

Investing via a SMSF

Objectives

- 1 Fund additional superannuation contributions via a salary sacrifice.
- 2 Diversify portfolio assets to reduce the risk of future portfolio volatility.
- 3 Make a positive contribution to the long term generation of investment wealth.

Case Study



Brett and Debbie:

- Are trustees of their own SMSF.
- Will each make \$25,000 of concessional contributions into the fund in the year ending 30 June 2009.

Their SMSF is also expected to produce \$20,000 of assessable investment earnings this year.

Strategy

The trustees purchase 10 units in a forestry project producing multiple revenue streams, the first of which is due to be distributed in eight years time.

The tax deduction which the SMSF will receive as a result of this purchase can be used to offset assessable income produced by the \$50,000 of concessional contributions and \$20,000 of investment income, saving \$10,500 in tax.

Immediately following the implementation of the strategy, wealth has increased by \$38,937.

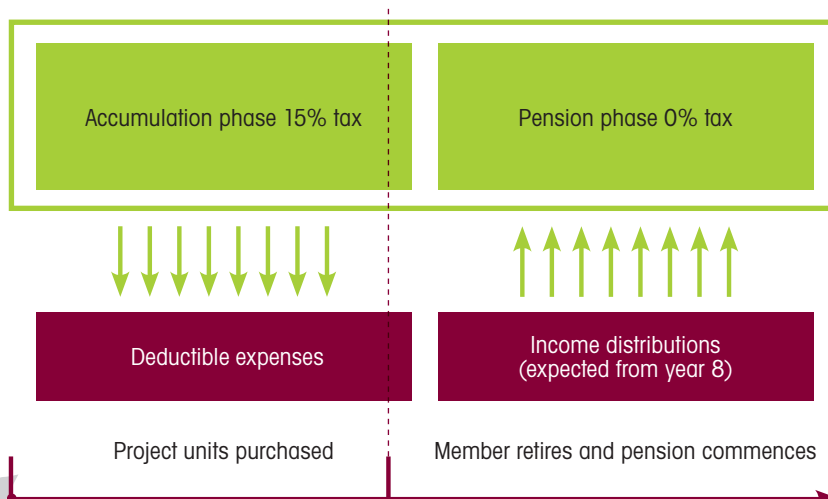
Superannuation cash account:	-\$	59,500
Value of Project units	\$	98,437
Increase in net wealth	\$	38,937

The value of the Project units shown above is the value in today's terms of the income which the trustees expects to receive from the Project over the next 21 years.

Commencing pensions

Prior to receiving the first income from the Project units, the trustees use the Project units to commence a pension for Brett and Debbie.

Despite having received a tax deduction at the time of purchase, all income received by the SMSF from that point on will be received by the fund free of tax.



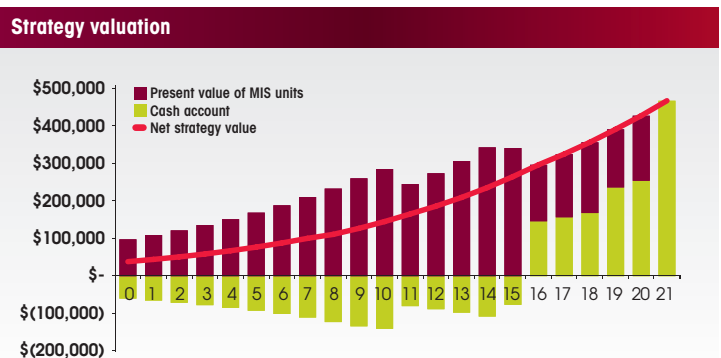
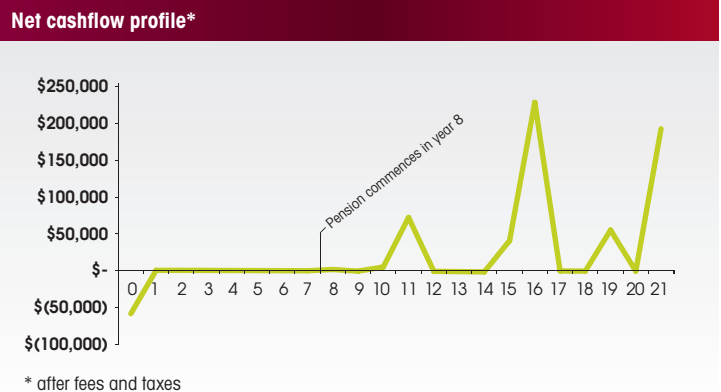
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The trustees will receive revenue from the harvest and sale of timber owned by his Project.

They pay annual tax deductible insurance premiums to provide some protection if an event, such as fire, were to occur in the timber plantation.

Changes to the SMSF cashflow resulting from strategy revenue and costs are reflected in the net cashflow profile.

After 21 years the SMSF's wealth will increase by \$467,177.



Results

- ✓ An immediate increase in investment value of superannuation portfolio of \$38,937
- ✓ Increased portfolio diversification to assist in reducing volatility
- ✓ A return on investment of 14.57% pa, after fees and taxes
- ✓ An increase in wealth by \$467,177 by the end of the strategy

Assumptions used in this case study

- Concessional contributions and investment income: indexed at 2.5% pa.
- Establishment fee: \$7,000 per unit.
- Deferred management fees: 35% of project revenue.
- Tax rate: As legislated for 2008/09 and 2009/10.
- Discount rate used to calculate present value of future forestry MIS revenue: 11.07% pa.
- Investment and superannuation account: Income yield – 4.8% pa, Capital yield – 3.3% pa & Capital turnover – 12.5% pa.
- Assumes that superannuation assets are used to support a pension from 2017 and no tax on a lump sum or pension applies.
- All transactions occur on 30th June.
- Loan repayments are made monthly.
- Investment in the forestry project complies with Division 394 of Income Tax AA 1997.
- All values are shown as GST exclusive amounts.
- The value of the Project units shown is the value in today's terms of the income which the trustees expects to receive from the Project over the next 21 years discounted at 11.07% pa.

Timber revenue per unit

Year	\$ per unit
8	\$ 317
10	\$ 912
11	\$ 11,336
15	\$ 6,615
16	\$ 35,628
19	\$ 8,651
21	\$ 29,886

Insurance costs per unit

Year	\$ per unit	Year	\$ per unit	Year	\$ per unit
0	\$ 0	11	\$ 199		
1	\$ 43	12	\$ 175		
2	\$ 46	13	\$ 209		
3	\$ 58	14	\$ 250		
4	\$ 70	15	\$ 300		
5	\$ 81	16	\$ 307		
6	\$ 95	17	\$ 122		
7	\$ 111	18	\$ 144		
8	\$ 129	19	\$ 171		
9	\$ 149	20	\$ 145		
10	\$ 175	21	\$ 175		