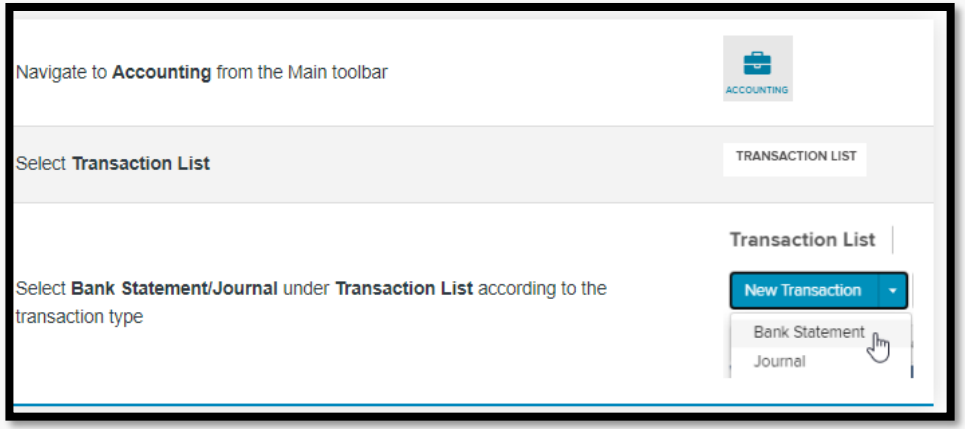


BGL Accounting

6.Select the two accounts from the drop-down list and click on save from the bottom left of the page to complete.



7. To process the transaction, follow the steps below.

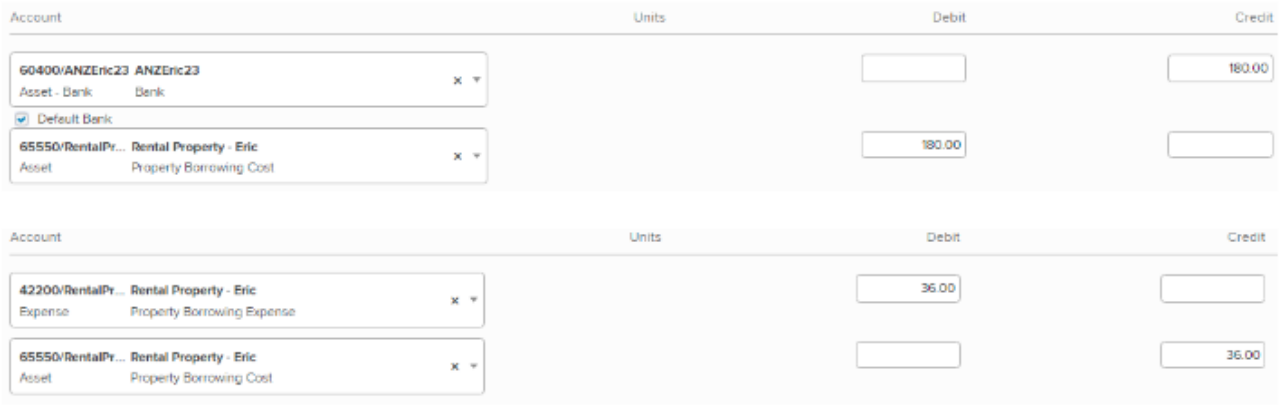


BGL Accounting

Transaction to be entered:

When the fee was paid: Dr. Borrowing Cost (Asset Account) $180 Cr. Bank $180

Amortisation at year end: Dr. Borrowing Expense $36 Cr. Borrowing Cost (Asset Account) $36



Note: the Property Borrowing Cost account would be presented in the financial reports as assets.

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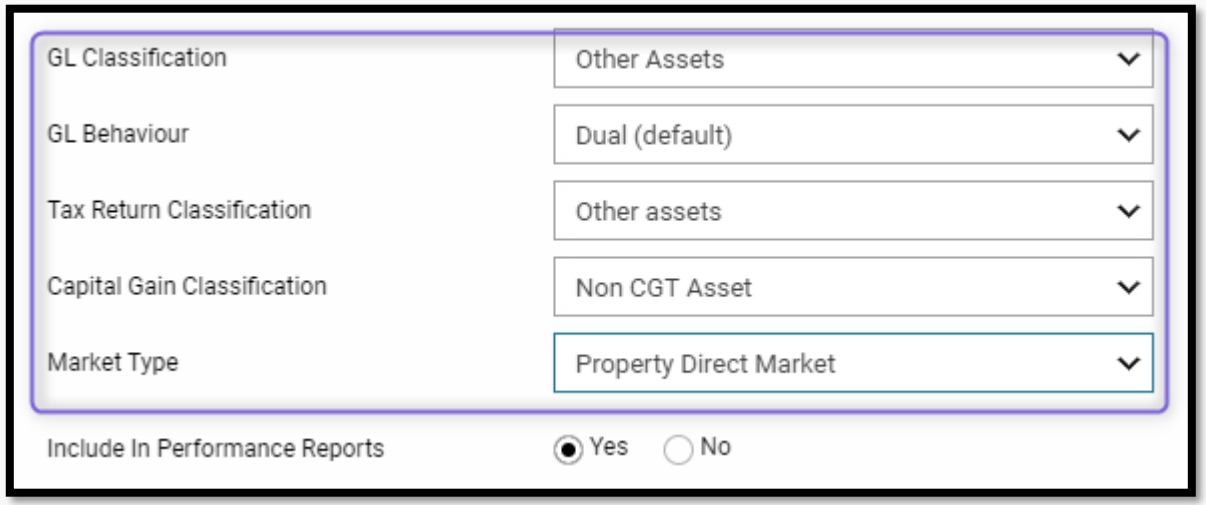
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Class Super Accounting

Create a Custom Holding Account

Navigate to Fund Level > **Investments > Custom Holding Account**

1. Set up a Custom Holding Account for the Borrowing Cost. See the below screenshot as an example for the asset classification.



Class Super Accounting

Record the balance of the borrowing cost

Navigate to Fund Level > **Transactions > Browse Bank Statements**

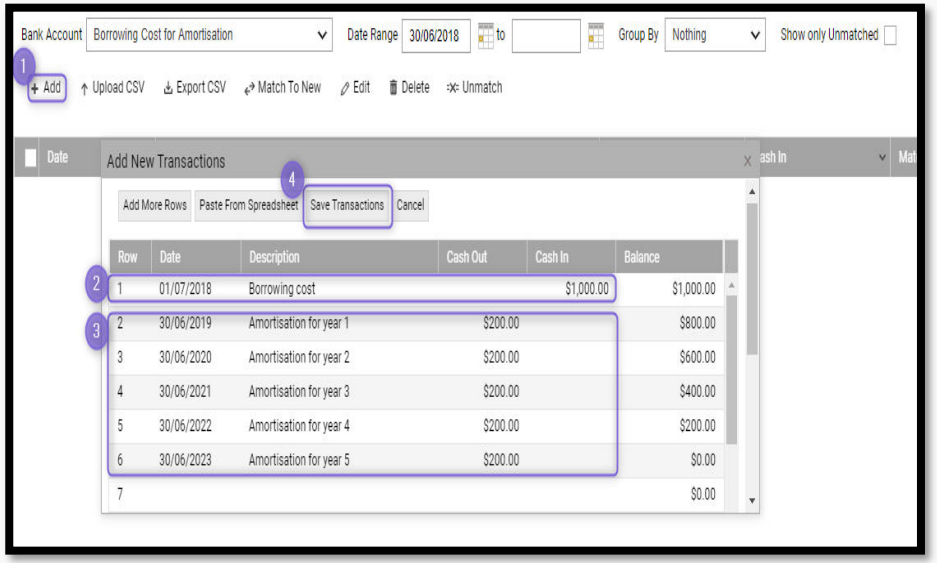
1. Select the Custom Holding Account you created
2. Click on Add to enter the total amount of the borrowing cost as a **Cash In** transaction
3. Match this Cash In transaction with the Cash Out transaction paid from the Bank Account

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Class Super Accounting

Step 1: Create a Custom Holding Account to record the sundry debtor for the borrowing costs

Refer to User Guide for further information on Custom Holding Account.



Once the custom holding account is created

Navigate to the Fund level > **Transactions > Browse Bank Statements**

1. select the Borrowing Cost account from the drop-down list of Bank Account
2. Click on **+Add** to add new transactions
3. Process a 'Cash In' transaction for the borrowing cost that has paid
4. Process the Cash Out transactions to reduce the balance of the custom holding account to reflect the claimable borrowing cost amortisation for each subsequent year
5. Click **Save Transactions**

Class Super Accounting

Step 2: Create an expense type for amortisation expenses with proper tax deductible category

Navigate to Business level **> Settings >Investment Expenses**

1. Select "Property Expenses" for **Category Type**
2. Select **Add New Income Expense Type**
3. Enter the expense **Name**, **Code** and **GST Category**
4. Select 'Yes' for **Tax Deductible**
5. Mapped as an 'Investment expense' for the **Tax Return Label**
6. Save



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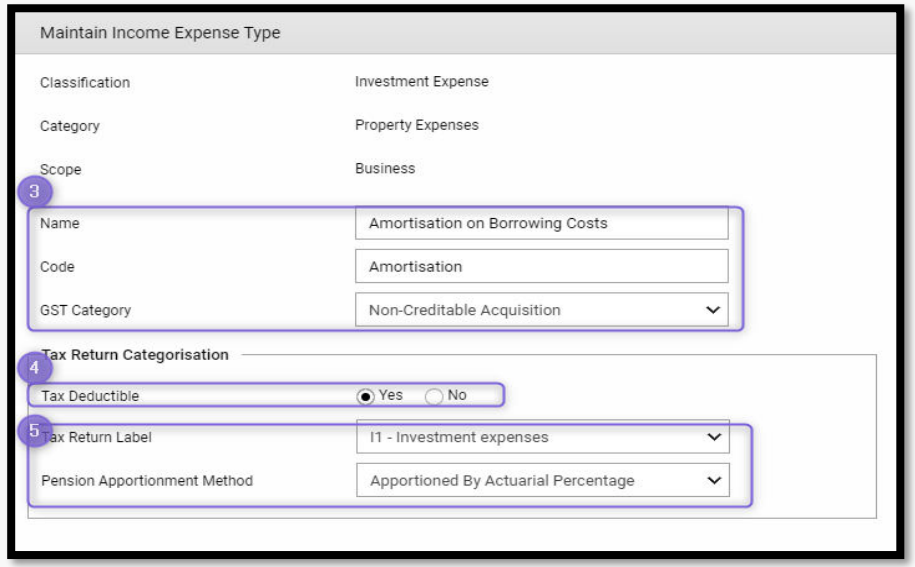
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Class Super Accounting

After creating a new expense type

Navigate to the Fund level **> Transactions > Match Transactions**

1. Select Menu Icon
2. Select **Match to New > Fund Expenses > General Investment Expenses**
3. Select the **Expense Type**, being the account created in step 2
4. Select the **Investment Account**
5. Select **Submit**



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