CARISMA SOLUTIONS

LISTED & UNLISTED INVESTMENTS

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Listed investments

A listed investment in a Self-Managed Super Fund (SMSF) refers to any investment that is traded on a public exchange. These investments are easily accessible and can be bought or sold on the stock market. Here are some common types of listed investments in an SMSF:

It's important to note that all investments must align with the SMSF's investment strategy and comply with the regulations set by the Australian Taxation Office (ATO). This includes the 'sole purpose test', which requires that all SMSF investments are made for the sole purpose of providing benefits for members on their retirement.

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Types of Listed investment

Types in it:

1. **Shares**: Stocks of companies listed on stock exchanges, both domestic and international.
2. **Exchange-Traded Funds (ETFs)**: Funds that track indices, commodities, or a basket of assets and are traded on stock exchanges.
3. **Real Estate Investment Trusts (REITs)**: Companies that own, operate, or finance income-producing real estate and are traded on stock exchanges.
4. **Bonds and Debentures**: Fixed-income securities that are listed and traded on stock exchanges.
5. **Managed Funds**: Units in widely held unit trusts that are publicly available and traded on exchanges. Stapled securities

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Nature of Income – Dividends & Distributions

Dividend - In a Self-Managed Superannuation Fund (SMSF), dividends refer to the distribution of a portion of a company's earnings to its shareholders.

A dividend is a distribution of a company's earnings to its shareholders. It is typically paid out in cash or additional shares of stock. Dividends are usually decided by the company's board of directors and can be paid on a regular schedule, such as quarterly or annually.

Benefits from it:

- **Purpose**: Reward shareholders for their investment in the company.
- **Types**: Cash dividends and stock dividends.
- **Frequency**: Often paid quarterly, but can also be monthly, annually, or as special one-time payments.
- **Eligibility**: Shareholders must own the stock before the ex-dividend date to receive the dividend.

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Dividend Components

The main components of a dividend include:

1. **Dividend Declaration Date**: The date on which the company's board of directors announces the dividend payment.
2. **Ex-Dividend Date**: The cutoff date to be eligible for the dividend. Investors who purchase the stock on or after this date will not receive the dividend.
3. **Record Date**: The date on which the company reviews its records to determine which shareholders are eligible to receive the dividend.
4. **Payment Date**: The date on which the dividend is actually paid to the shareholders.
5. **Dividend Yield**: The dividend expressed as a percentage of the current share price.
6. **Dividend Payout Ratio**: The proportion of earnings paid out as dividends to shareholders, typically expressed as a percentage.

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Distribution - Meaning

In a SMSF, distributions from a trust refer to the income or profits that the SMSF receives from its investment in a trust. This can include:

1. **Unit Trusts**: If an SMSF invests in a unit trust, it receives distributions based on the number of units it holds. These distributions can come from rental income, interest, or other earnings of the trust.

2. **Entitlement to Trust Income**: The SMSF's entitlement to receive a trust distribution is considered an asset of the SMSF. This income is included in the SMSF's assessable income and is taxed accordingly.

3. **Conditions for Distribution**: Distributions to SMSF beneficiaries can only be made under specific conditions, such as reaching retirement age or being permanently incapacitated.

These distributions are part of the SMSF's overall income and are subject to the concessional superannuation tax rate.

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Distribution - Components

When an SMSF receives distributions from a trust, these distributions can be broken down into several components:

1. **Income Components**:
   - • **Interest Income**: Earnings from interest-bearing investments held by the trust.
   - • **Dividend Income**: Earnings from shares or equity investments held by the trust.
   - • **Rental Income**: Earnings from property investments held by the trust.
   - • **Other Income**: Any other income generated by the trust's investments.
2. **Capital Gains**:
   - **Discounted Capital Gains**: Gains from the sale of assets held for more than 12 months, eligible for a capital gains tax discount.
   - **Non-Discounted Capital Gains**: Gains from the sale of assets held for less than 12 months or not eligible for a discount.

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Distribution components

3.**Tax-Free Components**:

Portions of the distribution that are not subject to tax, often due to specific tax concessions or exemptions.

4. **Tax-Deferred Components**:

Portions of the distribution that are deferred for tax purposes, meaning they are not immediately taxable but may affect the cost base of the investment.

5.Foreign Income:

Earnings from investments held in foreign assets, which may be subject to foreign tax credits or deductions.

These components are detailed in the trust distribution statement provided to the SMSF, ensuring accurate reporting and compliance with tax regulations.

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Unlisted investments & its Types

Unlisted investments in a Self-Managed Super Fund (SMSF) refer to assets that are not traded on public exchanges. These can include:

1. **Unlisted Shares**:
   - • Shares in private companies not listed on a stock exchange.
   - • Often used for diversification and can include investments in start-ups, tech companies, or other private ventures.

2.Private Equity:
   - • Investments in private companies or funds investing in private companies.
   - • Higher risk and potential for higher returns compared to listed investments.

Unlisted investments & its Types

3. Unlisted Unit Trusts:

- Trusts where investors pool their money to invest in assets like property, infrastructure, or other commercial ventures.
- SMSFs acquire units in the trust, indirectly owning a share of the underlying assets.

4. Property:

- Direct investment in real estate or through unlisted property trusts.
- Allows SMSFs to invest in commercial, residential, or industrial properties without large capital outlay.

5.Collectibles: Items such as art, antiques, and rare coins.

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Unlisted investments & its types

Compliance Considerations:

- • Must adhere to the sole purpose test, ensuring the investment is for providing retirement benefits.
- •Need to comply with in-house asset rules, limiting the SMSF's exposure to related party transactions.

Unlisted investments offer diversification and potential for higher returns but come with higher risks and compliance requirements.

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Benefits of Unlisted investments

Benefits of Investing in Unlisted Investments in SMSF

1. **Diversification**:
   - Reduces risk by spreading investments across different asset classes.
   - Provides exposure to assets not correlated with public markets.
2. **Potential for Higher Returns**:
   - Unlisted investments, such as private equity or property, can offer higher returns compared to traditional listed investments.
3. **Access to Unique Opportunities**:
   - Allows investment in niche markets, start-ups, or private companies not available on public exchanges.

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Benefits of Unlisted investments

4. Control and Flexibility:

- Greater control over investment choices and strategies.
- Flexibility to tailor the investment portfolio to specific goals and risk tolerance.

5.Tax Efficiency:

- Potential tax benefits within the SMSF structure, such as concessional tax rates on income and capital gains.

6.Long-Term Growth:

- Suitable for long-term investment horizons, aligning with the retirement goals of SMSFs.

7.Asset Protection:

- Provides a layer of protection against market volatility and economic downturns.

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Points for Consideration

Points to taken care, while working with Unlisted investments

- **In-House Asset Rules**: SMSFs are restricted to holding no more than 5% of their assets in in-house assets.
- **Sole Purpose Test**: Investments must align with the sole purpose of providing retirement benefits to members.
- **Arm's Length Transactions**: All transactions must be conducted at market value to avoid non-arm's length income issues.
- **Valuation**: Regular and accurate valuation of unlisted investments is crucial for compliance*5*.

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Documents required for Unlisted

Documents Required for Unlisted Investments in SMSF

1. **Share Certificates**:

   Register of members (first year only).

2. **ASIC Extract**:

   For proprietary companies (first year only).

3. **Company Financial Statements**:

   Audited financial statements of the unlisted company.

4. **Dividend/Tax Statements**:

   Where applicable

Documents required for Unlisted

5. Valuation Information:

- Independent valuation of the shares held.

6.Investment Strategy Documentation:

- Ensure the investment aligns with the SMSF's investment strategy.

7.Compliance Checks:

- Verify compliance with in-house asset rules and the sole purpose test.

8.Purchase Agreements:

- Arm's length transaction documentation to support the purchase cost.

These documents ensure that the investment is compliant with superannuation laws and aligns with the SMSF's objectives.

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Arrival of market value for Unlisted

Determining Market Value for Unlisted Investments in SMSF

1. **Independent Valuation**:
   - Obtain an independent expert valuation of the unlisted shares or units in trusts.

2. **Trustee Valuation**:
   - Trustees can determine the market value using objective and supportable data, including the valuation method and assumptions used.

3. **Recent Transactions**:
   - Consider the date and price of the most recent sale and purchase of shares or units between unrelated parties.

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Arrival of market value for Unlisted

4.Property Valuation:

- If the unlisted investment includes property, a property valuation should be conducted.

5.Audit Evidence:

- SMSF auditors must obtain sufficient and appropriate audit evidence to support the market value determined by the trustees.

6. Compliance with Regulations:

- Ensure compliance with regulation 8.02B of the Superannuation Industry (Supervision) Regulations 1994, which requires assets to be valued at market value when preparing the financial statements.

These steps help ensure that the market value of unlisted investments in an SMSF is accurately determined and compliant with regulatory requirements.

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Audit compliance

Audit Compliance for Unlisted Investments in SMSF

1. **Audit Evidence**:
   - Auditors must obtain sufficient and appropriate evidence to support the market value determined by the trustees.
   - Evidence can include recent transactions, independent valuations, and other relevant documentation.

2. **Regulatory Compliance**:
   - Comply with regulation 8.02B of the Superannuation Industry (Supervision) Regulations 1994, which mandates assets to be valued at market value.
   - Follow the guidelines published by the Australian Taxation Office (ATO) for valuation.

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THANK YOU!