Diploma of Financial Planning + SMSF

Module 3 Workplace Simulation

**Submission Instructions:**

**Key steps that must be followed:**

* + - **Please complete the Declaration of Authenticity at the bottom of this page**.
    - Once you have completed all parts of the assessment and saved it (e.g. to your desktop computer), login to the Monarch Learning Management System (LMS) to submit your assessment.
    - In the LMS, click on the file ”Submit DFP+SMSF Module 3 workplace simulation” in the Module 3 section of your course and upload your assessment file/s by following the prompts.
    - **Please be sure to click “Continue” after clicking “submit”.** This ensures your assessor receives notification – very important!

[Click here](http://monarch.mywisenet.com.au/) to go to the Monarch LMS

**Declaration of Authenticity\***

I certify that the attached material is my original work. No other person’s work has been used without due acknowledgement. I understand that the work submitted may be reproduced and/or communicated for the purpose of detecting plagiarism.

Student Name\*: Date:

\* I understand that by typing my name or inserting a digital signature into this box that I agree and am bound by the above student declaration.

**Important assessment information**

**Aims of this assessment**

This assessment covers the fundamentals of superannuation. It covers spouse contribution rules and strategies. It explores the making of non-concessional contribution strategies including addressing the ‘bring-forward’ rule. The tax consequences on concessional and non-concessional ‘caps’ is explored, as are the tax consequences on superannuation contributions and withdrawals. The differentiation between employer and member contributions (i.e. different contribution types) is explored. Transition-to-retirement strategies are covered as are the tax implications of taxable versus tax-free superannuation benefits paid out to members or their beneficiaries. SMSF’s are addressed in the context of using limited recourse borrowing arrangements. Bare Trusts are explored as the holding mechanism for SMSF assets that are used as security in the borrowing arrangement. The rules regarding business real property are explored in the context of making concessional or non-concessional in-specie contributions into a SMSF. Rules on trusteeship of SMSF’s are covered including differences between individual and corporate trustee arrangements. Membership rules around an SMSF are covered including familial rules and employer/employee rules. Rules on investment strategies within SMSF’s are explored. Death benefits paid from SMSF’s are also addressed, including estate planning issues and re-contribution strategies.

**Marking and feedback**

This assignment contains 5 assessment activities each containing specific instructions.

This particular assessment forms part of your overall assessment for the following units of competency:

* FNSASICU503
* FNSFPL502
* FNSFPL503
* FNSSMS501
* FNSSMS505
* FNSSMS601
* FNSSMS602
* FNSSMS603

Grading for this assessment will be deemed “competent” or “not-yet-competent” in line with specified educational standards under the Australian Qualifications Framework.

**What does “competent” mean?**

These answers contain relevant and accurate information in response to the question/s with limited serious errors in fact or application. If incorrect information is contained in an answer, it must be fundamentally outweighed by the accurate information provided. This will be assessed against a marking guide provided to assessors for their determination.

**What does “not-yet-competent” mean?**

This occurs when an assessment does not meet the marking guide standards provided to assessors. These answers either do not address the question specifically, or are wrong from a legislative perspective, or are incorrectly applied. Answers that omit to provide a response to any significant issue (where multiple issues must be addressed in a question) may also be deemed not-yet-competent. Answers that have faulty reasoning, a poor standard of expression or include plagiarism may also be deemed not-yet-competent. Please note, additional information regarding

Monarch’s plagiarism policy is contained in the Student Information Guide which can be found here: <http://www.monarch.edu.au/student-info/>

**What happens if you are deemed not-yet-competent?**

In the event you do not achieve competency by your assessor on this assessment, you will be given one more opportunity to re-submit the assessment after consultation with your Trainer/ Assessor. You will know your assessment is deemed ‘not-yet-competent’ if your grade book in the Monarch LMS says “NYC” after you have received an email from your assessor advising your assessment has been graded.

Important: It is your responsibility to ensure your assessment resubmission addresses all areas deemed unsatisfactory by your assessor. Please note, if you are still unsuccessful in meeting competency after resubmitting your assessment, you will be required to repeat those units.

In the event that you have concerns about the assessment decision then you can refer to our Complaints & Appeals process also contained within the Student Information Guide.

**Expectations from your assessor when answering different types of assessment questions**

Knowledge based questions:

A knowledge based question requires you to clearly identify and cover the key subject matter areas raised in the question in full as part of the response.

Skill based questions:

Where you are asked to write as though you are speaking to a client, your answers must show your ability to:

* understand your client’s concerns/perspective/views
* show empathy
* display a professional response
* explain ideas clearly and simply so your client can understand the issues

**Good luck**

Finally, good luck with your learning and assessments and remember your trainers are here to assist you ☺

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| **Assessment Activity 1**  ***Technical Issues***  ***Superannuation*** |

**Activity instructions to candidates**

* This is an open book assessment activity.
* You are required to read this assessment and answer all 10 questions that follow.
* Please type your answers in the spaces provided.
* Please ensure you have read “Important assessment information” at the front of this assessment
* Estimated time for completion of this assessment activity: 1-2 hours

**Background**

As an adviser it is important to be aware of all the amounts that are being contributed to your client's superannuation fund/s. Getting this wrong can have a detrimental effect on your client's financial situation, not to mention the extra paperwork and time that is required to rectify excess contributions.

**Year 1 scenario**

Jim is 62 years old and has been a client of yours for many years. Jim earns a salary of $100,000 plus Superannuation Guarantee (SG) contributions. He also salary sacrifices into superannuation such that the combination of his salary sacrifice contributions and his annual SG amount equals his current concessional contributions cap. Jim has accrued a balance of $1.6 million in his accumulation account. Last year Jim's wife Mandy, aged 60, ceased working in order to help look after their grandchildren. Mandy has a small superannuation balance of just $60,000.

Jim is keen to grow his super balance as much as he can so that he can continue to provide support for Mandy and himself when they retire. Jim has recently sold some shares so he now has an extra $200,000 which he would like to use to increase his super balance.

**Question 1.1**

Based on 2017-18 rates, calculate Jim's annual Sperannuation Guarantee (SG) contribution. Please show your workings.

**Question 1.2**

Based on 2017-18 rates, calculate Jim's salary sacrifice contribution for the 2017-18 year. Please show your workings.

**Question 1.3**

Is it possible for Jim to contribute the $200,000 into his super fund as a non-concessional contribution? Explain your anwer.

**Question 1.4**

As Mandy is no longer working, is she permitted to make any further contributions into her super fund. Please explain your answer.

**Question 1.5**

Jim's friend has been talking about contributions splitting and Jim has asked you if this issomething that he could do. Discuss with Jim how much of his contributions could be split with his wife Mandy.

**Question 1.6**

If Jim gave his $200,000 to Mandy, would Mandy be able to contribute the $200,000 to her super fund as a non-concessional contribution?

Explain your answer.

**Year 2 scenario**

In year 2 when Jim is 63, his father passed away leaving him an inheritance of $300,000.The share market suffered some dramatic losses in June of the previous year and Jim's super account balance fell to $1.3 million as at 30 June of the previous year. Jim is not concerned about the losses as he understands the volatile nature of equities and his investments are still producing dividends.

**Question 1.7**

Is Jim able to contribute his $300,000 inheritance into his super fund? Explain your answer.

**Question 1.8**

As Jim is now 63 years old, he is considering retirement in about 12 months time and you have been discussing the retirement income stream phase with him.

Explain to Jim how giving the $300,000 from his inheritance to Mandy to contribute to her super fund would enable them, as a couple, to have a higher balance in the retirement income stream phase.

**Question 1.9**

Why may it bemore beneficial to have as much money invested in the retirement income stream phase as possible compared with leaving it in the accumulation phase?

**Question 1.10**

If a client already has sufficient cashflow from other investments outside of superannuation, what is a potential downside to transferring money to a retirement phase income stream?

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| **Assessment Activity 2**  ***Case Study***  ***Superannuation*** |

**Activity instructions to candidates**

* This is an open book assessment activity.
* You are required to read this assessment and answer all 10 questions that follow.
* Please type your answers in the spaces provided.
* Please ensure you have read “Important assessment information” at the front of this assessment
* Estimated time for completion of this assessment activity: 2-3 hours

**Scenario 1 - Background**

Genevieve is age 62 and is considering retiring permanently from the workforce however she is concerned that she may become bored in retirement. She has come in to discuss issues around taking a pension from her superannuation account which is currently in accumulation phase.

She has sought your advice regarding some superannuation issues she is unsure about.

**Required:**

Answer Genevieve’s queries in a way that will be both clear to her and also comprehensive.

**Question 2.1**

If Genevieve commences a transition to retirement (TTR) income stream (pension) after 1 July 2017 while she continues to work, explain how the earnings on her superannuation investments will be taxed.

**Question 2.2**

Explain to Genevieve how the tax treatment of her super investments will be different if she retires permanently from the workforce and then commences a retirement phase income stream (pension).

**Question 2.3**

Genevieve has now decided to continue working and commence a transition to retirement (TTR) income stream (pension). At what stage will Genevieve have a transfer balance account with the ATO?

**Question 2.4**

Explain to Genevieve, in detail, the difference between the tax-free component of her super and the taxable component of her super. Note that the taxable component comes from a taxed fund. You should mention what is included in each of the components.

**Question 2.5**

If Genevieve was able to withdraw money from her super fund, explain how each component would be treated from a tax perspective.

**Scenario 2 - Background**

Genevieve’s sister, Fiona, is age 59 and has permanently retired from the workforce.

Fiona is considering withdrawing a lump sum of $250,000 from her superannuation fund, which is a taxed fund. Her total super benefit is $700,000 and 90% of the total benefit is a taxable component. The other 10% of the benefit is a tax-free component.

**Required:**

Answer Fiona’s queries in a way that will be both clear to her and also comprehensive.

**Question 2.6**

Explain how Fiona’s withdrawal will be treated for tax purposes.

**Question 2.7**

Calculate the amount of tax, if any, which will be payable if Fiona does withdraw a lump sum of $250,000.

**Question 2.8**

Instead of taking a lump sum, Fiona uses her $700,000 to commence a retirement phase income stream and withdraws the minimum annual pension amount. How much will she have to withdraw in the first year?

**Question 2.9**

If Fiona only withdraws the minimum annual pension amount for the year,explain how the withdrawal tax will be calculated.

**Scenario 3 - Background**

Fiona used to work with Patty and they are now best friends. Whilst Fiona chose to permanently retire, Patty, who is 62 years old, has decided to leave the company where she and Fiona worked for the last 25 years and start a new job with a rival company.

**Question 2.10**

Patty would like to renovate her home and asks you if she is able to access her superannuation money.

Advise if this is possible and explain why/or why not?

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| **Assessment Activity 3**  ***Simulation Exercise***  ***Self-Managed Super funds*** |

**Activity instructions to candidates**

* This is an open book assessment activity.
* You are required to read this assessment and answer all 9 questions that follow.
* Please type your answers in the spaces provided.
* Please ensure you have read “Important assessment information” at the front of this assessment
* Estimated time for completion of this assessment activity: 2-3 hours

**Background**

Henry Powell and Marie Powell are both 48 years of age, and have been happily married for 22 years with two older children Jessica and Amanda (22 and 16 years old respectively). Henry and Marie work together in their own business called 'Soaps for you' which distributes gift wrapped soap to small gift shop retailers across Australia and overseas. The business has been running for 7 years. They have 8 staff and the last 2 years have seen their company’s revenue growing strongly year on year. Eighteen months ago, after doing considerable research, Henry and Marie decided to set up a Self-Managed Superannuation Fund (SMSF) to take control of their investments and to provide more flexible options. Accordingly, they established a corporate trustee being HMP Pty Ltd as trustee for the Henry and Marie Powell Superannuation Fund with both Henry and Marie as Directors of the trustee company.

As at today, Henry and Marie currently have a combined balance of $720,000 in their SMSF, with $500,000 in an accumulation account for Henry and $220,000 in an accumulation account for Marie. The funds are currently sitting in short term cash accounts with the CBA.

**Scenario 1**

A warehouse around the corner from where 'Soaps for you' currently operates from, has come up for sale. Henry and Marie are keen to purchase the property using their SMSF monies because it will allow the business to grow and they believe it will be a sound investment too. The sale price of the property is $995,000 so some borrowing would be required.

**Questions for Scenario 1**

**Question 3.1**

Answer true or false for each of the following statements relating to borrowing within the Henry and Marie Powell Superannuation Fund.

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| “It will not be possible for the SMSF to purchase the warehouse as the SMSF does not have enough capital to fund the purchase” |  |
| “The SMSF can purchase the warehouse using funding from some of the SMSF’s balance and the remainder from a loan which will be secured against the property and other assets of the SMSF” |  |
| “The SMSF can use the borrowed funds for the purchase of the warehouse which is a ‘single acquirable asset’. The borrowed funds can also be used to repair and maintain the single acquirable asset, but the money cannot be used to fund improvements to the warehouse” |  |
| “If a bare trust is used to acquire the warehouse, the SMSF will have beneficial interest and a right, but not an obligation, to acquire the legal ownership of the warehouse, or any replacement, through the payment of further instalments” |  |
| “Assuming that the SMSF is able to obtain a loan to fund part of the warehouse purchase, if the value of the warehouse falls below the loan value, the SMSF would need to provide further funds to the lender to ensure that the loan does not exceed the value of the warehouse” |  |
| "If Henry and Marie decide to close the business they will be able to demolish the warehouse and replace it with four smaller retail buildings" |  |

**Question 3.2**

Henry and Marie, as directors of the corporate trustee decide to set up a Bare Trust and borrow the funds to purchase the warehouse. Will Henry and Marie's business, 'Soaps for you', be able to enter into a lease agreement with the SMSF? Explain how this is, or is not, possible.

**Question 3.3**

The size of the warehouse is 500 square meters and it is situated in an industrial area with 9 other warehouses of the same size. The other warehouses are leased to various tenants for between $500 - $550 per week.

Henry and Marie proceed to prepare a lease between 'Soaps for you' and their SMSF. The lease states that 'Soaps for you' will rent the warehouse from the SMSF for $400 per week. What are the tax consequences in respect of the income that the SMSF will receive under this arrangement?

**Scenario 2**

One of Henry and Marie’s favorite employees who is not related to them, Emmanuel, indicates he wants to take control of his superannuation money just like Henry and Marie have done, and given his close working relationship with Marie and Henry, offers to rollover his superannuation monies into their SMSF (i.e. into the Henry and Marie Powell Superannuation Fund) so he can also participate in the property investment opportunities Marie and Henry have been talking about. Emmanuel currently has $250,000 in superannuation.

**Questions for Scenario 2**

**Question 3.4**

Can Emmanuel become a member of the Henry and Marie Powell Superannuation Fund? If yes, why, and if no, why not?

**Question 3.5**

Can Henry and Marie allow their two daughters Jessica (22years old) and Amanda (16 years old) to become members of the Henry and Marie Powell Superannuation Fund?

**Question 3.6**

Are Jessica and Amanda required to become directors of HMP Pty Ltd, the trustee for the Henry and Marie Powell Superannuation Fund? Will this change in the future? Please provide a full explanation.

**Scenario 3**

Henry and Marie are looking into the possibility of including their private company shares in 'Soaps for you' as part of their SMSF.

**Questions for Scenario 3**

**Question 3.7**

Henry convinces Marie that their SMSF should buy 100% of their own private company shares valued at $35,000 from themselves. To be clear, the entire share capital in 'Soaps for you' is owned by Henry and Marie and it trades as a private ‘Pty Ltd’ company. Assuming the balance of Henry and Marie’s SMSF is valued at $720,000 - are they able to do this? Explain.

**Question 3.8**

On 1 July of the following year, Henry and Marie's SMSF is valued at $780,000 as a result of good investment returns. The private company shares are now valued at $50,000. The auditor is concerned about the level of in-house investments. Why would this be a problem?

**Question 3.9**

Identify two options to address the auditor's concerns about the level of in-house investments in question 3.9.

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| **Assessment Activity 4**  ***Short Answer***  ***Self-Managed Super funds*** |

**Activity instructions to candidates**

* This is an open book assessment activity.
* You are required to read this assessment and answer all 7 questions that follow.
* Please type your answers in the spaces provided.
* Please ensure you have read “Important assessment information” at the front of this assessment
* Estimated time for completion of this assessment activity: 2-3 hours

**Question 4.1**

Greg and Andrea Hackett have been married for 15 years and they set up the Hackett SMSF in 2010.Greg holds shares in Telstra in his individual name which have a current market value of $15,000. Explain how Greg would be able to transfer his individually held shares into the Hackett SMSF in July 2017.

**Question 4.2**

The table below shows the acquisitions and disposals for the GJB Super fund.

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| --- | --- | --- |
| **NAME OF SHARE** | **PURCHASE** | **DISPOSAL** |
| Woolworths | $10,000 8th August 2012 | $12,000 10th October 2016 |
| David Jones | $15,000 10th October 2016 | $18,000 1st December 2016 |
| Telstra | $20,000 5th January 2011 | $24,000 5th March 2017 |
| ANZ | $25,000 5th January 2017 | $27,000 10th April 2017 |

Disregarding brokerage costs and any other financial aspects of the fund, calculate the amount of capital gains tax that the fund will be required to pay for the 2016 -2017 financial year. (There are no carry forward losses). The members of the fund, Greg, James and Bob are all in the accumulation phase.

**Question 4.3**

The Joan and Jack SMSF received dividends from the fund's investments in Australian shares. The dividends received were $4,000, with franking credits worth $1,714. All of the dividends are 100% franked and all of the shares satisfied the minimum 45 day holding period. All of the assets in this fund are supporting retirement pensions for the fund members - Joan who is 70 and Jack who is 75. Calculate the after-tax income associated with the share investments in the SMSF.

HINT: you may need to revisit the dividend imputation section in Module 2.

**Question 4.4**

Andrea, Brad and Charlie are the members and trustees of the ABC Super Fund. Brad has nominated his wife, Camille, to receive his member balance from the ABC Super Fund in the event of his death. This nomination was arranged via a non-binding nomination. Brad dies and the surviving trustees (Andrea and Charlie) now need to arrange the payment of Brad’s member benefit from the Self-Managed Superannuation Fund. Must Andrea and Charlie pay Brad’s death benefits to Camille or can they use their discretion? Explain why or why not.

**Question 4.5**

Would your answer to question 4.4 change if Brad had nominated Camille as his beneficiary via a valid binding death benefit nomination? Explain why or why not.

**Question 4.6**

Assume that Brad had nominated his friend, Steve, to receive his death benefit from the ABC Super Fund via a properly-executed binding nomination. Would the surviving trustees (Andrea and Charlie) be required to pay out Bob’s member balance to Steve in the event that Brad dies? Explain why or why not.

**Question 4.7**

Briefly describe the difference between segregated and unsegregated assets relating to investments within a Self-Managed Superannuation Fund.

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| **Assessment Activity 5**  ***Simulation Exercise***  ***Self-Managed Super funds*** |

**Activity instructions to candidates**

* This is an open book assessment activity.
* You are required to read this assessment and answer all 8 questions that follow.
* Please type your answers in the spaces provided.
* Please ensure you have read “Important assessment information” at the front of this assessment
* Estimated time for completion of this assessment activity: 2-3 hours

**Background to part A: Stephen and Rachael**

Stephen and Rachael are members of the S&R Superannuation Fund. Stephen is 60 and his SMSF member balance is $880,000 comprising $132,000 tax-free component and $748,000 taxable component. Rachael is 59 and her SMSF member balance is $100,000 which is all a taxable component. Stephen and Rachael’s SMSF balances are both in the accumulation phase. Stephen and Rachael have just retired. Neither of them have had any superannuation contributions made on their behalf in the current financial year and all previous years’ contributions were within their annual contribution limits.

**Required**

**Question 5.1**

Based on 2017/18 financial year rates, explain why it would be possible for Stephen to withdraw $300,000 of his SMSF balance as a lump sum and then give the funds to Rachael for her to contribute the funds back into their SMSF as a non-concessional contribution.

**Question 5.2**

If Stephen withdraws $300,000 from his $880,000 SMSF balance, what tax-free and taxable components would comprise the $300,000 amount withdrawn?

**Question 5.3**

If Stephen withdraws $300,000 from his $880,000 SMSF balance, his SMSF member balance will reduce to $580,000. What tax-free and taxable components would comprise the residual $580,000?

**Question 5.4**

If Rachael adds the $300,000 proceeds to her SMSF member account as a Non-Concessional Contribution, what would be the resulting tax-free and taxable components of her SMSF member account? Please show both the dollar figures and the percentages of the new tax-free and taxable components.

**Background to Part B: Peter and Eliza**

Peter and Eliza are members of the P&E Superannuation Fund. Peter is 67 and his SMSF member balance is $650,000 comprising $455,000 tax-free component and $195,000 taxable component (from a taxed fund). Eliza is 68 and her SMSF member balance is $560,000 which is a 100% taxable component (from a taxed fund).

Peter and Eliza have two children, Max who is 40 years old and financially independent, and Mildred who is 45 years old, intellectually disabled and requires full-time care.

**Question 5.5**

Upon Peter's death, his benefit is to be split 50/50 between his children Max and Mildred.

How much tax would be payable upon Max inheriting his share of Peter's death benefit? (Please base your answer on 2017/18 financial year tax rates).

**Question 5.6**

Upon Peter's death, his benefit is to be split 50/50 between his children Max and Mildred.

How much tax would be payable upon Mildred inheriting her share of Peter's death benefit? (Please base your answer on 2017/18 financial year tax rates).

**Question 5.7**

Upon Eliza's death, her benefit is to be split 50/50 between her husband Peter and her son Max.

How much tax would be payable upon Max inheriting his share of Eliza's death benefit? (Please base your answer on 2017/18 financial year tax rates).

**Question 5.8**

Upon Eliza's death, her benefit is to be split 50/50 between her husband Peter and her son Max.

How much tax would be payable upon Peter inheriting his share of Eliza's death benefit? (Please base your answer on 2017/18 financial year tax rates).