

## GST and SMSFs

Goods and services tax (GST) is a tax of 10% on goods and services sold within Australia. GST is included in the price charged for goods and services where it is required by law. Entities registered for GST charge GST on their taxable sales and can generally claim credits for the GST included in the price of goods and services they acquire.

### When do you need to register and when can it be voluntary?

A Self-Managed Super Fund (SMSF) is required to register for GST if its actual or projected GST turnover exceeds \$75,000. Current GST turnover is turnover for the current month and the previous 11 months and projected turnover is turnover for the current month and the next 11 months. Where the GST turnover threshold of \$75,000 is met by either current or projected turnover then an SMSF must register for GST. For an SMSF, GST turnover is effectively total investment income less input-taxed sales.

Input-taxed sales are not subject to GST and no GST credits can be claimed on related purchases. Input-taxed sales include dividends, trust distributions, interest and residential rent. This makes up the majority of income for SMSFs so in many cases the turnover requirement is not met and they are not required to be registered for GST. However, they may choose to do so voluntarily where they see a benefit.

Commercial property rent is subject to GST and counts towards the turnover requirements. Therefore, where an SMSF exceeds the turnover requirement through commercial property rental income, they are required to be registered for GST. 100% of the GST on the related expenses can also be claimed back by the SMSF. It's important to note that council rates, water rates and land tax are GST free transactions, so GST cannot be claimed on these transactions. Another important consideration is that where outgoings are recovered from the tenant, the SMSF must add GST to the transactions even if the expenses being recovered are GST free.

### Reduced credit acquisitions

GST is charged at a rate of 10%. Reduced credit acquisitions are specific expenses where a reduced GST credit is allowed even where the expense is related to financial supplies which are not subject to GST. The reduced credit is 75% of the 10% GST included in the expense. SMSF expenses that are considered reduced credit acquisitions include actuarial fees, a portion of external administration fees (such as Xpress Super fees), brokerage fees and investment management fees.

## GST Changes from 1 July 2024 on Adviser Services Fees

There is a change in the way the GST is claimed from 1 July 2024 for self-managed super funds (SMSFs) where advice fees were paid from an investment platform.

Pre-1 July 2024, the platform would claim Reduced Input Tax Credit (RITC) for up to 75% of the GST amount and pass on the benefit to the SMSF. This reduced the amount of fees that the SMSF paid to the adviser.

From 1 July 2024, the arrangement has changed, and the platform now deducts the full cost of the adviser fees from the SMSF's account because the platform is no longer eligible to claim the RITC.

However, if the SMSF is registered for GST, it is then eligible to claim the usual 75% RITC on fees relating to the management of the fund's investment portfolio.

## GST exemptions

There are also a number of SMSF expenses that are not considered reduced credit acquisitions. Tax and auditing services are specifically excluded from the list of reduced credit acquisitions and as such no GST can be claimed.

To summarise, here is a list of the common expenses within an SMSF and the relevant GST amount that can be claimed:

| Claim 100% of the GST                                                                               |
|-----------------------------------------------------------------------------------------------------|
| Commercial property purchase and legal costs                                                        |
| Commercial property expenses (Note – GST does not apply to council rates, water rates and land tax) |

| Claim 75% of the GST                  |
|---------------------------------------|
| Actuarial fees                        |
| Administration fees (not tax related) |
| Brokerage fees                        |
| Investment management fees            |

| Claim Nil GST                                   |
|-------------------------------------------------|
| Audit fees                                      |
| Bank fees                                       |
| Accounting fees for tax and activity statements |
| Residential property purchase                   |

### Process of being GST registered

The process of operating as a GST registered SMSF is quite straightforward and handled by Xpress Super. As part of our annual GST administration fee we will register the fund for GST with the ATO. Then work out how GST applies to the relevant transactions in the fund and lodge the required activity statements with the ATO on an annual or quarterly basis.

To illustrate how GST applies to a fund whether they are in accumulation or retirement phase, below is a case study with some common expenses included.

### Case study

When an SMSF moves to being 100% in retirement phase, all of the income and capital gains of the fund are exempt from tax. As such, the fund can no longer make use of the tax deductible expenses, but by voluntarily registering the SMSF for GST an overall benefit can be obtained.

The following example highlights this potential benefit (all expenses are GST inclusive). Assume a fund has the following annual expenses:

|                            |          |
|----------------------------|----------|
| Portfolio Management Fees  | \$11,000 |
| Actuarial Certificate Fees | \$290    |
| Pension Establishment Fees | \$550    |
| Total Eligible Expenses    | \$11,840 |

$$\text{Total GST Credits} = \$11,840 / 11 \times 75\% = \$807$$

|                                    | Accumulation Phase       | Retirement Phase      |
|------------------------------------|--------------------------|-----------------------|
| NOT GST REGISTERED                 |                          |                       |
| GST Refund                         | \$0                      | \$0                   |
| Tax Deduction                      | \$11,840 x 15%           | \$11,840 x 0%         |
| Tax Benefit                        | \$1,776                  | \$0                   |
| Total Benefit                      | \$1,776                  | \$0                   |
|                                    |                          |                       |
| GST REGISTERED                     |                          |                       |
| GST Refund                         | \$807                    | \$807                 |
| Tax Deduction                      | (\$11,840 - \$807) x 15% | (\$11,840 - \$0) x 0% |
| Tax Benefit                        | \$1,655                  | \$0                   |
| Total Benefit                      | \$2,462                  | \$807                 |
|                                    |                          |                       |
| Difference when registered for GST | \$686                    | \$807                 |

As you can see, regardless of the fund being in accumulation mode (\$686) or 100% retirement phase (\$807), a benefit can be gained from voluntarily registering an SMSF for GST.

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