

Contributing shares to your SMSF: what you need to know

Many investors have a personal share portfolio. When it comes to your SMSF, did you know that you can contribute more than simply cash? You are also able to contribute listed shares.

What are the advantages of transferring personal shares to your SMSF?

Tax benefits

- Any dividends and capital gains received will be taxed at the concessional SMSF tax rate, rather than your higher marginal tax rate.
- If the dividends are eligible for franking credits, those franking credits can be used to reduce the tax liability of the fund.
- Any dividends and capital gains received by the SMSF may be tax free if the shares are used to help pay a pension to a fund member.

Asset protection

- Assets held in SMSFs are generally protected from creditors in the event of bankruptcy.

Are there any disadvantages?

Transferring shares from your name to your SMSF will trigger a Capital Gains Tax (CGT) event and you could incur a CGT liability or crystallise a capital loss. Depending on your circumstances you may be able to apply the 50% individual CGT discount to reduce any capital gains tax liability.

We suggest you discuss the transfer with your tax adviser before going ahead.

Let's look at how it works – a case study

David has a portfolio of direct shares in his own name:

- Some of the shares have increased in value during the period he has owned them, and others have decreased in value
- All of the shares yield an annual dividend which is taxable at David's marginal tax rate
- David has held his shares for longer than 12 months
- David has an SMSF and would like to understand the benefits of transferring the shares into the fund.

How the strategy works

David transfers the shares into his SMSF via an in-specie contribution. Listed shares are exempt from the acquisition from related party rules and therefore may be acquired from a member of the fund. The transfer of ownership is a CGT event and will trigger a gain or loss depending on the circumstances.

David's share portfolio is currently valued at \$100,000.

Share	Value	Gross capital gain/loss
ABC	\$20,000	\$1,000
EFG	\$10,000	-\$2,000
XYZ	\$70,000	\$10,000
Total	\$100,000	\$9,000

As David has held his shares for longer than 12 months, he can apply for the 50% CGT discount to reduce the amount of capital gains he needs to include in his assessable income from \$9,000 to \$4,500. David will pay tax on this amount at his marginal rate of tax.

Outcomes

	Shares owned by David outside SMSF	Pre-retirement	When receiving a pension from the SMSF
		Ownership of shares transferred to SMSF by in-specie contribution Year 1	Ownership of shares transferred to SMSF and used to pay pension Year 1
Marginal tax rate	38.5% (including Medicare Levy)	15%	0%
Capital gains tax (one off liability)	Nil	\$1,734 (paid by David)	\$1,734 (paid by David)
Dividends	\$5,000	\$5,000	\$5,000
Franking credits	\$2,143	\$2,143	\$2,143
Tax paid on dividends	\$607	Nil	Nil
Unused franking credits	Nil	\$1,072	\$2,143

By transferring his shares to his SMSF, David enjoys the following benefits:

At pre-retirement age

- David saves \$1,679 in tax annually
- David recoups the capital gains tax he paid in less than two years

At pension age

- David saves \$2,750 tax annually
- David recoups the capital gains tax he paid less than one year

In both scenarios, David has made sure any subsequent capital gains would be taxed at concessional super fund tax rates rather than higher marginal tax rate.

What you need to know before you get started

What shares can I contribute to my SMSF?	<p>Under the superannuation investment rules, the trustees of an SMSF are generally prohibited from acquiring assets from members and other related parties of the fund. However, an exemption to this rule includes any securities (such as shares, bonds and options) that are listed on the ASX (as well as any other approved stock exchanges¹) so long as they are transferred at market value.</p> <p>Another exemption includes units held in a widely held trust, such as units in a retail managed investment fund transferred at market value.</p> <p>For more information on the types of assets that you can contribute to your SMSFs and the rules that apply please speak to your financial adviser.</p>
How do I contribute my shares to my SMSF?	<p>To contribute your shares to your SMSF you need to transfer the legal ownership of the shares to the trustee(s) of your fund. Completing an off-market transfer form does this.</p> <p>Depending on whether the shares are issuer or broker sponsored you will then need to forward the completed form to either your share broker or to the company share registry.</p>
Is there a limit to the contributions I can make each year?	<p>When considering making super contributions, it's important to assess how much you are contributing to your super in any one year. The government has set annual limits; known as contributions caps.</p> <p>The annual contribution caps for 2013/14 are:</p> <ul style="list-style-type: none">• \$25,000 per year or \$35,000 per year if you are aged 59 or over at 30 June 2013 for pre-tax contributions (concessional)• \$150,000 per year for after tax contributions (non-concessional) or \$450,000 over a three-year period if you are under 65 in the financial year you make the contribution. <p>It is important to keep your adviser informed about any contributions you make so they can ensure you don't exceed these caps. Contributions over these caps are taxed up to a hefty 46.5% and in some exceptional situations can be taxed as much as 93%.</p>
Your SMSF investment strategy	<p>Before transferring any shares to your SMSF you should confirm that the shares will be consistent with the fund's investment strategy and that they will allow you to achieve your retirement goals. Your financial adviser can assist you to update your investment strategy if needed.</p>
Transfers must be at market value	<p>Where a trustee accepts a contribution in the form of shares via an off-market transfer, the transfer must be done at market value. As a guide, the market value for a listed share is generally the closing price of the share on the date of transfer.</p>
Value of contribution preserved until retirement	<p>All contributions made to superannuation are subject to preservation and may not be released back to you until you have satisfied a condition of release, such as full retirement after reaching your preservation age (currently 55) or turning 65.</p>
Employee share schemes	<p>Where you are entitled to receive shares under an employee share scheme you may be able to nominate your SMSF to receive the shares. However, prior to nominating your SMSF you should confirm that this will be permitted under your SMSF's investment rules and that you understand the tax implications of nominating your fund.</p> <p>For more information regarding nominating your fund to receive shares under an employee share scheme, please speak to your financial and taxation adviser.</p>

¹ Approved stock exchanges include most other international exchanges, such as the New York, London, Singapore and Hong Kong stock exchanges.

How your financial adviser can help

A financial adviser can help you assess all of the relevant issues and provide advice on whether transferring shares to your SMSF is an appropriate strategy for you and your fund.

Important information

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