harrisblack chartered accountants and advisors

Self-Managed Superannuation Fund

What is a Self-Managed Superannuation Fund?

A Self-Managed Superannuation Fund (SMSF) is a type of super fund set up for those who wish to manage their own superannuation assets privately, rather than be a part of a larger fund where members pool their superannuation funds and these funds are managed by professional fund managers.

A SMSF gives the members much greater control over their investment decisions, but also requires far greater input by the members of the fund. All super funds are required to comply with their relevant regulatory bodies, trustees are required to oversee these compliance requirements.

To meet the definition of a SMSF, the following conditions must be met:

There are fewer than 5 members in the fund:

- All members of the fund are trustees of the fund (or directors of the trustee company);
- No trustee can be a disqualified person and all trustees must be 18 years or over;
- No member of the fund is an employee of another member of the fund, unless those members are related; and
- No trustee of the fund can receive any remuneration for his or her services as a trustee.

What are the Benefits of having a Self-Managed Superannuation Fund?

The main two reasons for choosing a SMSF over a regular fund are the cost advantages and the control that members get over their own investment decisions. There are other reasons as well including estate planning, creditor protection and advantages when establishing retirement income streams.

Cost Advantages

A SMSF can have lower expenses provided the amount invested is high enough. A report by the Investment and Financial Services Association (IFSA) estimated that SMSF's had an overall expense ratio of 0.87% p.a., compared to a 2.12% for personal superannuation through a retail fund.

ASIC recommends a minimum of around $200,000 in super to make the costs of managing a SMSF worthwhile.

Investor Choice and Control

A SMSF gives members complete control over their own investment decisions. But with this control comes great responsibility, which should not be underestimated.

Most SMSF's employ a professional investment advisor to assist in guiding decision making, and only highly experienced investors attempt to go it alone.

SMSF's can also own assets not generally used by other superannuation funds. For example, they can hold instalment warrants, which are a form of derivative with gearing built in to them for shares and property.

They can also acquire business real property from members and other related parties. The property can then be leased back to member's business, providing SMSF income taxed at 15% and a business expense that is deductable against business income at the company tax rate of 30% (if the business is carried on by a company).

Estate Planning

Adult children can be introduced as members of a SMSF at inception or at a later date. This can be a way of providing an income to older generations which preserved assets can be used in the family business.

Creditor Protection

Superannuation is protected from creditors, and given a SMSF can buy a member's business property this can then also be protected from creditors. However, if they are transferred to the SMSF with the sole intention of avoiding creditors, then this protection does not apply.

What are the Costs?

As with all superannuation funds there are costs associated with running a SMSF.

There is usually a one - off setup cost to establish the fund, as a lawyer is required to do this. Harris Black does this with the assistance of a specialist group from the legal profession to setup the deed and other documentation.

There are also annual accounting costs that all SMSFs incur. These are for calculating the tax payable by a fund, determining member balances and the audit for the fund. These audits are done to firstly confirm the tax accounting was done properly, but also to ensure the fund is complying with all the requirements as set out by the ATO and Superannuation Industry Supervision (SIS) Act. Annual accounting costs will vary according to a number of factors, including size of the fund, number of transactions within the fund and various other factors that influence how long it may take an accountant to complete the work.

There may also be costs assocaited with the actual investment decision-making process. If your fund is heavily weighted towards shares, then it will incur brokerage charges when shares are bought and sold. You may also choose to use a financial adviser or portfolio manager where the fee your fund will be charged will generally be a percentage of funds under management.

What are the steps involved in starting a Self Managed Superannuation Fund?

If you think that a SMSF might suits your needs, the first step is to speak with your Harris Black team member about getting started. We will arrange for you to come in for a face – to –face meeting to ensure this is the most cost – effective way of moving forward for you.

A lawyer will then draft the fund's trust deed. A SMSF is a trust, and only a laywer can legally draft this. Once this has been done, your fund is essentially established.

Harris Black can help you organise the paper work and register your fund with the ATO. An election to comply with the SIS Act must be lodged with the ATO within 60 days of the trust deed being completed.

When complying status has been granted, a TFN and a ABN is allocated. Once a SMSF had complying status, the trustee will need to open a separate bank account for the fund. With both complying status and a separate bank account, the fund can then accept contributions and invest according to the SIS Act and fund's trust deed and investment strategy.

An investment strategy is the responsibility of the Trustees and should be minuted as being reviewed at least annually.

If you are interested in setting up a SMSF please contact Harris Black team member.