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Your Simpler SMSF Solution!

The In's and Out's of SMSF Expenses

Are your expenses in order?

Self-Managed Super Funds (SMSFs) inevitably incur expenses during their operating life. It is important to note that of the expenses incurred, not all are claimable as a deduction in the tax return. Some expenses may be incurred as a capital outlay, or may not be allowable under the Income Tax Assessment Act 1997 (ITAA97). Others may be determined by the Superannuation Industry (Supervision) Act 1993 (SISA) and Superannuation Industry (Supervision) Regulations 1994 (SISR) and should not be paid by the fund at all or need special attention to determine where they should be paid from. It is in the best interest of members and trustees alike that the SMSF only incur expenses that relate to the operations of the fund.

Sole Purpose Test

The golden rule of SMSFs is to comply with the sole purpose test; The fund is established and run solely to benefit the members upon retirement or permanent disability or the member's beneficiaries upon their death. Therefore, all decisions made regarding the SMSF must link to the sole purpose. If an expense is not in line with these objectives, it is not likely to be claimable for tax purposes.

General requirements

Given that SISR require the trustees to keep personal assets separate from fund assets, it is important that expenses be in the name of the fund and paid from the smsf bank account. Any invoices or receipts should be addressed to the fund and paid by the fund. Failure to comply with the general requirements may see the fund miss out on vital deductions.

Expenses incurred on behalf of the fund

Generally, SMSF expenses should be paid from the fund's bank account. Situations arise where expenses can be incurred by the fund that are subsequently paid by the member/trustee personally or an employer and still be deductible under the law. When fund expenses are paid in this manner, the trustees should seek to reimburse the payer immediately, alternatively they can treat these payments as contributions, which will be subject to the contribution caps.

Excessive expenses

SMSF expenses should not be excessive in amount. If payments appear to be unusually excessive, then it will most likely be flagged by the auditors or the ATO. Ensure that expenses are incurred at a reasonable market value. If you would not pay a comparable amount for services received personally, then it is likely to be considered excessive.

Expenses not pertaining to the SMSF

Expenses that do not relate to the operations of the fund should not be paid by the SMSF, including personal and business expenses or donations.

Common expenses

Some common expenses that are allowable as tax deductions include:

- Accounting fees relating to the superannuation fund;
- Annual SMSF auditing fees;
- ATO Supervisory Levy;
- Actuarial fees;
- Trust Deed Amendment fees (if the amendments are required to ensure the fund remains compliant);
- Investment property expenses - agent fees, repairs and maintenance, gardening, depreciation. It should be noted that travel expenses to inspect property are no longer deductible;
- Other investment related expenses such as subscriptions/seminars/newsletters - To the extent that they relate to the running of the fund. For example, investment subscriptions, superannuation trustee seminars, or superannuation and investment newsletters.

Non-deductible and excluded expenses

Some expenses are not tax deductible for SMSFs, including fines for non-compliance or other breaches of the law and some legal fees that are capital in nature. Furthermore, some expenses are excluded by the law and cannot be made by the SMSF such as, remuneration for trustees or directors for undertaking their role as trustee, which could be considered as providing financial assistance to member or relatives of the fund (which is prohibited). Engaging in such conduct may result in penalties being imposed on the fund, trustees and/or directors.

Capital vs. operating expenses

A capital outlay is treated as an asset of the fund, and tax deductions may be allowable if the asset is a depreciable asset. For example, purchasing a new air conditioner for an investment property is a depreciable asset, and depreciation can be claimed. Conversely, legal fees incurred in setting up the initial trust deed are capital in nature but cannot be depreciated over time. These purchases differ from expenses as they are often for larger sums of money, and are for the purchase of a good, rather than the expense of a service.

Where a member holds accumulation and pension balances in the SMSF it is important that the trustees are notified which account to deduct insurance premiums from as this will impact the death payment to beneficiaries. Insurance payments received to a pension account may be included in reversionary pensions, without impacting the member's Transfer Balance Cap (TBC). However, if this is paid into the accumulation account, it may have TBC implications or need to be withdrawn from the superannuation system. An estate planning lawyer should be engaged to confirm the best treatment for individual circumstances.

In summary, expenses should relate directly to the running of a SMSF. The sole purpose test is one direct way of checking the validity of an expense. If the expense appears personal in nature or excessive in relation to the value of the fund's assets, then the auditors are more than likely to give it some attention.

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