InvestorOne

SMSF – The Key Issues

1 – Determine why you are establishing an SMSF

Before you establish a self managed superfund the question needs to be resolved is why you and your partner are establishing an SMSF. Reasons include:

- A desire to control your own destiny and finances,
- Ability to borrow and acquire direct property,
- Better options in terms of death benefits,
- Not happy with current funds performance or fees.

2 – Cost of establishing and maintaining SMSF

The cost of establishing and maintaining an SMSF should be taken into consideration before you establish your SMSF. Although cheap web based companies offer to establish a fund for a few hundred dollars these should be avoided. As an estimate it would cost approximately $3,000 to establish an SMSF including the preparation of an investment strategy and death benefit nomination.

Every SMSF needs to be administered. This means preparing accounts, lodging BAS returns and annual income tax returns, lodging a return with the regulator and having the fund audited. The cost of this is approximately $3,000 per annum and varies depending upon the size and complexity of the SMSF.

3 – Contributions

The majority of contributions received by a self managed superfund are by way of the compulsory employer contribution. An employee may ask his or her employer to put more of their remuneration into their SMSF. This is commonly referred to as salary sacrifice. The employee is subject to the contributions caps. For concessional contributions this is set at $25,000 per annum for those under 50 years of age and $50,000 for those over 50 years of age.

Another option is to put a non-concessional contribution into the fund. This is a contribution to which no tax deduction is claimed by the person making the contribution. The limit is $150,000 per annum, however a person may make a $450,000 contribution, being 3 years rolled into one.

4 – Investments

An SMSF can invest in a wide range of areas. From shares and managed funds to direct and indirect property. More recently an SMSF can borrow to acquire an investment property being either residential or commercial. An SMSF can also borrow to acquire shares or managed funds.

Some important rules to know:

- An SMSF can only acquire commercial or industrial property or listed securities from a member,
- An SMSF cannot acquire a residential property from a member or related party of a member,
- AN SMSF cannot lease a residential property to a member or related party of a member,
- An SMSF has to have prepared an investment strategy,
- An SMSF should not own lifestyle assets.

5 – Retirement

The main reason for establishing an SMSF is to provide the accumulation of enough assets to produce sufficient income to live from in retirement. It is important when taking your benefits to do it in a tax efficient and flexible way.

There is no need today to take a lump sum when you retire. When an SMSF is placed into pension phase all earnings, including capital gains aren't subject to any income tax. Therefore it wouldn't make any sense to take a lump sum and invest the lump sum in a taxable environment (i.e. outside of the SMSF).

6 – Death Benefits

The reality of life is that some of us will die before running out of money and many who have an SMSF will still have funds in their account when they die. It is how these funds are disbursed that will determine how beneficiaries are taxed and what flexibility they have going forward.

There is no utility in leaving a lump sum death benefit to your spouse or other dependants. A death benefit should be left in the form of a commutable pension. This way the beneficiary can select to either continue the pension, take all the money or roll it back into their super account within the SMSF.

NOTE: Industry and retail funds only provide for lump sums on death and this is one of many reasons they don't offer the flexibility of an SMSF.