TAYLOR COLLISON

SELF-MANAGED SUPER FUNDS

GETTING STARTED

What is a Self-Managed Super Fund?

A Self-Managed Superannuation Fund (SMSF) is a type of super fund set up for those who wish to manage their own superannuation assets privately, rather than be a part of a larger fund where members pool their super funds. It gives the members much greater control over the investment decisions, but also requires far greater input. All super funds are required to comply with their relevant regulatory bodies and with SMSFs, trustees are required to oversee these compliance requirements.

To meet the definition of a SMSF, the following conditions must be met:

- There are fewer than 5 members in the fund;
- All members of the fund are trustees of the fund (or directors of the trustee company);
- No trustee can be a disqualified person and all trustees must be 18 years or over;
- No member of the fund is an employee of another member of the fund, unless those members are related;
- No trustee of the fund can receive any remuneration for his or her services as a trustee.

In contrast to larger APRA-regulated superannuation funds, the regulatory body for SMSFs is the Australian Tax Office (ATO). Self-Managed Super Funds have the same taxation benefits of other super funds, and a yearly audit is required by an appropriately qualified auditor.

What are the benefits of having a Self-Managed Super Fund?

The main two reasons for choosing a Self-Managed Super Fund over a regular fund are the cost advantages and the control that members get over their own investment decisions. There are other reasons including estate planning, creditor protection and advantages when establishing retirement income streams.

COST ADVANTAGES:

A SMSF can have lower expenses provided the amount invested is high enough. A report by the Investment and Financial Services Association (IFSA) estimated that SMSF's had an overall expense ratio of 0.87% p.a, compared to 2.12% for personal superannuation through a retail fund. ASIC recommends a minimum of around $200,000 in super to make the costs of a SMSF worthwhile.

INVESTOR CHOICE AND CONTROL:

A SMSF gives members complete control over their own investment decisions. With this control however comes great responsibility which should not be underestimated. Most SMSFs employ a professional investment adviser to assist in guiding decision making, and only highly-experienced investors attempt to go it alone.

Having control allows members to act more quickly than a large fund is able to, and members can choose to reallocate funds between asset classes if they feel that a particular asset class is set to underperform or outperform other asset classes.

SMSFs can also own assets not generally used by other super funds. For example, they can hold instalment warrants, which are a form of derivative with gearing built into them.

They can also acquire business real property from members and other related parties. The property can then be leased back to the member or member's business, providing SMSF income taxed at 15% and a business expense that is deductible against business income at the company tax rate of 30% (if the business is carried on by a company).

What are the costs?

ESTATE PLANNING:
Adult children can be introduced as members of a SMSF at inception or at a later date. This can be a way of providing an income to older generations while preserving assets used in the family business.

CREDITOR PROTECTION:
Superannuation is protected from creditors, and given a SMSF can buy a member's business property, this can then also be protected from creditors. However, if they are transferred to the SMSF with the sole intention of avoiding creditors, then this protection does not apply.

As with all super funds there are costs associated with running and administration. Depending on who you get to set up your fund, there is a one-off setup cost of somewhere between $500 and $1500. Taylor Collison does not actually establish the fund, a lawyer is required to do this.

There are also annual accounting costs that all SMSFs incur. These are for calculating the tax payable by a fund, determining member balances and the audit of the fund. These audits are done to firstly confirm the tax accounting was done properly, but also to ensure the fund is complying with all of the requirements as set out by the ATO and Superannuation and Investment Supervision (SIS) Act. Annual accounting costs will vary according to a number of factors, including size of the fund, number of transactions within the fund and various other factors that influence how long it might take an accountant to complete the work.

There will also be costs associated with the investment decision making. If your fund is heavily weighted towards shares, then it will incur brokerage charges when shares are bought and sold. You may also choose to use a financial adviser or portfolio manager where the fee your fund will be charged will generally be a percentage of funds under management.

What are the steps involved in starting a Self-Managed Super Fund?

- If you think that a Self-Managed Super Fund might suit your needs, the first step is to speak with your Taylor Collison adviser about getting started. We will arrange for you to come in for a face-to-face meeting to ensure the most cost-effective way of moving forward for you.
- A lawyer will then draft the fund's trust deed. Once this has been done, your fund is essentially established.
- An accountant or administrator can help you organise the paperwork and register your fund with the ATO. An election to comply with the SIS Act must be lodged with the ATO within 60 days of the trust deed being completed.
- When complying status has been granted, a TFN and an ABN is allocated. Once a SMSF has complying status, the trustees will need to open a separate bank account for the fund. With both complying status and a separate bank account, the fund can then accept contributions and invest according to the SIS Act and the fund's trust deed and investment strategy.
- An investment strategy is the responsibility of the Trustees and should be minuted as being reviewed at least annually. Your Taylor Collison adviser can assist in formulating the investment strategy if you wish. Your investing is now ready to begin.

TAYLOR COLLISON

TAYLOR COLLISON LIMITED
SHAREBROKERS AND INVESTMENT ADVISERS

A.B.N. 53 008 172 450
AFSL No. 247083

Market Participant of the
Australian Stock Exchange

Level 16, 211 Victoria Square
Adelaide, South Australia, 5000
G.P.O. Box 2046, Adelaide, South Australia, 5001

Telephone: 08 8217 3900
Facsimile: 08 8231 3506
Email: broker@taylorcollison.com.au

Level 10, 151 Macquarie Street
Sydney, New South Wales, 2000
G.P.O. Box 4261, Sydney, New South Wales, 2001

Telephone: 02 9377 1500
Facsimile: 02 9232 1677
Email: sydney1@taylorcollison.com.au

www.taylorcollison.com.au

Established 1928