ESTABLISHING A SELF-MANAGED SUPER FUND (SMSF)

Some people want the control that comes with managing their own superannuation, but taking control means being responsible for managing your retirement funds which will involve significant time and effort. A SMSF can be suitable for people with a lot of superannuation and extensive knowledge of financial and legal matters.

Affluens WEALTH

A Suite 3.02,
7-9 Irvine Place
Bella Vista NSW 2153
P 1300 038 746
E wealth@affluens360.com.au
W www.affluens360.com.au

What is an SMSF?

A SMSF is a private superannuation fund, regulated by the Australian Taxation Office (ATO) that you manage yourself. SMSFs can have up to four individual members and/or a corporate trustee. The trustees (or directors if there is a corporate trustee) are responsible for decisions made about the fund and for complying with relevant laws.

How do SMSF's work?

Like other superannuation funds, SMSFs are a legal tax structure with the sole purpose of providing for your retirement. Severe penalties can apply if a fund is established or maintained for another purpose.
Set up costs and annual running expenses can be high so you'll need a large balance to make the fund cost effective.

When you run your own SMSF you must:

- Carry out the role of trustee or director, which imposes important legal obligations on you
- Set, follow and review the investment strategy on an ongoing basis to ensure that the fund is likely to meet the retirement needs for all members
- Have the financial experience and skills to make sound investment decisions
- Have enough time to research investments and manage the fund
- Budget for ongoing expenses such as professional accounting, tax, audit, legal and financial advice
- Keep comprehensive records and arrange an annual audit by an approved SMSF auditor
- Organise insurance, including income and total and permanent disability cover
- Use the money only to provide retirement benefits
- Comply with the SIS Act Covenants, including acting in the best interests of all beneficiaries.

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As SMSFs are run by the members, SMSFs are regulated by the ATO rather than APRA. Many of the protections available to APRA regulated superannuation funds are not available if you have an SMSF.

	APRA Regulated Funds	SMSFs
Compensation	APRA-regulated funds are eligible for compensation where they suffer a loss as a result of fraud or theft	SMSFs are not eligible for compensation if they suffer loss as a result of fraud of theft
Complaints	APRA-regulated funds must address member complaints. Where complaints are not resolved, members must offer access to a free and independent complaints resolution service such as the Australian Financial Complaints Authority (AFCA)	SMSF trustees/members must resolve their own complaints, which may require legal assistance. SMSF trustees/members do not have access to the AFCA.

Investment Strategy

For some, setting up a SMSF provides the flexibility of investing as per their desired investment strategy.

Trustees will need to ensure that the investment strategy is aligned with the sole purpose test. The SIS Act also sets guidelines for a SMSF investment strategy, including:

- Fund assets must be kept separate- personal use of the SMSF assets is not permitted
- No financial assistance to members and relatives
- Arm's length dealing
- Restricted ability to acquire assets from related parties- an exception is business real property
- Restrictions on borrowing
- Restrictions on investments, loans or leases to members and related parties- the in-house asset rules
- Prohibition on charging member benefits and fund assets

Further information on SMSF Investment Strategy is detailed in the factsheets "The SMSF Investment Strategy" and "Key SMSF Investment Rules".

References

You may wish to refer to the following websites for further information about establishing a SMSF:

- www.ato.gov.au
- www.moneysmart.gov.au

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