

Thinktank..

SMSF Update

October 2023



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The ATO recently released SMSF data for 30 June 2023 with interesting comments from various commentators as well as comparisons to our own Thinktank portfolio.

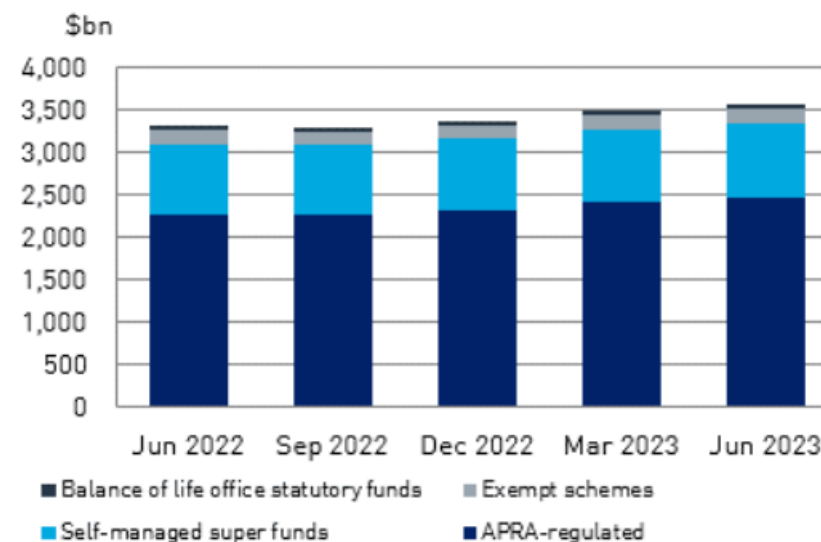
Along with an update on the RBA's Interest Rate decision for this month is the release of the draft legislation by the Federal Government of their proposed changes to SMSF taxation levels for over \$3 million accounts including unrealised capital gains. See more comments below as well as further details on the economy and domestic and global markets in our Monthly Market Focus and our Quarterly Market Update.

First of all, the news of a further pause in changes to the Cash Rate by the RBA in newly appointed Governor Michelle Bulloch's first Board meeting. While warning that further increases may be required, this is still good news although a number of commentators are now forecasting a longer period of interest rate stability before any chance of a cut, saying this could be out too late 2024.

One reflection the higher interest rate environment of the past year and a half is the Westpac – Melbourne Institute Consumer Sentiment Survey which was down 1.5% in September to 79.7 well into pessimistic territory below 100 where it has been for over a year.

This pessimism has not stopped the growth of Superannuation Funds and APRA recently released their data for all funds as shown in the graph.

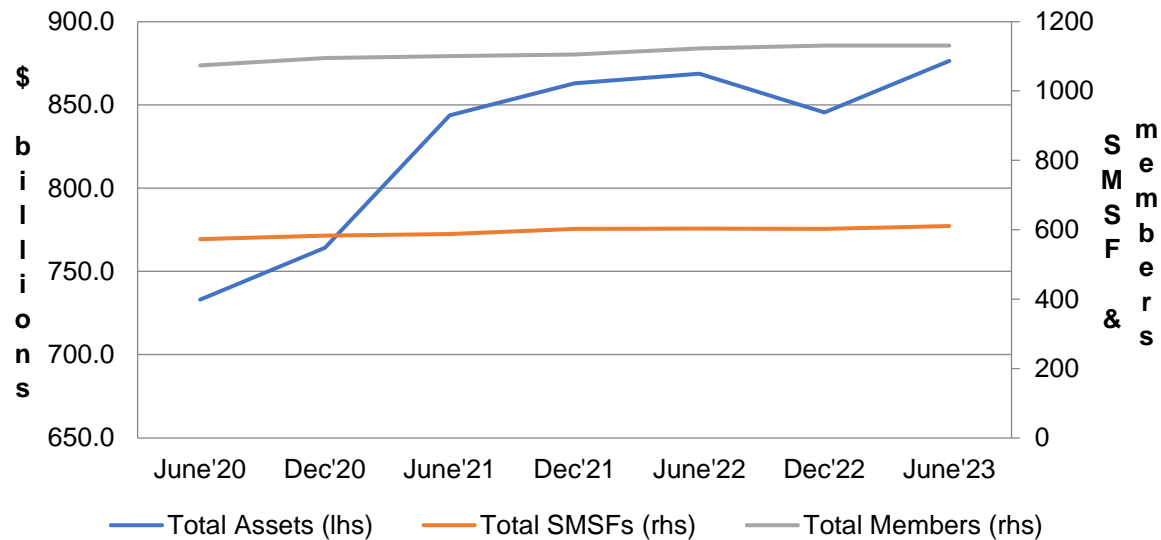
Assets of all Superannuation Entities



SMSF Total Assets and Numbers



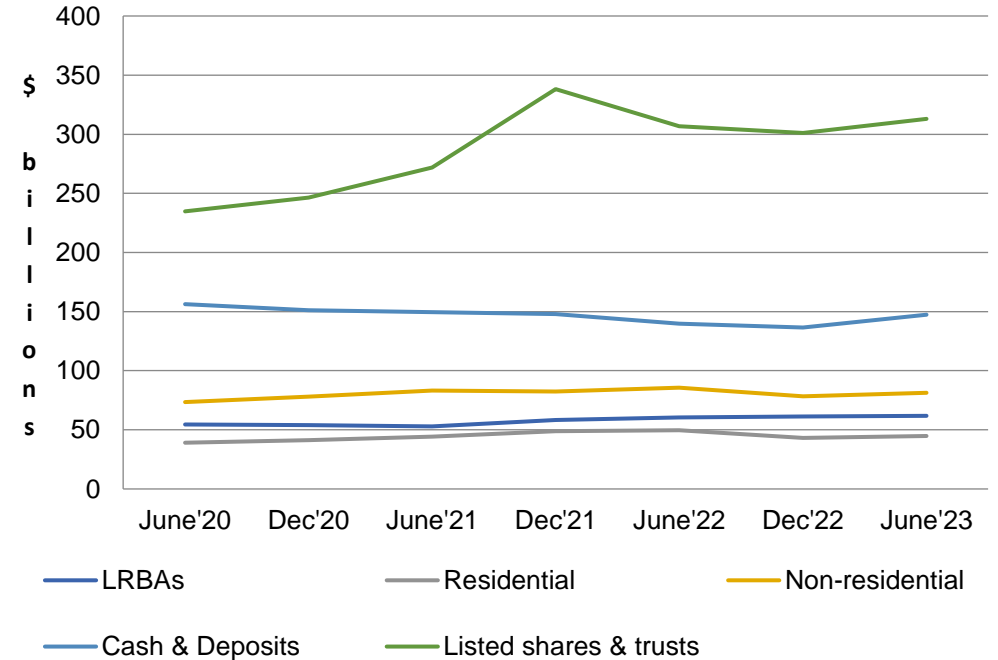
Total superannuation assets grew to over \$3.5 trillion by the end of June 2023, of which \$2.5 trillion are in APRA-regulated funds. Over the quarter, total superannuation assets increased by 2.1%, driven by a high-level of contributions and a positive quarterly rate of return. Total SMSF assets rose to \$876 billion as shown in more detail below in the quarterly statistics just released by the ATO.

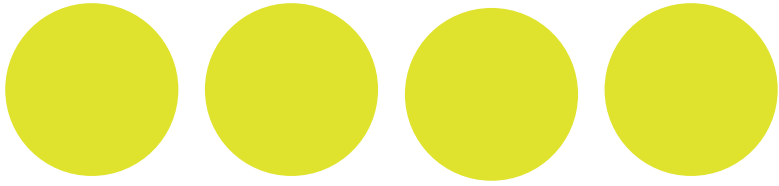


SMSF Investment Portfolio Data



The total number of SMSFs is reported at 610,287 with 1,130,640 members or an average of just under two members per fund at 1.85. Additional statistics are also provided regarding asset allocation, and we have reflected some of these below.





Listed shares & trusts remain the largest investment category at \$313 billion or 35.7% with Cash a little less than half of that at \$147 billion or 16.8%. As you can see from the chart on the previous page, these are quite consistent over the past few years as is the percentage of LRBAs utilised which is currently at \$61.7 billion or 7%. While not all LRBAs are utilised for real property investments, a large number are and so it is not surprising these also have been quite stable with Non-residential investments at \$81.2 billion – 9.3% and Residential at \$44.8 billion - 5.1% or just over half.

The preference of non-residential real property investments surprises some but this is very much the same in our own SMSF-LRBA portfolio and is driven by the advantageous treatment of business-real-property (BRP) within SMSFs so that commercial property can be occupied/used as business premises by SMSF members or Part 8 associates. This is not allowed for Residential property owned by SMSFs and as a result we see a large proportion of our LRBAs used as commercial premises for businesses operated by the SMSF members.

Current issues for the sector include the Federal Government’s proposal to place a \$3 million cap on pension fund limits and to also impose a tax on unrealised capital gains within SMSFs. Both proposals have met a good deal of strong resistance and while they would only come into effect two years from now the draft legislation only issued very recently has been described by the SMSF Association and their well known CEO Peter Burgess as “extremely disappointing”. The comment has been made that such an approach might be applied in future to other investments with some obvious negative consequences for long-term investors when facing the payment of tax on assets that have not been realised. Commentators responding to investors’ concerns have recommended not taking any hasty action and following closely together with their advisers how the legislation progresses.

With the recent stable interest rate markets, property values have also stabilised and research such as that provided by CoreLogic and Herron Todd White along with others has been positive. We invite you to review our assessment of various Capital City property markets in our Monthly Market Focus and our Quarterly Property Update.



Contact



Sources

APRA Quarterly superannuation performance statistics highlights June 2023 (released 31 August 2023)
ATO Self Managed Super Fund Quarterly Statistical Report