

understanding self managed superannuation funds

INTRODUCTION

A Self Managed Superannuation Fund (SMSF) allows individuals to gain greater control over their retirement savings.

This is due to the fact that the investment decisions of an SMSF are made by members. In contrast, public offer superannuation funds generally make these decisions on behalf of their members.

SMSFs benefit from the same tax concessions as public offer superannuation funds. That is,

- During the period when retirement savings are being accumulated, tax at a maximum rate of 15% is levied on earnings. This compares favorably to personal tax rates.
- Once the accumulated savings are used to generate an income, earnings are not subject to tax within the fund.
- For those aged 60 and over, tax is generally not levied when retirement savings are withdrawn (whether as income or a lump sum).

WHEN COULD A SMSF BE APPROPRIATE?

A SMSF may be appropriate for those who prefer to:

- Have direct control over their retirement savings;
- Wish to be involved in investment decisions; or
- Want to gain from the flexibility and estate planning benefits of a SMSF.

However, a SMSF is not suitable for everyone and advice should be sought as to whether a SMSF is appropriate to an individual's goals, objectives and personal circumstances.

A SFG Private Client Adviser is qualified to provide this advice.

ADVANTAGES OF A SMSF

In summary, the main benefits of a SMSF are:

- Greater Investment Flexibility: SMSFs are generally able to invest in a broader range of assets compared to public offer funds. This may include,
 - Direct shares,
 - Direct property, or
 - Business real property.
- Greater tax control: Asset sales can be postponed until after commencing payment of a pension when tax is no longer payable on any capital gains.
- Estate planning: There are a wide range of tax effective and distribution options that can be tailored to meet an individual's needs and objectives.

ESTABLISHING A SMSF

Trust Deed

A SMSF formerly comes into existence when the governing rules of the fund are agreed to by its members. The document in which these rules are documented is referred to as the Trust Deed.

It is important to note that while there is some flexibility around these rules, legislation is in place which regulates the content of a Trust Deed used to establish a SMSF.

This is to ensure the SMSF is used for its intended purpose – to provide retirement benefits to members.

Therefore, it is important the appropriate specialists are engaged to ensure that the Trust Deed not only meets these requirements, but is also tailored to the needs and objectives of members.

Trustees

All members of the SMSF must be Trustees (the main exception here is a single member SMSF – refer below). The role of the trustee is to manage the assets of the SMSF for the benefit of members in line with their needs and objectives. In addition, Trustees need to ensure that the SMSF is operated in a manner which complies with the law (for example, that the SMSF is operated to provide retirement benefits to members and that an investment strategy is prepared and implemented).

While members can be trustees in their personal names, it is also possible to establish a corporate trustee (i.e. a private company). Each member would generally need to be a director of the corporate trustee, and it is the directors in this situation, who will need to manage the assets of the SMSF for the benefit of members.

The point to note here is that SMSF members must generally also be trustees (or a director of a corporate trustee). Consequently, each member has increased control over how their retirement savings are managed and as a result, SMSFs have reduced member reporting obligations.



This article by Frank Camilleri (above), National Technical Manager.

The Number of Members

A SMSF can have no more than four members and one member cannot be an employee of another unless related.

Investment Guidelines

While the members of the SMSF have control over investment decisions, the law imposes some restrictions on the acquisition and use of assets. For example, a SMSF cannot generally acquire an asset from a related party which includes a member of the fund. There are exceptions here which include, for example, shares listed on the Australian Stock Exchange.

Assets that are leased to a related party of the fund or have been transferred from a related party are restricted depending on the type of asset and may not exceed 5% of the fund's assets. As always, there are exceptions which include business real property.

A SMSF must also have a documented investment strategy in place. Such a strategy needs to consider:

- Diversification of the assets of the fund;
- The appetite to risk of fund members; and
- The fund's liquidity.

Sole Purpose Test

It is important to remember that while members have increased control over their retirement savings in a SMSF, the fund must be established to provide benefits to members when they retire – this is referred to as the sole purpose test. What this means is that the assets

of the fund cannot be used for personal purposes until certain conditions are met such as retirement after age 55, or attaining age 65.

There are significant penalties where assets are used, accessed or withdrawn prior to the required conditions being met.

Single Member SMSF

As the title suggests a single member SMSF is one that has only one member.

While a single member fund is generally subject to the same requirements as a fund with multiple members, an individual who is not a member of the fund can be a trustee.

In summary:

- Where the member is trustee in their personal name, a second, non-member, trustee must be appointed.
- Where a corporate trustee is established, the appointment of a second director is optional.

In order for a single member to retain full control over their retirement savings, it may be appropriate to establish a corporate trustee.

MANAGING A SMSF

Public offer superannuation funds take on the full responsibility of managing the retirement savings of members and ensuring compliance obligations are satisfied. Where a SMSF is established, this responsibility is shifted to members as they are the trustees.

Consequently, members are generally required to allocate more of their time to

managing their retirement savings, may require increased levels of knowledge and expertise, and the relative cost of maintaining a SMSF may be higher compared to a public offer superannuation fund.

Importantly these issues can be managed by outsourcing day to day management to a specialist provider as well as working with appropriately qualified specialists. The SFG can assist by:

- Providing a comprehensive SMSF administrative service or liaising with a specialist firm in this area;
- Providing ongoing advice to ensure appropriate and informed decisions are made; and
- Collaborating with other professionals as required.

Generally speaking, provided the SMSF has a reasonable level of assets, the overall cost of establishing and maintaining the fund may still be competitive. While cost is always a consideration, it may be incidental given the benefits of an individual holding their retirement savings in a SMSF.



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