

# A Simple Guide to Self Managed Super Funds



A Self Managed Super Fund (SMSF) is a way of saving for your retirement. It is different to other funds as it is run by its members for their own benefit. A SMSF is a legal structure where its members are responsible for complying with the super and tax laws.

## **This guide outlines:**

The Benefits of a SMSF

Is a SMSF Right for You?

Setting Up a SMSF

A Trustee's Responsibilities

Maximising Your SMSF

# Benefits of a SMSF

Some of the benefits that attract people to a SMSF include:

## Greater control of your investments

A SMSF allows you to take control of your investment choices with a wide range of potential investments. You can also better manage the underlying investments to deliver on your retirement income needs while managing sometimes volatile investment markets.

## Ability to pool funds with up to three other individuals

SMSF's allow a maximum of six members, which is why they are often considered a family superannuation fund. Pooling funds can provide greater investment choice flexibility.

## Effective tax management

One key tax advantage is that superannuation income is taxed at 15%, which can be a significant saving. Another benefit is that capital gains in superannuation are taxed at 10% (if held for more than 12 months). If you are receiving a pension from your fund – all of this is taxed at 0%. Super is the structure with the lowest tax rates available.

## Retirement and estate planning flexibility

By taking control of your super, it provides you with greater flexibility to manage your retirement savings in the most tax efficient manner possible – it also permits simple estate planning techniques to help ensure your beneficiaries get the most they can. By being more engaged with your super, it provides greater certainty about who receives your death benefit, how it is invested and how it will fulfil your retirement needs.

## Capacity to purchase a large asset e.g. property

SMSF's have investment flexibility surrounding large assets such as property. A SMSF even has the capacity to borrow to acquire an asset. While there are restrictions, you should also ensure that the proper feasibility (cashflow, investment diversification, tax) is undertaken before entering into these arrangements. Borrowing can help you leverage your superannuation in your pursuit of your retirement dreams.



## Gets you actively involved with your superannuation

At TAG, we encourage clients to be engaged with all facets of their financial life – personal wealth, business wealth and retirement wealth. A key element is understanding your ultimate goals and objectives. Having control and responsibility for investment choices allows you to tailor your investments to your preferences, all working towards your ultimate plans.

There are additional advantages for small business owners and high net worth individuals.

## Is a SMSF Right for You?

A SMSF is great for some people but does not suit everyone. Before setting up a SMSF you should consider:

### Your superannuation balance

ASIC recommend a minimum fund balance of \$200,000 to be cost effective. Before setting up a SMSF you should understand the full costs of establishment, ongoing compliance and advisory costs and how this differs from your existing superannuation fees.

### Your obligations as a Trustee

As Trustee, you are ultimately responsible for the investment and compliance of your SMSF. The ATO has the power to apply penalties to Trustees of SMSF who breach the legislation. As a Trustee, you should be aware of the obligations placed on you. TAG Financial Services provides regular Trustee Training to help explain the obligations.

### The time it takes

As you are responsible for the investment choices your SMSF makes, you can choose to devote as much time as you like towards the running of your Fund. You may also choose to engage professional advisers such as TAG Financial Advisors to assist in various aspects of the day-to-day administration. Your superannuation represents your retirement savings – running your SMSF will require that you, as Trustee either directly, or via the support of professional advisers, maintain your knowledge and stay up to date as legislation changes.



### Insurance

All Funds are required to offer insurance to their members. Before making the switch to an SMSF, you should first consider your existing insurance coverage and obtain quotes for coverage for your SMSF – this will ensure that any existing coverage is not cancelled and unrecoverable.

### A willingness to manage your investments

Dividend advice, Annual Tax Statements, Buy/sell contracts, Bank statements - you will either need to maintain these directly (or engage an adviser) to ensure your records are complete so that your SMSF can meet its annual reporting requirements. TAG Financial Advisors provide a range of investment management options.

# Setting Up a SMSF

To set up a SMSF you need to:

## Establish a Trust Deed

A SMSF is a type of Trust. Accordingly, it must have its own Trust Deed. Essentially the by-laws for your Fund, which work together with federal legislation in providing the framework for your Fund to operate

## Appointing Trustees

An SMSF is your superannuation fund to control. Every SMSF can have from 1-6 members, and every member must be a Trustee. The SMSF can have either individual trustees or a Corporate Trustee – if using a company then each member must be a director of this company.

## Holding fund assets

While the member is the beneficiary of the SMSF, the assets do not belong to the member – they are held by the Trustee in Trust for the member. All superannuation assets must be clearly acknowledged as SMSF assets, and should not be muddled up with your personal assets.



## Signing a Trustee Declaration

Running your own SMSF means that you are ultimately responsible for all the decisions and activities for your superannuation. The Trustee Declaration reminds you of your obligations as Trustee in ensuring the SMSF is maintained for the sole purpose of providing benefits for your retirement.

## Registration with the ATO

The ATO is the government body responsible for maintaining the integrity of SMSF's compliance with Superannuation legislation. The SMSF must report to the ATO when it is established, obtain an ABN and a TFN, register for superstream, and report periodically to the ATO. The ATO have powers to penalise Trustees and the SMSF should you not meet the legislative requirements.

## Opening a bank account

All Superannuation assets must be kept separate from non-superannuation assets (such as personal assets or assets you may hold in a family trust or company). Fundamental to this is the bank account which is the funnel for all superannuation contributions, rollovers, income from superannuation investments and superannuation expenditure.

If you need assistance you can engage experts and professionals to help guide you along the journey to your financial freedom.

# A Trustee's Responsibilities

As a trustee you are responsible for the SMSF and ensuring that it meets compliance and ongoing reporting requirements. While you are ultimately responsible, it may be prudent to appoint professional advisers such as accountants, superannuation and tax experts, investment advisory experts and lawyers. Some of the responsibilities of a SMSF Trustee are:

## Developing an investment strategy

Every fund must have an investment strategy, which forms the over-arching framework for your investment choices. There is no one size fits all strategy – you need give consideration to the risk, return, diversity and liquidity of your investments when choosing them. The investment strategy also requires Trustees to consider the need for insurance cover for one or all its' members.

## Annual return, accounts and member statements

The annual return is the tax and compliance return for your SMSF. Preparation of financial statements and member statements are required to ensure you can correctly submit your annual return and need to be audited annually. In addition, various components of your superannuation entitlements must be tracked as they each hold different tax impacts for pensions and lump sums (under age 60) and death benefit payments.

## Activity statements

Your SMSF may be required to submit an Instalment Activity Statement or a Business Activity Statement if it is registered for GST.

## Appointing an auditor

An SMSF must have an independent Auditor undertake a financial and compliance audit every year. If the Auditor notices any issues, they may be required to prepare a qualified audit report.

## Notifying the ATO of a change

Any changes to your SMSF (such as new or departing members, changes to Trustee structure, registrations with the ATO) must be notified to the ATO within 21 days.

## Winding up a SMSF

All things must come to an end – a SMSF will need to be wound up once there are no more assets remaining. A final return and de-registration of the SMSF's ABN and TFN will be needed. A Rollover Benefits Statement may be required if any residual member benefits are being transferred to another Fund.

## Penalties

The ATO has the power to apply penalties to the SMSF for late lodgement of returns. The ATO holds the power to penalise the SMSF, and also the Trustees for their actions in the event of serious non compliance with the legislation.

# Maximising Your SMSF

There are various strategies to maximise your superannuation including:

## Contributions Strategies

More flexibility around planning for concessional and non-concessional contributions allows better use of strategies to build your retirement wealth. Assets owned outside of super, such as shares, managed funds and properties can be contributed into your SMSF (subject to Government set contribution limits). Careful tax planning should take place before doing so to ensure the benefits inside super are greater than the costs and benefits outside super.

## Multiple Pensions

Multiple pension strategies can be employed that help ensure that your superannuation entitlements pass to your beneficiaries on death in the most tax efficient manner possible.

## Estate Planning Benefits

SMSF's can become intergenerational vehicles by having family members in the Fund. Detailed estate planning strategies can be structured via your SMSF.

## Buying Property in Your SMSF

One advantage of setting up a SMSF is that it enables you to invest in property using funds inside your super. This has several benefits compared to buying property outside super:

- Transactions made inside super are taxed at a 15% rate compared to 45% (max) outside.
- A reduction in capital gains tax (CGT) as once you've owned a property within super for more than 1 year, CGT is calculated at a maximum of 10%.
- If you sell your property in pension mode, you will not pay any CGT.
- You can claim tax deductions for making loan repayments – while the benefit of this is reduced in superannuation (versus outside of super) there are still tax benefits.
- Business owners can sometimes benefit by investing in a business premises - leased to their business and pay themselves rent.

Prudent Trustees seek proper advice regarding cash flow projections, tax projections, as well as asset choice to ensure your selections will meet all of your objectives. The Trustee should also review the Fund's Trust Deed and investment strategy to ensure the investment is permitted and aligns with your goals and objectives.



# TAG Financial Services

At TAG Financial Services we have been providing specialist superannuation advice since 1997. Our experience means that when you use TAG for superannuation advice, you know that we are in touch with the most up-to-date advice that makes your superannuation work harder.

We can help with a wide range of superannuation strategies including:

- Establishment and administration of self managed superannuation funds.
- Retirement planning and income streams.
- Technical advice.
- Asset protection.
- Tax effective structures.
- Estate planning.
- Borrowing in superannuation.

Planning is the key to ensuring that you achieve financial security in retirement. TAG can recommend the most effective superannuation structures and strategies based on your individual requirements.



## Contact Us Today

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## The Next Step

At TAG, we provide specialist superannuation services, including fund administration and structuring advice on issues such as pension payments and asset allocation. Should you have any questions on Self Managed Superannuation, please do not hesitate to contact one of our advisers on **(03) 9886 0800** or via email at [team@tagfinancial.com.au](mailto:team@tagfinancial.com.au).



### Meet With Us

If you would like to discuss superannuation and your options, we offer a 1 hour, no obligation, complimentary consultation with one of our advisors. Contact us to arrange a time.



### Become Money Smart

Build your financial knowledge and join our online community where you will receive TAG updates and invites to our Information Sessions. Visit [www.tagfinancial.com.au/join-our-mailing-list](http://www.tagfinancial.com.au/join-our-mailing-list).