Self Managed Superannuation is popular with business owners because it offers more control and flexibility with your investments. But before you decide to open an SMSF it's critical that you understand the basics and weigh up the advantages and disadvantages. This article covers some of the key questions you should be asking before taking the plunge.

What is a Self Managed Super Fund (SMSF)?

Put simply, a self-managed fund is a small super fund where members retain control of how the fund will operate and what the fund will invest in.

What are the advantages of a SMSF?

The key advantages are control and flexibility. Fund members get to decide how, when and where to invest their money. It opens the doors to a wider range of investments, including real estate and collectibles. Plus members have greater control over when they dispose of assets, enabling them to better manage their taxes. A SMSF can also be cheaper to operate. Depending on your investment choices, you may be able to avoid or reduce the ongoing management fees built into most managed funds. There will be higher fixed administrative costs with a SMSF, so be aware that you will need a fairly high balance to realise a cost saving.

Is a SMSF suitable for me?

Anyone can set up a SMSF so long as they are over 18 and not disqualified as a result of criminal activity or insolvency. But there are three crucial questions you need to ask yourself to determine if a SMSF is the right choice:

1. **Will I have the time?** As a trustee of a SMSF you will be require to manage and administer the SMSF, monitor your investments, stay on top of reporting and keep up to date with legislative changes. Obviously you can employ advisors and tax specialists to assist you, but the ultimate responsibility will rest with you.
2. **Do I have sufficient funds in my SMSF?** The administrative costs to manage a SMSF are high. There will be set up costs, plus annual administrative fees for compliance work. The ATO suggests that unless your SMSF balance is $200,000 or more, these administrative costs are likely to outweigh the potential benefits.
3. If you are establishing or entering a fund with multiple members, **are these fund members suitable co-investors?**

Can I have a joint SMSF with my business partner or my spouse?

Yes, absolutely you can. There are two types of fund: a "Single Member Fund" and a "Multiple Member Fund". The latter can include up 4 members.

What is a trustee?

A SMSF trustee is the person responsible for making sure that the fund complies with all the regulations and is managed according to the funds investment strategy. According to the rules, you can either have individual trustees or corporate trustees.

Can anyone be a SMSF trustee?

If your fund has individual trustees then all trustees must be members and vice versa. Where a fund has a corporate trustee all members of the fund must be directors of the trustee company. (This means that anyone who cannot be a company director because they are banned by ASIC will be excluded from setting up a self managed super fund with corporate trustees.)

Should I have Individual Trustees or a Corporate Trustee?

An individual trustee structure is much simpler and therefore less expensive to operate. If you don't envisage any changes to the members of the fund and you do not plan on borrowing money within the fund, then an individual trustee structure may be right for you. While adding to the cost and complexity of your fund, a corporate trustee does offer some distinct advantages:

- Most banks require a corporate trustee arrangement before they will loan money to a SMSF;
- Your personal liability is reduced (although remember that you will be a director of the company, so you remain ultimately responsible);
- If the fund members change you won't need to deal with name changes at the bank, share trading entities etc.
- If you ever breach the SIS Act, you will only have to pay one penalty to the ATO. (Hopefully that's one advantage you never have to realise.)

What can my SMSF invest in?

A SMSF can invest in most investment products including managed funds and direct assets such as shares, listed and unlisted, Australia and overseas, listed and unlisted property trusts, bonds and derivative products like warrants and options. An SMSF can also invest in real estate and collectibles. The key tests as to whether an investment is allowed in a SMSF are: "Arms Length" – is the asset separate from personal assets or those belonging to your business "Sole Purpose Test" – is the asset used solely to provide benefits to you and other members during retirement or to benefit dependents if you die or become disabled?

Can my SMSF provide insurance?

Yes, a SMSF can organise life and total & permanent disablement cover to insure members of the fund. The SMSF pays the cost of the insurance and then claims it as a tax deduction, which means insurance costs are more tax effective.

Can a SMSF borrow money?

Since 2007 the laws have changed to allow a SMSF to borrow money to purchase an asset, but the rules are quite strict. There are three key rules:

1. The borrowed money must be used to acquire a single asset, ie/ one property or a parcel of identical shares.
2. The asset cannot be improved upon or replaced while the loan is outstanding. So you can't borrow to facilitate property development.
3. The asset purchased under a borrowing arrangement must be held in a specific holding trust until the loan is repaid, and only the asset held in trust can be used as security for the loan.

Want to know more about Self Managed Super Funds or need help managing your SMSF administration.
Give us a call on 6652 8788.

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