Pinnacle
Wealth Management
Plan. Protect. Prosper.

A Guide to Self-managed Superannuation

A Guide to Self-managed Superannuation

Like other super funds, SMSF's are a way of saving for your retirement. Generally, the main difference between a SMSF and other types of funds is that members of a SMSF are the trustees. This means the members of the SMSF run it for their own benefit.

What is a SMSF

A Self-Managed Superannuation Fund (SMSF) is a trust where money or assets are held and managed on behalf of members to provide retirement income in the future. Essentially, SMSFs are for family members and close business associates who wish to take more control of their retirement savings.

Briefly, a SMSF is defined in the following way:

- Have 4 members or less.
- All members must be trustees and all trustees must be members (except for single member funds).
- Where the trustee is a company, all members must be directors of the trustee company and all directors must be members of the fund (except for single member funds).
- No member of the fund can be an employee of another member unless they are also related.
- The trustee cannot receive any remuneration for fulfilling his or her duties as a trustee of the fund.

Where there is only one member of the fund, there are only three trustee structures that are allowed:

- A company with the member as sole director.
- A company with the member as a director in addition to another director where, if the member is an employee of the other director, that director must be a relative; or,
- Being a small super fund and controlled by trustees who are also members of the fund, it is imperative that all individuals within a SMSF are prepared to be involved and actively participate in decisions which affect their retirement savings.

Thinking about an SMSF

With SMSFs you are the trustee of your own fund and are responsible for making the fund's investment decisions and making sure the fund complies with the super laws.

If you are thinking about setting up an SMSF, take some time to consider your options and seek professional advice before making a decision about managing your own super.

Both Pinnacle Wealth Management and Pinnacle Accounting Solutions who are specialists in SMSFs can help you understand:

- What a SMSF is.
- The costs and requirements to set up a fund and keep it running.
- Your investment options and risks.

They can also help you set up and run your fund if you think this type of fund is right for you.

A Guide to Self-managed Superannuation

Pinnacle
Wealth Management
Plan. Protect. Prosper.

Why use a SMSF

For many people the greatest advantage of a SMSF is the greater control, flexibility and investment choice they provide. Through a SMSF you have:

- Greater control over the investment strategy for the fund. This provides you with a greater ability to tailor an investment strategy to suit your circumstances and preferences.
- A wider range of investment options such as direct property, small businesses and art. In some circumstances the SMSF can purchase assets from members of the fund, allowing better consolidation of investment assets.
- A SMSF can be tailored to meet your own personal circumstances in relation to estate planning. You can include family members as long as there are no more than 4 members in the Fund at any given time.
- A SMSF can be used as a vehicle to accumulate superannuation benefit whilst employed and can be maintained well I into retirement and beyond, particularly where there are other family members in the Fund.

Additional Compliance Obligations

A major consideration in establishing a SMSF is the additional administration and compliance obligations that go with operating a SMSF. If you decide to establish a SMSF, you will be a Trustee of the Fund and it will be your responsibility to ensure that the fund complies with the trust deed and the superannuation and taxation laws at all times.

As Trustee, you will need to cover a broad range of responsibilities, which include:

- Lodging appropriate documents with the ATO to establish and register the SMSF.
- Documenting an investment strategy for the Fund.
- Investing the assets of the Fund.
- Maintaining proper records for the Fund.
- Ensure annual accounts are prepared.
- Having the accounts audited.
- Submitting annual returns to the ATO.
- Ensuring that the Fund at all times complies with the relevant legislation.

You should be aware that there are severe penalties for Trustees who fail to ensure that a SMSF is properly administered.

SMSF Investment Restrictions

Although you do have more flexibility in the investments you can make through a SMSF, it is important that you are aware of the regulatory restrictions that do apply. The key areas relate to:

- Meeting the sole purpose test.
- In-house asset rules.
- Conducting all transactions at arm's length.
- Acquisition of assets from related parties.
- Prohibition against borrowing.
- Prohibition on financial assistance to members and their relatives.

Underpinning the SMSF regulatory regime is the sole purpose test – the sole purpose of your fund must be to provide retirement benefits to fund members. In line with this, trustees are required, first and foremost, to have an investment strategy which they invest in accordance with.

A fund must also maintain its assets separately from those of a business in which one or more of the trustees is involved. For example, if assets are held in the name of one of the trustees rather than being clearly held as part of the fund, the fund risks the loss of the asset if the trustee is declared bankrupt or if their business is placed in receivership.

A failure to separate assets is a clear contravention of SIS. To help ensure that the assets of an SMSF will be available to provide retirement income, SMSFs are restricted in the investments they can make. However, one of the concessions that SMSFs enjoy is their ability to invest up to 100% of the fund's assets in business real property – though an issue for trustees to consider is whether this lack of investment diversification is a prudent investment strategy. You should also understand that residential property rarely fits the conditions necessary for it to be considered 'business real property'.

While there are no restrictions on SMSFs investing in collectibles such as art, the ATO has highlighted that the sole purpose test means that members cannot enjoy a benefit from the investment prior to preservation age. This means that it is unlikely that the art can be displayed in the trustee's home or office.

The meeting of fiduciary responsibilities by SMSFs is also important, particularly in relation to the fund holding its own bank account (rather than banking being done through personal accounts of one or more of the trustees) and not overdrawing that account.

Additional Costs

Given the technical nature and the penalties that apply for not meeting trustee obligations, it is expected that you will need to use the services of professionals who can assist you in ensuring the Fund's compliance.

These professionals include financial advisers who provide you with an investment strategy and product recommendations, lawyers who help prepare the SMSF trust deed, accountants who help prepare the annual SMSF accounts and auditors who audit these accounts.

The outsourcing of these functions to external professionals means there are additional costs involved in running your own SMSF.

It is generally accepted that these additional costs make the establishment of a SMSF too expensive for individuals with less than $200,000 in superannuation funds.

If you would like to explore the path of a SMSF further we encourage you to contact either Chris Launer of Pinnacle Wealth Management or Gary Matheson of Pinnacle Accounting Solutions who are specialists in SMSFs.

Both Pinnacle Wealth Management and Pinnacle Accounting Solutions can arrange the set-up of a SMSF, provide an investment strategy together with the appropriate platform for easy management, assist in the preparation of a SMSF trust deed, prepare annual SMSF accounts and yearly audits.

A SMSF one stop shop!

PWM Advisor Services Pty Ltd—ABN 16 133 921 187—AFSL 334846