CARISMA SOLUTIONS

COMPENSATION SCHEME OF LAST RESORT



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CSLR is a government-backed program designed to provide compensation to individuals who suffer financial losses due to certain situations where no other means of recovery are available. It typically applies when companies become insolvent or unable to meet their financial obligations, leaving victims without any practical way to be reimbursed.

- Established by Australian Parliament legislation in 2023 and operational since April 2024, the CSLR offers up to $150,000 in compensation for specific types of misconduct, including personal financial advice, credit provision, and securities dealing.

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AFCA

The **Australian Financial Complaints Authority (AFCA)** is an independent external dispute resolution scheme for consumers and small businesses in Australia to resolve complaints about financial services and products — like banking, insurance, superannuation, and investments.

- When a complaint is lodged with AFCA and the parties cannot settle it themselves, AFCA investigates and **issues a determination** (a binding decision) on what should happen.
- The determination might require a financial firm to pay compensation or take some other action to fix the complaint.

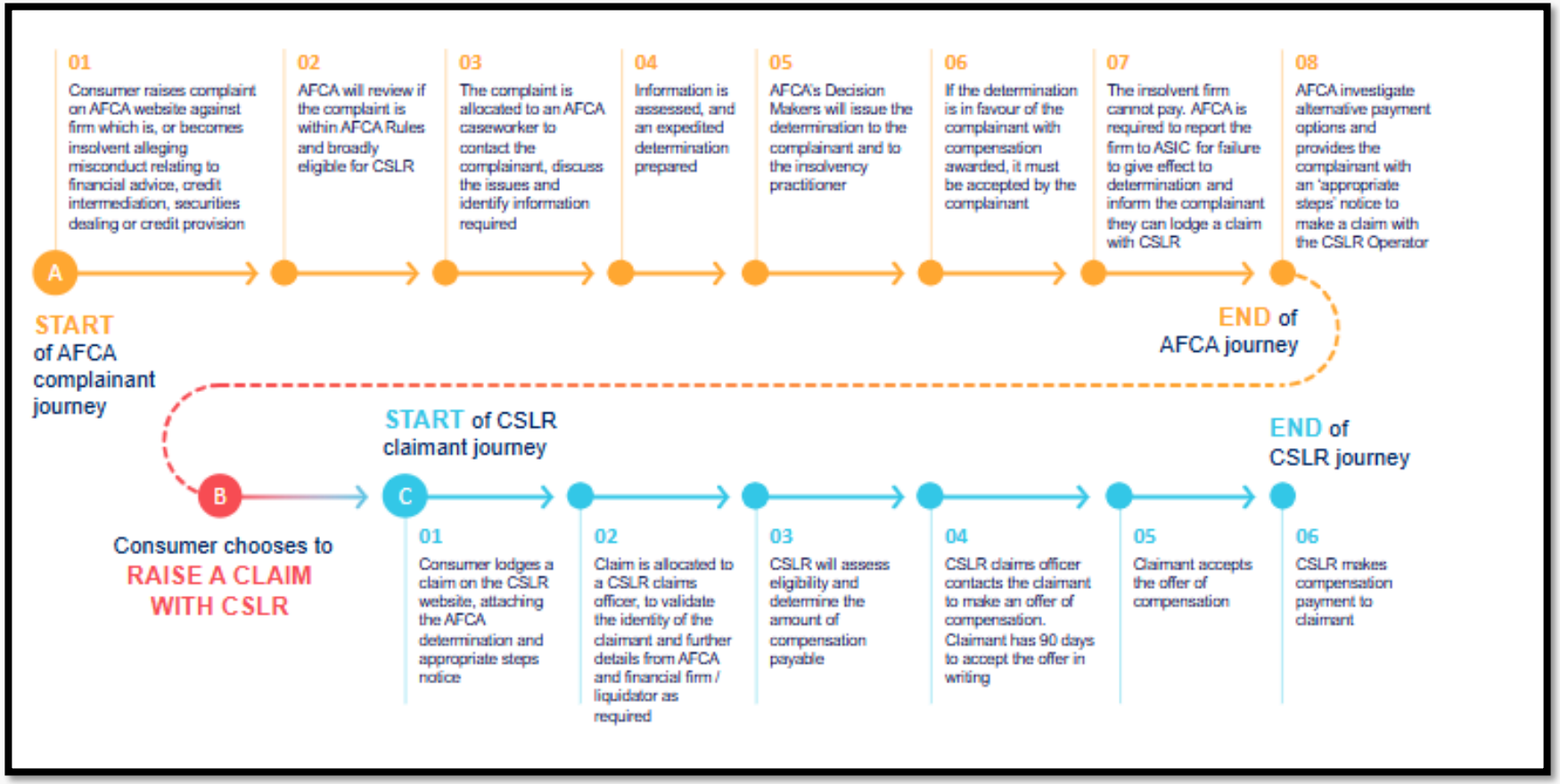
CSLR is designed to help claimants who have unpaid AFCA determinations because the responsible firm is insolvent or refuses to comply.

How to apply:

- Identify the CSLR scheme relevant to your complaint.
- Gather your AFCA determination and proof that payment hasn’t been made.
- Submit a claim to CSLR with all supporting documents.

Process of AFCA

The AFCA complaint process must first be completed before a claim can be lodged with the CSLR. An example overview of the process is provided below:



Key Features of the CSLR:

- **Purpose:** To compensate consumers or claimants when the responsible party cannot pay (e.g., bankrupt insurance companies or financial firms).

- **Scope:** Usually covers areas such as insurance claims, pensions, financial services, or employee wages depending on the jurisdiction and specific scheme.

- **Eligibility:** Claimants must show that the loss was caused by the failure or insolvency of the relevant entity and that no other compensation source exists.

- **Funding:** The scheme is often funded by levies on the relevant industry sectors or through government funds.

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Purpose of Bringing Compensation or Funds into an SMSF

1. **Preserving and Growing Retirement Savings**
    1. By transferring compensation funds into an SMSF, the money becomes part of your superannuation savings, helping to build your retirement nest egg.
    2. SMSFs offer investment flexibility, so you can invest those funds in assets aligned with your retirement goals.

2.Tax Efficiency

1. Funds held within an SMSF generally benefit from concessional tax treatment.
2. Earnings on investments in an SMSF are taxed at a lower rate (usually 15%), and in pension phase, earnings may even be tax-free.

Tax Implications When Bringing CSLR Compensation into an SMSF

Nature of the Compensation

The tax treatment largely depends on **what the compensation is for**:

- **Compensation for loss of superannuation benefits** (e.g., if you lost super because of a company's insolvency).
- **Compensation for personal injury or other damages**.
- **General compensation for financial loss**.

Summary Table

Compensation Type	Tax Treatment on Contribution to SMSF	Tax on Earnings in SMSF
Lost superannuation benefits	Treated as concessional/non-concessional contribution	15% tax (tax-free in pension phase)
Personal injury compensation	Generally non-taxable	15% tax (tax-free in pension phase)
General financial loss	Treated as non-concessional contribution	15% tax (tax-free in pension phase)

Before recording it, determine what the compensation **relates to**, because **how you record it depends on the reason for the payment:**

Compensation is for...	Tax/Accounting Treatment
Loss of capital (e.g. investment value loss)	May adjust **cost base** of the original investment or be treated as a **capital gain.**
Loss of income (e.g. interest, dividends, rent not received)	Treated as **ordinary income** (assessable).
Fee reimbursement (e.g. overcharged financial advice fees)	Often a **reduction in expense** or **not assessable** if already claimed.
Non-financial loss (e.g. stress, inconvenience)	May not be taxable, depending on facts.
Paid to SMSF (if you're managing an SMSF)	Must be accounted for according to **SMSF accounting standards** and may impact member balances.

Thank you