MARINER | FINANCIAL
INVESTMENT BY DESIGN

MARINER FINANCIAL LIMITED
ABN 54 002 989 782

PO Box R1607
Royal Exchange NSW 1225

Level 40, The Chifley Tower
2 Chifley Square
Sydney NSW 2000 Australia

Investor Services: 1800 009 963
Adviser Services: 1800 009 964

T 02 9238 0750
F 02 9238 0790
W www.marinerfunds.com.au

Self Managed Superannuation Funds benefit from changes announced in Federal Budget
4 September 2006

Self managed superannuation funds (SMSFs) have been popular for many years. According to Kate Anderson, Technical Services Manager Mariner Financial Limited "A number of the proposals announced in the 2006/07 Federal Budget may further enhance their appeal for many investors."

The following paper outlines some of the key initiatives with respect to the operation of SMSFs that may result in further increasing the appeal of such funds.

1. The proposal to restrict after tax superannuation contributions to $150k p.a. is likely in many circumstances to be better accommodated by SMSFs

Effective Budget Night, 9 May 2006, undeducted contributions are capped at $150,000 per annum or $450,000 averaged over 3 years on a roll-forward basis. This will mean that a client who receives an inheritance or wishes to otherwise make substantial catch-up payments into the superannuation environment prior to retirement, will be restricted in their planning.

Clients with large amounts earmarked for superannuation will ordinarily be required, under the new regime, to limit their contributions to the amount of the new cap and, to the extent that the intended contribution exceeds the cap, wait for three years to contribute the additional funds into the super environment.

It is believed that the most flexible way to work with this new cap on undeducted contributions will be to invest jointly with a SMSF and progressively transfer the component of the investment that the members hold personally into their fund. This uses a variation on a strategy in which a SMSF jointly owns assets with its members.

Joint investment by a SMSF and its members is permitted under section 71(1) of the Superannuation Industry Supervision Act 1993 (SISA). This can be achieved by either, the fund and the member acquiring the asset as tenants in common or alternatively, a trust could be settled with units being allotted to the fund and its members in the desired ratios.

An investment by a SMSF in a related trust is permissible provided that the related trust does nothing more than the fund would otherwise have been able to do in its own right.

Discussion regarding the merits of the two alternatives generally resolves around the flexibility afforded by the unit trust in that, if the co-owners wish to change their respective ownership proportions, one would simply transfer units to the other. Unit trusts offer a more flexible means by which co-owners' interests can be changed over time.

The appeal of using a SMSF in this manner, rather than investing by way of a public offer fund, is that super and non-super capital can be aggregated at the outset, without the need to split the capital, thus resulting in the ability for the SMSF trustees to fully utilise their funds for investment purposes.

Example

If a member received a large settlement from the sale of an investment property, say $1,000,000 and wished to contribute it into the superannuation environment, they would have to gradually transfer the amount over a number of years and their capital would be split, with some in super and some held personally during this period.

If, on the other hand, a SMSF was established with a related unit trust, with one million $1.00 units being allotted to the member, the trust would hold the entire capital and be able to invest at the time of the settlement of the inheritance. Over time, the member could transfer in-specie the beneficial ownership of their own units in the trust to the SMSF, up to the annual cap on undeducted contributions.

Whilst this cap on undeducted contributions would limit the amount that was able to be contributed into the superannuation environment, the member's capital would be fully productive in a single investment and be able to be drip fed into a concessionally taxed super environment over time. The transfer of business real property into a SMSF could be done in much the same way.

2. Statutory bias in favour of SMSFs

The tax consequences of a SMSF member commencing a pension are different to those for members in the majority of public offer funds, the advantages for SMSFs will be further pronounced under the proposed regime.

In many public offer funds, when a member commences a pension they are required to redeem their accumulation units and purchase units in a tax exempt pension fund, which results in the crystallisation of unrealised profits up until the time of pension commencement. For members of SMSFs, the fund is able to retain the underlying assets and there is no a need to crystallise any tax liability on unrealised gains and hence, the member will be better off by the tax on the unrealised gains that have accrued up until the time of pension commencement.

With less impediments to moving between the super and non-super environments post age 55 under the proposed new regime, there is likely to be an increased need to consider the tax implications of investment transactions within the fund, particularly for clients approaching retirement in the 50 to 55 year age bracket. SMSFs are likely to be considered to be a better alternative than many public offer funds in these circumstances.

Example

Assume a member of a SMSF contributes $100,000 to super at age 50 and upon the commencement of a transition to retirement pension at age 55, the value of the initial contribution has risen to $250,000 (due to $150,000 of unrealised capital gains). In both the SMSF and public offer funds, the accounts would show a provision for deferred tax liability of $15,000 (being the 10% CGT liability on the $150,000 unrealised appreciation in the value of the underlying assets).

This amount is deducted from the member's balance under what accountants refer to as "tax effect accounting" principles. The member's statement in these circumstances would reflect a balance of $235,000, as opposed to $250,000.

For a SMSF member starting a pension in these circumstances, upon conversion to the exempt pension environment the accountant would write back the $15,000 provision and the member would be better off by this amount.

The initiatives announced in the Budget illuminate the need for planners to understand the motivations of SMSF trustees and to assess how closely fund manager's products are aligned to the specific needs of the sector.

The information contained in this update is for financial advisers. It is a guide only and based on legislation current and proposed as at August 2006. We believe the information contained in this update has been obtained from reliable sources but we cannot be responsible for any errors, omission or inaccuracies.

About Mariner Financial Limited

Mariner Financial Limited is a diversified financial services company listed on the Australian Stock Exchange [ASX: MFI]. Mariner specialises in delivering products that offer investors real opportunities to build and preserve their wealth, through originating, structuring and distributing truly unique products. It offers a range of investment solutions that cover Retirement Solutions, Superannuation Solutions, Income Products, Equity Funds, Property, Alternative Equity Products and Private Equity.

For further information, please visit the Mariner website at <www.marinerfunds.com.au>.

Or contact:

Shed Enterprises
Sheridan Lee/Simrita Virk
Tel: 02 9247 8533 / 0411 101 492 (SL) or 0405 441 373 (SV)
Email: shed@ozemail.com.au; svirk@shed-ent.com.au