

Self Managed Super Funds (SMSF).

Taking control of your
superannuation.

a brighter future.

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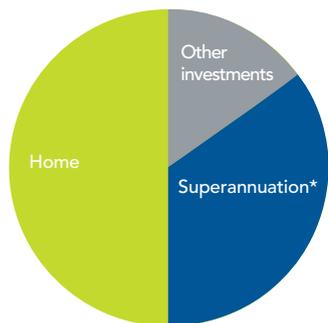
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Superannuation



Your assets:
Super* can
make up
quite a large
proportion of
your personal
net worth.



For many Australians, your superannuation fund is likely to be your second largest financial investment coming in second only to the family home. Given its level of importance, regardless of the superannuation structure you choose, it's common sense to invest effort into understanding it to ensure that it helps you to achieve your retirement goals.

It's important not to miss out on the benefits of investing through superannuation, which can offer you significant tax and other benefits, especially if you own a business.

Are you in the right superannuation structure?

Many Australians 'outsource' the management of their superannuation to a Superannuation Trust. The trustees of these organisations have a legal obligation to act in the best interests of their members. These kinds of funds generally manage the transactions on your account, offer you different investment options and report back to you at least once a year on the investment performance of your superannuation account.

Another structure you may consider to manage your superannuation is via a Self Managed Superannuation Fund (SMSF). As the name suggests, rather than outsourcing the management of your superannuation, you take greater control and responsibility over the management of your retirement savings. According to the Australian Taxation Office, SMSFs are now the largest and fastest growing segment of the super industry¹.

Let's take a close look at SMSFs as well as some of the advantages and disadvantages of using this type of structure.

An introduction to SMSFs

SMSFs have the same role as any other superannuation fund. The main difference is that the members of a SMSF are also the trustees of the fund. They control the investment of their superannuation contributions, the payment of the benefits to members and are responsible for the proper management of the fund.

An SMSF will have different requirements, depending on the type of trustee arrangement used. You can have:

- a corporate trustee
- individual trustees

As all fund members are trustees of the fund (or a director of a company that is a trustee) this means that the fund members are in control of their own super. The member/trustees also take on all the legal responsibilities of the fund, including its annual SMSF tax return and appointing an auditor to audit the SMSF each year.

1. (<http://www.ato.gov.au/super>)



SMSF contributions

The types of contributions that an SMSF may be able to accept as part of the cash holding include:

- mandated employer contributions, like superannuation guarantee
- personal contributions made by employees or self employed members
- eligible spouse contributions
- superannuation co-contributions
- in specie contributions, and
- rollovers from other superannuation funds.

And just like other superannuation funds, eligible people, including those who are self employed, may be able to claim a tax deduction for the superannuation contributions they make.

An SMSF may be worth considering if you:

- are a small business owner with real property assets
- are an owner of a family business with intergeneration or estate planning issues
- want to pool investments together
- want to protect your business assets from creditors.

Investment choice

An SMSF may invest in a variety of assets according to the fund's investment strategy. Investments of a SMSF may include:

- cash
- term deposits
- real property
- collectables
- borrowing arrangements (in some instances)
- managed funds
- exchange traded funds, and
- listed equities.

You can also hold life insurance within your SMSF.

Choice is one of the main advantages of running your own SMSF, in regards to investing your money.



What are the advantages of an SMSF?

The benefits of running your own SMSF include:



Are you ready to be an SMSF Trustee?

When you are considering setting up an SMSF, you need to understand the roles and responsibilities of being an SMSF trustee. As a trustee it is your responsibility to ensure that the SMSF complies with the relevant laws.

Some of your responsibilities as trustee include:

- act in the best interests of all fund members when making decisions
- manage the fund separately from your own affairs to ensure the fund meets the sole purpose test
- ensure the money in the fund is only accessed where the law allows it
- know, understand and complete your responsibilities and obligations to ensure your SMSF is independently audited every year
- lodge your SMSF annual return every financial year and pay the annual supervisory levy.

Greater control

Compared to other superannuation arrangements, an SMSF allows you to actively participate in the management of the fund as well as have greater control as the Fund Trustee. This control provides some people with more confidence as they are in charge of investment decisions affecting their retirement savings.

More options

An SMSF allows you to invest in a significantly broader range of options. These options include direct shares and property, overseas assets, commercial property and alternative assets like art and antiques. It may also be possible to gear on what's called a 'non-recourse' basis. Of course all investments need to be made in keeping with the funds investment strategy.

Flexibility

A Self Managed Superannuation Fund generally has the flexibility to meet all your superannuation needs. It can accept contributions from your employer in line with the choice of fund legislation. There is also the scope to transfer certain assets into your SMSF as a contribution. SMSFs are able to pay you a pension upon your retirement. There is also increased flexibility in implementing strategies to transfer wealth to the next generation. This makes an SMSF a long term investment vehicle.

Tax management

The tax rate on contributions and earnings in superannuation is generally a maximum of 15% (you may pay an additional 15% tax if individual earnings are over \$300k pa). By using certain strategies involving the imputation credits from fully franked dividends, it may be possible to reduce this tax rate, significantly. As Trustee you are also able to control the timing of buying and selling investments to obtain maximum tax benefits.

Once you move funds to pension phase, the earnings tax rate on the portion of your funds now in pension phase is 0%. This means that, for those pension phase funds, the imputation credits from fully franked dividends will be refunded into your superannuation fund, improving the income available for distribution. For the portion of your funds not yet in pension phase the refund of imputation credits will improve the after tax return of your investment. In pension phase, Assets sold within the fund can be capital gains tax free.

Wealth protection insurance

Depending on the investment strategy of the SMSF you have the flexibility to choose and hold Life, Total and Permanent Disability policies and Income Protection insurance policies that suit your needs within your SMSF. The policy premiums will be paid from your fund balance and are a tax deduction for the fund.

Privacy

An SMSF can offer its members a greater level of confidentiality about their employment and retirement affairs than other superannuation structures.

Cost

Compared to other superannuation arrangements, a Self Managed Superannuation Fund is often run at a fixed cost. This means that for higher fund balances an SMSF may in fact be a very cost competitive alternative.

What are the disadvantages of an SMSF?

Some considerations when running your own Self Managed Superannuation Fund are:

Time and responsibility

The trustee/s of the fund are responsible for making sure the fund is properly invested and administered in accordance with the fund trust deed, investment strategy and the relevant superannuation law. Such trustee responsibilities can be time consuming. A serious breach of superannuation law can result in severe tax penalties to the fund and in some cases, fines and jail sentences for the trustees.

It is possible for the trustees to seek professional help to run the fund, which can make the running of the fund less demanding. However, the trustee is still responsible for all decisions. You may wish to consider and factor in the cost of professional help when assessing the running costs of the fund.

Legal obligations

Whilst an SMSF does offer a great deal of control and flexibility, it is not without limits. The superannuation law mandates that investments must be

made on an arm's length commercial basis. The fund needs to be conducted for the sole purpose of providing the members with retirement benefits. The laws concerning superannuation can be complex in some areas and it may be appropriate to seek professional advice from both an accountant and a financial adviser to make sure you do not make any mistakes. Penalties may include disqualifying you as a trustee, removing you as a trustee and freezing your SMSF assets.

In addition to this, trustees of SMSFs - unlike Super trustees - are not able to claim a grant for financial assistance from the Government/Regulator in the event of a loss of funds through fraud or theft.

Cost

As noted previously a Self Managed Superannuation Fund is often run at a fixed cost. This means that for lower fund balances, say below \$200,000, an SMSF may be a more expensive option.

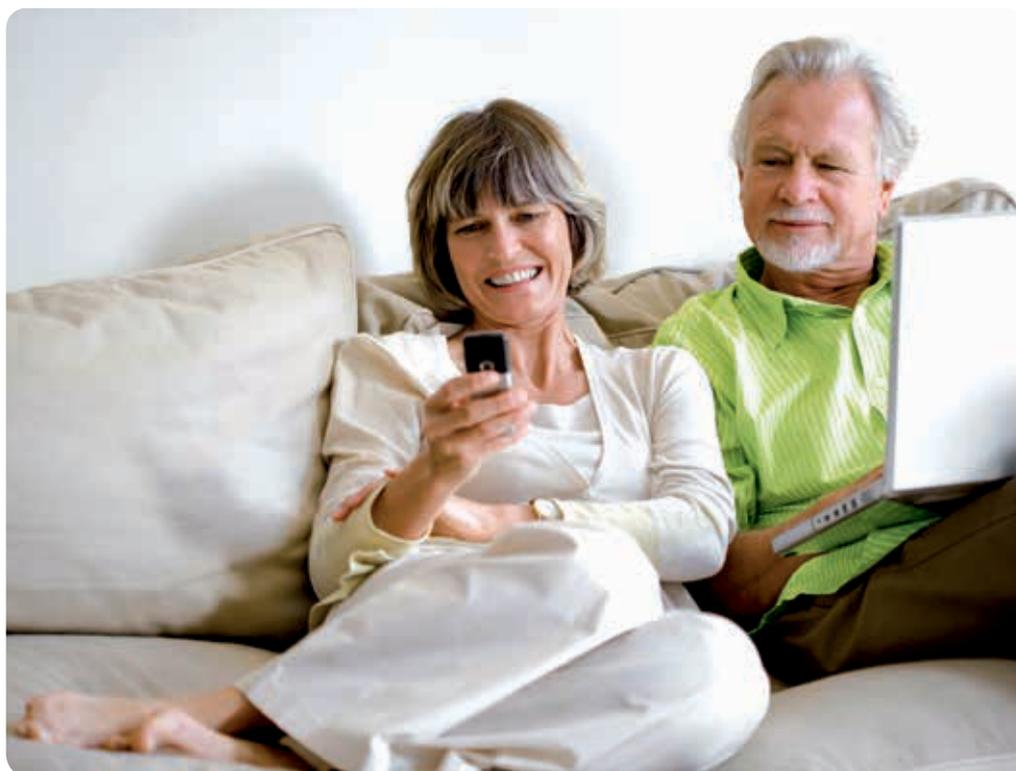


Are you ready to be an SMSF Trustee?

In fulfilling your role as trustee you need to:

- act honestly in all matters
- exercise the same degree of care, skill and diligence as an ordinary prudent person
- act in the best interests of all members
- retain control over the fund.

Trustees can employ the services of professionals to assist in running their Fund. For example, a financial adviser can provide advice on the investment strategy within the Fund. Your accountant can assist with lodging tax returns and SMSF audits. However, the trustee is responsible for the SMSF. If the Australian Taxation Office has any questions, they will be directed to you, the Trustee.



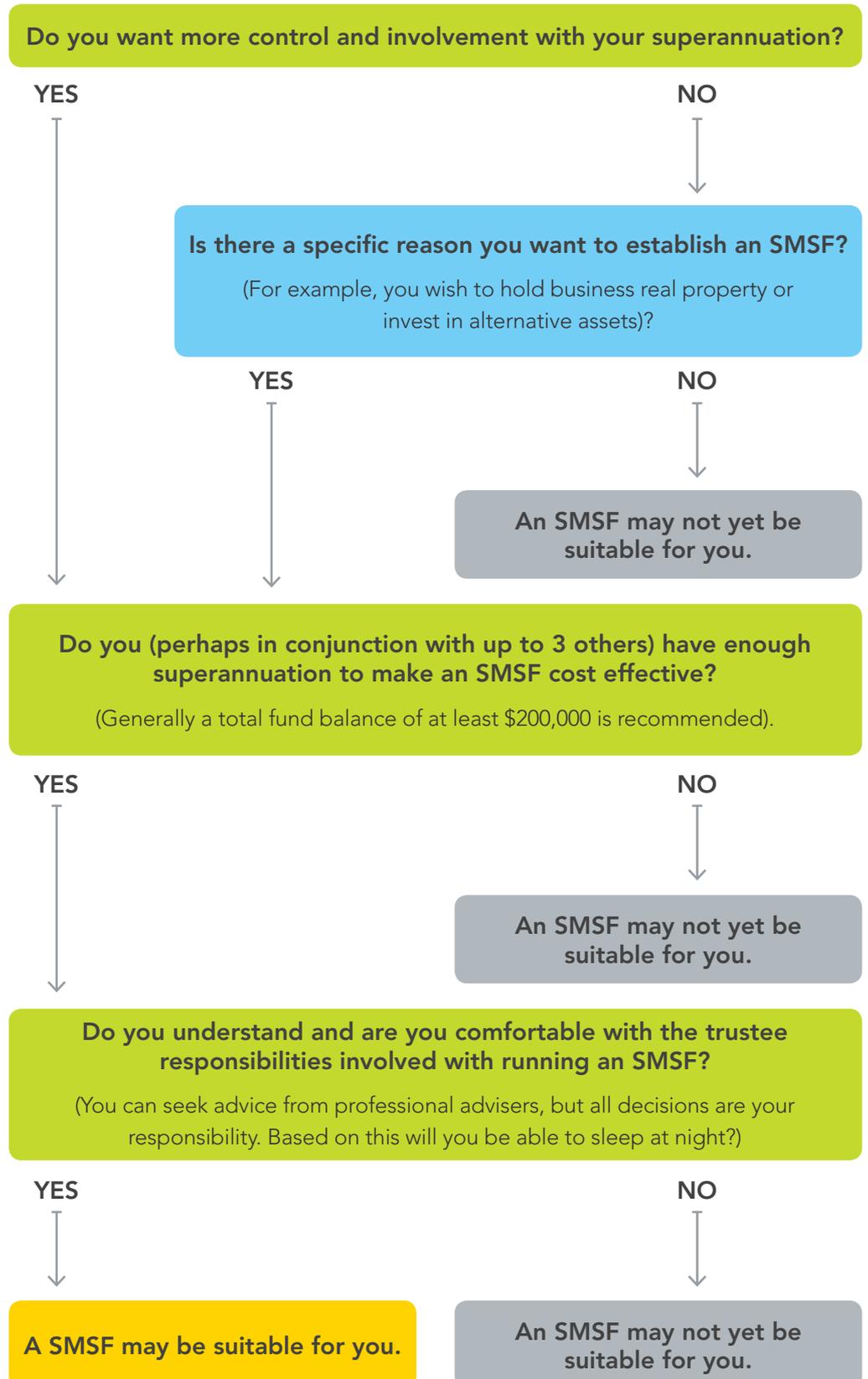


An SMSF may be a good solution for your super, but it needs to be an informed decision, based on a clear view of your situation and some sound advice.

Is an SMSF right for you?

Before deciding to set up an SMSF you need to think about whether this arrangement will be suitable for your own personal needs, capabilities, objectives and financial circumstances.

The flow chart below provides a starting point to help you consider the key issues that may affect your decision. Our advice may then help you determine whether it is right for your situation.



Case study:

James gets good SMSF advice

James has run his small business for over a decade. He has an established client base and all in all the business is in good shape. However, with less than 20 years until his retirement, James decides it is time he speaks with a financial adviser about how his business can help with his retirement plans.

In speaking with an adviser, James learns more about his options and his superannuation is just one area where he discovers he is not making the most of his own situation. After a full review of his financial situation, his financial adviser prepares a Statement of Advice (SoA) for him which outlines a number of key strategies.

In James' case, some of the strategies incorporated into his SoA include:

Setting up a self managed super fund (SMSF)

James can purchase his business property through his SMSF which is a more tax effective structure and the asset is protected from potential creditors.

Investment selection

Although James had an interest in investing, he didn't have the time or depth of resources to create his own investment strategy. James was

more than happy to use the services of his financial adviser to make recommendations and undertake performance reviews in this regard. A tailored investment strategy was clearly outlined in the SoA.

Business succession planning

James had never thought about planning for an unexpected event. Income Protection, Total & Permanent Disability Insurance and Life cover were all considered as mechanisms to protect his family should something happen to him. Each of these insurances can be held within an SMSF. The financial adviser encouraged James to speak with his business partner about what would happen to the business if the unexpected was to occur. The adviser put James in touch with the appropriate legal experts to help them devise a plan.

Before you retire

Although James' retirement is still some time off, the current rules offer him attractive tax incentives he should consider taking advantage of before he retires. Examples include the use of the Small Business Tax Concessions and delaying the sale of SMSF assets until he commences a pension from his fund to eliminate Capital Gains Tax liabilities.



James decides it is time he speaks with a financial adviser about how his business can help with his retirement plans.





Financial advice for a brighter future

We tailor solutions and strategies to help you grow your wealth faster, manage it better and safeguard it more effectively.

If you need SMSF advice, we're here to help

Superannuation can be a complex subject, however it can provide significant benefits for the right clients under certain circumstances. It also brings important responsibilities to manage your super appropriately within the superannuation laws and guidelines. Managed well, an SMSF can be a great vehicle to put you in the driver's seat to achieving your financial goals.

For that reason you should seek professional advice to determine whether a SMSF is right for you.

Please feel free to contact us for an obligation free appointment, where we will discuss your situation and how we may help you to achieve what's important to you.



To help you explore whether the SMSF option is right for your situation, contact us to arrange a meeting.

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