WealthtracSMSF

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 SuperGuardian fees), brokerage fees and investment management fees.

In some situations where SMSFs have invested in custodial Investment platforms (where the platform holds the investments on behalf of the SMSF rather than direct ownership), the custodian may claim the reduced input tax credit on certain brokerage, investment management fees and other administration fees that are deducted from the client's accounts. Where this occurs and the GST has already been claimed by the custodian, then no reduced input tax credit can be claimed by the SMSF.

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

**Note - Where invested in a custodial Investment platform, if the custodian has already claimed the reduced input tax credit on certain brokerage, investment management fees and other administration fees, then no reduced input tax credit can be claimed by the SMSF on those 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 your administrator. 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

Total GST Credits = $11,840 / 11 x 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.

For further information on registering a fund for GST please contact your Client Manager.