

Self managed superannuation funds (SMSFs) have become increasingly popular. While establishing an SMSF can give you greater control and flexibility when planning for your retirement, they also have extensive administrative and compliance requirements. It's important to understand more about SMSFs to determine if this option is right for you.

## What is an SMSF?

SMSFs are sometimes referred to as 'do it yourself' super funds. Like other super funds, SMSFs invest contributions from members, provide benefits to those members on retirement and provide death benefits to beneficiaries in the event of the member's death.

The principal difference between SMSFs and other types of superannuation funds is that the members of an SMSF are also the trustees, or directors of a corporate trustee. Amongst other things this means they are required to prepare and implement an investment strategy for their fund and manage the payment of benefits.

SMSFs also provide wider investment choice than other super funds, with options such as direct property, managed investments and direct shares included.

The members of an SMSF must appoint approved auditors, and may also choose to involve tax agents, accountants and financial planners. However, the ultimate legal responsibility for the fund's ongoing compliance rests with the individual trustees.

## What are the specific requirements of an SMSF?

- As with all complying superannuation funds, an SMSF must be maintained for the sole purpose of providing retirement benefits to members. Investments must be entered into with a view to achieving a commercial rate of return, not for lifestyle or private purposes.
- An SMSF must have fewer than five members.
- All members must be trustees (or directors of the corporate trustee) and there can be no other trustees (or directors if the trustee is a company). Having all members as trustees ensures that each member is fully involved and has the opportunity to participate in the running of the fund.
- If your SMSF is a single member fund, you will need to appoint a company as trustee or a second person to act as an individual trustee.

- No member of the fund can be an employee of another member of the fund, unless those members are related.
- No trustee of the fund can receive any remuneration for services as trustee.
- An SMSF must not lend money or give financial assistance to a member.
- The SMSF cannot acquire an asset from a member of the fund, or any other person related to the trustee, with the exception of listed shares, widely held trusts (e.g. managed funds) and business real property.
- SMSFs are prohibited from borrowing. There are some limited exceptions, including:
  - limited recourse loans in accordance with a strict set of requirements
  - certain short-term loans to pay benefits
  - to settle certain security transactions.
- Trustees are required to set out the fund's objectives and to formulate an investment strategy to show how those objectives will be met. This must be produced in writing and regularly reviewed by the trustees to ensure that it is appropriate to all members.

## What is an SMSF investment strategy?

An SMSF investment strategy is a plan for investing, holding and realising your SMSF's assets consistent with the investment objectives you established for the fund. Having an investment strategy should help ensure the investments in your Self Managed Superannuation Fund achieve the desired outcomes and a minimum level of performance to help boost your retirement savings.

Three of the most important requirements for an investment strategy are:

- setting out the fund's objectives
- formulating an investment strategy to ensure those objectives are met
- choosing investments which have the sole purpose of providing retirement benefits to members.

## Setting an investment strategy

The investment strategy outlines how the fund's objectives are going to be met. It should include the following information:

- the range of permitted investments
- the likely return and risk associated with an investment
- the level of diversification of the fund's assets (ideally listing the expected percentage to be invested in each asset class and the permitted range)
- the liquidity of the fund's assets and its ability to pay benefits.

The investment strategy should be regularly reviewed by the trustees to ensure it remains appropriate.

It is vitally important that you get your SMSF's investment strategy right. The penalties for getting it wrong are severe, including fines and loss of tax concessions.

## What are the advantages of SMSFs?

SMSFs offer a range of benefits, including:

- increased control over your retirement funds and how they are invested
- wider investment choice than public offer funds, including:
  - direct shares (both Australian and international)
  - direct property (residential and commercial)
  - managed funds
  - fixed interest
  - other investments, such as collectibles and antiques
- the scope to use 100% of the fund's assets to acquire your business's real property and lease it back to the business
- your SMSF can move with you from job to job
- may provide a range of options for estate planning and benefit payments.

## What are the drawbacks?

- Each trustee bears a high degree of responsibility to ensure that their trustee duties are performed and exercised in the best interests of fund members.
- There is a risk of tax penalties if the fund becomes non-complying.
- Running an SMSF can be demanding and time consuming.

## Speak to us for more information...

If you would like to know more about self managed super funds, contact our office and talk to us at LifeTime Financial Group. We can give you more detailed information on the best approach for your situation.

This general advice has been prepared without taking into account your particular financial needs circumstances or objectives, and is based on Advice Evolution's Limited's understanding of current law as at 5 June 2009 and its continuance unless stated otherwise. While every effort has been made to ensure the accuracy of the information, it is not guaranteed. You should obtain professional financial advice before acting on the information contained in this publication.

Lifetime Financial Group Pty Ltd ABN 29 006 807 567 is an *Authorised Representative* of Advice Evolution ABN 66 137 858 023, AFSL 342880

- SMSFs incur a range of extra costs, eg auditing of accounts, tax and regulatory return administration and supervisory levies.

## What are the record-keeping requirements of an SMSF?

If you decide to set up an SMSF, you will be legally responsible for ensuring your fund complies with all the rules.

The administration and record keeping required to run an SMSF is onerous, extensive and rigorously monitored by the Australian Taxation Office, although it is possible to get assistance with this from professional administration providers.

Some of the ongoing requirements relate to annual accounting and taxation obligations, such as keeping accurate and accessible accounting records and preparing an annual operating statement and an annual statement of the fund's financial position. Trustees need to give this area detailed attention, as non-compliance can incur penalties. You may benefit by using professional experts (such as your accountant or a specialist company) to assist you in complying with these obligations.

## What are your obligations as a trustee?

It is very important that you understand your responsibilities as a trustee. For more information, please download and read the 'Running a self managed super fund – your roles and responsibilities as a trustee' brochure (document code: NAT 11032) from the Australian Taxation Office website ([www.ato.gov.au](http://www.ato.gov.au)).

## Do you need a minimum amount to establish an SMSF?

While no minimum amount is required to set up an SMSF, you generally require a significant level of assets (i.e. more than \$200,000) to make establishing an SMSF cost effective. However, cost alone should not determine if an SMSF is suitable for you. There are many strategies and benefits that could make an SMSF right for you, despite not having this level of superannuation savings. Your financial adviser can provide more information.