TRUSTEE TOOL:

Tax deductions — what you can and can't claim

Brought to you by SMSF experts you can rely on

Investing through an SMSF can be very tax effective, but that doesn't mean anything goes. Here are some tips to help you benefit from legitimate deductions, without getting yourself into hot water.

In principle, claiming tax deductions for your SMSF should be easy. If your fund spends money on an expense directly related to generating taxable income for the fund, that expense is generally deductible. But in practice things can be much less straightforward.

Let's say you take a trip interstate to visit an investment property. Can you claim the costs? What about a course in online share trading?

Here's a quick guide to the expenses you can and can't claim — and how to tell the difference.

What you can definitely claim

The Australian Taxation Office (ATO) says an SMSF can deduct any losses or outgoings incurred in earning taxable income, including carrying on a business. That means you can generally claim:

- Your accountant and investment adviser's fees
- The cost of your yearly audit
- Actuarial fees
- Administrative and investment costs, such as bank charges, insurance premiums, investment property expenses and brokerage costs
- The cost of updating your trust deed to make sure it is compliant
- Life insurance premiums.

What you may be able to claim

Some expenses aren't so black and white. That interstate trip to check on your investment property, for example — can you claim the cost of your flights and hire car?

The answer is likely to be yes, as long as you can prove the trip was necessary and you keep detailed records and the expenditure was incurred before 1 July 2017. If any part of the trip is for personal reasons, you'll need to split the costs into deductible and non-deductible portions. As announced in the 2017 Federal Budget, from 1 July 2017, all travel expenditure relating to residential investment properties, including inspecting and maintaining residential investment properties will no longer be deductible.

What about self-education expenses, like that share trading course? This is one area where you need to apply common sense. If your fund's investment strategy involves a high proportion of share investments, then a reasonably priced course can be justifiable. But if you only hold a few shares in your fund and a large number outside, it's unlikely to satisfy the ATO.

What you cannot claim

The law makes it clear that there are a few things, you cannot claim, including:

- The costs of setting up your SMSF
- Upfront investment fees that are capital in nature, including investment or administration charges levied by a life assurance company
- Penalty costs, such as late lodgement penalties.

As a general rule if your fund is paying a pension to a member, you can't claim any expenses related to that income stream. If some fund members are accumulating super while others are drawing a pension, you'll need to carefully apportion those expenses, depending on which income stream they relate to.

Five tips to stay on the right side of the ATO

1. Remember the sole purpose test. If an expense isn't for the sole purpose of providing retirement benefits to your members, it probably isn't deductible.
2. Make sure your fund has its own bank account, and that you use it to pay expenses.
3. Ensure invoices are made out to your super fund, not to you or another fund member.
4. Make sure any expense is relevant to your investment strategy and investments.
5. Before claiming any deductions, consult a qualified tax adviser.

More information

For more information on tax deductions within your SMSF please speak with your financial adviser.

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