Is an SMSF right for you?

If you're thinking of setting up a self-managed super fund (SMSF), there are lots of things you need to consider first. That's why it's important to understand exactly what's involved so you can decide whether an SMSF is the best option for your super.

Like other superannuation funds, an SMSF is a vehicle specifically designed to help you save for your retirement. But unlike other funds, you're the one making the investment decisions rather than having someone else take care of it for you. While this puts you firmly in control of your money, it also takes time and specialised knowledge.

Here are some basics of how an SMSF works, so you can decide if you're up to the task. And remember, you should also speak to your financial adviser before making this kind of financial decision.

Pros and cons

First up, to run an SMSF effectively you need to be a savvy investor. Since it's a long-term commitment, you also have to be willing to manage and administer your fund for years to come. And that means taking on the responsibility to ensure your SMSF stays compliant – or else running the risk of paying penalties.

On the plus side, an SMSF can really open up your investment options, with the ability to invest directly in assets like property. You can also buy or sell assets relatively quickly and potentially save on administration fees if your SMSF has a high balance. Depending on your situation, an SMSF may even offer tax advantages.

Getting started

To set up an SMSF, you can have up to four members. All members must generally be appointed as individual trustees of the fund, or alternatively you can appoint a company to act as trustee of the fund and all members must then be directors of that company.[1]

Individual trustees or directors of a corporate trustee can generally be anyone aged 18 or over.[2]

Each trustee – or company director, in the case of company trustees – must sign a **trustee declaration form** within 21 days of being appointed. This declaration states that the trustee understands and agrees to their duties and responsibilities.

Creating a trust deed

The trust deed, which is separate to the trustee declaration, sets out the rules for how you're going to run your SMSF. Things you'll need to decide include who can be a member of the fund, how trustees will vote on decisions and resolve disputes, how you can contribute to the fund and how you'll pay out benefits.

Because the trust deed is a legal document, you'll need the help of a lawyer or SMSF expert to make sure it's drafted and executed in line with the laws of your state or territory. All the trustees must sign and date the deed, and you should review it regularly and update it as required.

Registering your fund

After all the trustees have signed their trustee declarations, you have 60 days to register your SMSF. You do this by applying for an Australian Business Number (ABN) and Tax File Number (TFN) and if necessary register for GST with the **Australian Business Register**. Then you'll have to set up a separate bank account for your SMSF.

At the time of registration your SMSF needs to have assets in it – even if it's just a small amount of cash. So, for example, you might just put in $10 to begin with, then start making contributions later.

As part of the registration process, you should also:

- Elect to become an ATO regulated SMSF (this ensures your SMSF is concessionally taxed)
- Ask for a Tax File Number (TFN) for your fund
- Depending on the fund's circumstances, register for Goods and Services Tax (GST)

Contributing to your fund

As members, you'll need to provide the Tax File Number (TFN) to your SMSF, otherwise you won't be able to make personal contributions to the SMSF and employer contributions made on your behalf may be taxed at a higher rate.

Be aware that there are some restrictions on the types and amounts of contributions and rollovers that members can make. The same contribution rules and contributions caps apply for SMSFs as they do with other super funds, so check with your financial adviser to see how much you could contribute.

Managing your investments

Before you can start investing, you should have a written investment strategy for your SMSF. It's best to get your adviser's guidance on this as there are many important factors to consider, including the fund members' ages, retirement goals and appetite for risk.

When tailoring your investment mix, you may want to choose a range of asset types and classes, to create a buffer for your investments against market fluctuations. Your adviser can also help you review your strategy regularly to make sure you continue to meet your investment goals.

Reporting and auditing

You are responsible for managing your SMSF's accounts, statements and annual returns each year, so it's up to you to keep accurate tax and other records. As part of this process, you will need to value assets owned by the fund at their market value.

You are also required to appoint an SMSF auditor to audit your fund at the end of each financial year, at least 45 days before you lodge your annual return. You have to give the auditor all the documents they need to complete the audit.

Once the audit is done, you'll need to complete your annual return. This includes the fund's income tax return, details of contributions made for members throughout the year and information from the fund's yearly audit. You can lodge this online through the government's **Standard Business Reporting** website.

Paying out benefits

Since the sole purpose of an SMSF is to help its members save for retirement, members generally can't access their super until they reach their 'preservation age' and retire, cease gainful employment after turning 60, or they turn 65 – except in special circumstances. As with other forms of super, benefits are generally paid either as a lump sum, an income stream or a combination of the two.

When a member of the SMSF dies, their benefits must be paid to a dependant or their legal personal representative (in which case it forms part of their estate). The trust deed generally sets out rules for determining which of your eligible beneficiaries will receive your death benefit, and may allow you to nominate your beneficiaries in a way that is binding on the trustee. Depending on the recipient, they may receive a lump sum, income stream, or a combination of both.

Winding down your SMSF

It's possible to close your SMSF – but once you do, you won't be able to reactivate it.

When you're ready to wind it down, you'll need to deal with member's current benefits, which could include rolling them to another complying super fund, or paying them to the member (if they have met a condition of release). This will generally involve selling the fund's assets and may have tax implications.

You'll then have to get a final audit and lodge a final annual return, specifying that you're closing the fund. After you've paid any final tax or other liabilities, you can close the fund's bank account.

Get the right advice

Everyone's financial circumstances and retirement goals are unique, which means an SMSF might be a better solution for some people than for others. Your financial adviser can talk you through your options and help you choose the right super strategy for your needs.

1 Any trustees/directors of a company acting as trustee must also generally be members

2 Certain people are not able to act as a trustee or director of a corporate trustee – this includes: where they are under a legal disability; they are an undischarged bankrupt; they have been convicted of an offence involving dishonest conduct in the past; they have been penalised for breaching certain super rules in the past or they have been disqualified by the ATO.

Speak to us for more information

If you have any questions, please speak to your Roberts & Morrow Financial Planning Financial Adviser.

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