Case Study

The Advantages of transferring assets into a Self Managed Super Fund

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The Advantages of transferring assets into a Self Managed Super Fund

In the last edition of Trade Secrets, we discussed the benefits of transferring assets held in your personal name, to a Self-Managed Superannuation Fund (SMSF).

The ability to transfer assets into an SMSF is a unique advantage that SMSFs have over most public-offer and retail funds. There are restrictions on the types of assets held in a person's name which can be transferred into superannuation. However, the most commonly transferred asset from a person's name to their SMSF is listed shares.

The shares can be transferred into a SMSF in two ways:

- As an "in-specie" contribution to the fund, whereby the contribution is allocated to a member's benefit as either a concessional or non-concessional contribution; or
- The fund purchasing the shares from the member, using the fund's cash holdings.

One advantage of holding these shares within the fund, compared to holding them in a personal name, is the difference in tax rates between the two entities. The table below compares the tax rates between different entities:

Owner:	Income Tax (inclusive of Medicare Levy)	Capital Gains Tax for assets held less than 12 months	Capital Gains Tax for assets held more than 12 months
Personally – tax can be up to:	49%	49%	24.5%
Super Fund in accumulation phase	15%	15%	10%
Super Fund in pension phase	Nil	Nil	Nil

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Let's compare these points, based on the following share portfolio:

	Purchase Price*	Current Value	Capital Gain	Forecasted Dividends p.a. ($)	Dividends plus Franking Credits ($)
BHP Billiton Limited	$9,357.00	$5,952.00	-$3,405.00	$179.69	$256.70
Commonwealth Bank of Australia	$26,661.60	$68,402.00	$41,740.40	$3,880.25	$5,543.22
Telstra Corporation Limited	$15,862.00	$22,886.60	$7,024.60	$1,352.59	$1,932.26
Wesfarmers Limited	$6,450.00	$11,805.00	$5,355.00	$598.08	$854.40
Total	$58,330.60	$109,045.60	$50,715.00	$6,010.61	$8,586.58
Discounted Capital Gain:			$25,357.50	Franking Credits:	$2,575.97

*Assumed that there is no dividend reinvestment, and all dividends are paid out as cash.

Dividends and franking credits

As discussed, the benefit of holding investments within superannuation is that the dividends and attached franking credits will be taxed within the superannuation environment, compared to a person's marginal tax rate (MTR).

Franking credits are tax credits that are passed on to the shareholder, for tax that the company (e.g. Telstra) has already paid to the ATO. This therefore prevents both the company and the shareholder from being taxed.

If these shares are held within the superannuation pension phase, all dividends and attached franking credits are taxed at a rate of 0%. Therefore, the dividends that a person receives from their investments are not taxed. Further, the superannuation fund will receive a refund of the franking credits – i.e. in this example, $2,575.97 – that are attached to the shares.

Compare this to a situation in which the same share portfolio is held in an individual's name. The company tax rate is a flat 30%. Therefore, if a person is on the highest marginal tax rate (49%), there would be no refund on the franking credits, as these credits would be absorbed in assisting to offset the individual's personal income tax, understanding an additional 19% in tax would need to be paid

Capital Gains Tax

The next benefit of holding assets within super is the tax payable on any gains when the assets are sold.

When an individual sells an asset and makes a gain, capital gains tax is payable, subject to a 50% concession where the investment has been held for a period of longer than 12 months.

If we assume that the above share portfolio is held in an individual's name, and are subsequently sold, the capital gain would be added to the person's assessable income, and taxed at their MTR. If the shares were held for less than 12 months, 100% of the gain would be added to their assessable income; whereas if the shares were held for longer than 12 months, then 50% of the total gain would be added to their assessable income.

Compare this to the amount of tax payable where the shares are subsequently sold whilst being held in superannuation. As outlined in Table 1 where assets are sold whilst in accumulation phase, the capital gain would be taxed at a flat 10% if held for more than 12 months, or 15% if held for less than 12 months. However, if the superannuation fund was in the pension phase, the capital gains tax rate is 0%. Let's compare these scenarios using the above share portfolio, in Table 3 below:

	Personal Name - MTR 49%	Personal Name - MTR 49%	Super Fund in accumulation - MTR 15%	Super Fund in accumulation - MTR 10%	Super Fund in pension phase - MTR 0%
	Held for less than 12 months	Held for more than 12 months	Held for less than 12 months	Held for more than 12 months	N/A
Gross Capital Gain	$50,715.00	$50,715.00	$50,715.00	$50,715.00	$50,715.00
Assessable Capital Gain	$50,715.00	$25,357.50	$50,715.00	$50,715.00	$0.00
Tax Payable	$24,850.35	$12,425.18	$7,607.25	$5,071.50	$0.00

Implications of transferring shares into super

Let's assume that Peter, holds the above share portfolio in is personal name. Peter is on the highest MTR, and wants to take advantage of the benefits of holding these shares in his SMSF – specifically the return of the franking credits.

As Peter is transferring these shares from his personal name to the SMSF, there is a change in the beneficial owner, and therefore tax on the capital gain has to be taken into consideration. Assuming, Peter has held the shares for more than 12 months, 50% of the capital gain (i.e. $25,357) is added on to his assessable income and taxed accordingly at his MTR. This results in him paying an additional $12,425 of tax, in his personal name.

However, the real benefit is where Peter's SMSF receives a refund of the franking credits attached to the dividends. The franking credits would have ordinarily be absorbed into offsetting Peter's personal income tax. As previously noted, the franking credits return company tax already paid at a rate of 30%, however with Peter being on a MTR of 49%, Peter is paying an additional 19%, or $1,631, of tax on the income received from these shares.

However assuming Peter's SMSF is in the pension phase, with a 0% income tax rate, the franking credits are refunded to the SMSF – Peter's SMSF now receives the $2,576 in franking credits back each year.

Assuming the SMSF continues to receive the $2,576 franking credit refund each year, and taking into account the additional 19%, or $1,631 each year that Peter previously paid in tax in his personal name, on a cash basis, it would take just under 3 years of holding the same share portfolio, within the SMSF, to offset the capital gains tax that Peter initially incurred when he transferred the shares from his personal name into the SMSF.

While capital gains tax is now payable in Peter's name, due to this transfer, when shares are transferred into the SMSF, effectively the capital gains tax clock, has now been stopped. Any capital gains the shares to make within the SMSF from the transfer date will now be taxed at the more generous tax rates that superannuation funds currently receive. For example, if the same parcel of shares in Peter's SMSF increases by $25,000, and he decides to sell the shares, if the SMSF is in the pension phase, all capital gains are tax free. No capital gains tax is paid and the total $25,000 profit made from the shares sale is retained.

Be careful

Before transferring shares, or other assets, held in your personal name into superannuation, there are some points to note:

- Transferring the shares from your personal name to superannuation creates a capital gains event and therefore capital gains tax may have to be paid in a person's individual name.
- There are limits or caps, to the value of assets that can be contributed into super, and caution should be taken to ensure these limits are not breached.

In summary

There are several distinct reasons for holding assets in superannuation, and transferring assets from your personal name into super is an effective way of increasing your superannuation savings.

However there are many factors to this strategy that need to be taken into consideration. Therefore advice from a professional, regarding your personal situation, should always be obtained.

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