Slomoi Immerman Partners

# SMSF: Pros & Cons

## To establish a Self-Managed Superannuation Fund or not? That is the question.

SHARON GDANSKI,
DIRECTOR, SUPERANNUATION

Establishing a self-managed superannuation fund (SMSF) may be something you and your family are considering; however, this may not always be the right move for you. You should always consult a financial advisor who will consider the entirety of your personal circumstances when determining if a SMSF is right for you.

In this fact sheet we provide general information and outline the pros and cons of establishing a SMSF which you may like to discuss with your financial advisor.

### What is a SMSF?

In essence a SMSF is a form of trust, whose sole purpose is to provide income upon retirement for its members or a death benefit payment to the members beneficiaries upon their death. The key concept is members cannot receive a current day benefit or access the funds until a specific condition of release is met, the most common of which is retirement at preservation age or attaining age 65.

## Common Features

- A small superfund limited to no more than six members
- Established in Australia or has assets held in Australia
- Must have a Trust Deed and trustee; trustee can either be individuals or a company
- Members must be trustees or directors of the trustee company
- Trustees are not able to be paid except in limited circumstances
- Monies can't be accessed until a certain condition of release is met
- Strict superannuation rules and regulations must be adhered to
- The fund must annually lodge an audited set of accounts and tax return
- Taxed at concessional rates

## Trustee Responsibility

- The Trustees are responsible for the investment decisions
- They must also adhere to strict compliance rules
- Must prepare an investment strategy
- Trustees are required to:
    - Maintain records.
    - Provide financial statements.
    - Complete a tax return; and
    - Organise an independent audit.

## Pros for establishing a SMSF

- Control – members have complete security, flexibility and control over the fund and its investments.
- Diverse investment choice – members (subject to certain restrictions) can invest directly in a wide range of assets including cash, securities, real property, managed funds, equity warrants, unit trusts, collectables, and derivatives.
- Business real property (BRP)– ability of the fund to acquire BRP and lease to a related party.
- Borrowing – A SMSF can borrow to invest in property or shares (subject to certain conditions).
- In Specie contributions – ability of members to transfer off market, certain assets that they or their related entities own to their SMSF.
- Transparency – have access to the actual investment cost base which can assist in making better informed decisions and effective tax management when deciding to buy or sell assets.
- Ability to pool your resources with five other members.
- Administrative flexibility- timing of making contributions, reserve strategies and income streams.
- Customised estate planning such as binding death benefit nominations and reversionary pensions.
- Acquire life insurance, total and permanent disability (TPD) and income protection in your fund, which is tailored to your specific needs.
- Cost savings for higher member balances.

## Cons for establishing a SMSF

- SMSF costs need to be compared against industry retail fund costs- the lower the members balance, the associated costs to establish and maintain a SMSF will be higher than a retail/ industry fund.
- Life insurance - most retail/ industry funds provide life insurance as part of their policy.
- Legal and compliance obligations- as a trustee or director you are personally liable for any actions of the fund and bound by the law of duty of care. The non-compliance of the superannuation, corporation, trust, and taxation laws can result in severe monetary penalties or even imprisonment.
- Time consuming – it takes a lot of effort to manage the fund, prepare an investment strategy and comply with administrative obligations. It's worth noting that some of these tasks can be outsourced for example to a financial advisor or broker who can manage your portfolio for a fee.
- Limited ability to diversify – large retail/industry and wholesale superfunds often have access to investments that may be unavailable to SMSF's.
- Lack of complaints scheme- non SMSF's have access to compensation in the event of fraud or theft which is not applicable to SMSF's as the responsible person is usually the trustee who is the member.
- Living overseas – generally the members of a SMSF must reside in Australia and the central management and control must be in Australia. This may become problematic for members who decide to permanently live abroad and want to make contributions to their SMSF. This is not an issue for industry or retail funds.

This fact sheet should not be seen as advice or a recommendation to establish a SMSF but rather food for thought. In the event you decide to establish a SMSF, Slomoi Immerman Partners can assist you with the documentation to put this in place.

In addition, we can assist you with all your superannuation needs including assistance around the rules and regulations that govern SMSF and the preparation of your audited financial statement and lodgement of your annual tax return.

If you have any questions about the above, please don't hesitate to contact any of your Slomoi Immerman directors or Sharon Gdanski

61 3 8376 1600.

Slomoi Immerman Partners
Chartered Accountants & Advisers



ABN 16 630 320 713
Liabilty Limited Under a Scheme Approved Under Professional Standards Legislation