# FACT SHEET

## Self-Managed Super Funds

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## Introduction

Self Managed Superannuation Funds (SMSF) or Do It Yourself (DIY) funds are a popular structure pre-retirees and retirees use to manage and control their retirement investments.

The Australian Taxation Office (ATO) regulates the majority of SMSFs and provides information on setting up and running these funds. It also suggests consulting a professional adviser.

To qualify for concessional taxation a superannuation fund must be a complying fund and this means that the trustees must have elected to be a regulated fund in terms of the Superannuation Industry (Supervision) Act (SISA) and operate the fund accordingly.

The objective of a superannuation fund is to accumulate and grow assets on behalf of the members of the fund and provide them with a benefit in retirement. This is commonly known as the 'Sole purpose test'.

## Setting up

- A SMSF can have up to 4 members
- It can have either a Corporate trustee, where each member is a director of the company and all directors are fund members, or individual trustees where all members are trustees of the fund
- A member cannot be an employee of another member unless they are related
- Non-corporate single member funds must have a second trustee who is either related to the member or any person of whom the member is not an employee
- Trustees cannot be remunerated for their services
- A trust deed needs to be purchased or one drafted by an accountant, solicitor or legal service company. This deed establishes the existence of the trust and provides the rules of operation of the fund
- A tax file number must be obtained from the ATO
- An Australian Business Number (ABN) must be obtained from the Australian Business Register (ABR) www.abr.gov.au
- If the fund accepts contributions on behalf of members it must be SuperStream ready and have an Electronic Service Address (ESA)
- An investment strategy needs to be formulated which must take into account the following:
  1. Investing to maximise returns having regard to the risk associated with the chosen investment/s;
  2. Diversification across asset classes;
  3. Ensuring the ability of the fund to pay benefits and meets its running costs;
  4. The needs and objectives of the members; and
  5. The life insurance needs of the members.

## Features

- Members have control of the investment decisions of the fund
- Listed securities can be transferred in specie from a member to a SMSF at market value as at the close of business on the date of the transfer request

**Accumulation phase -** *Super monies to which contributions may be made and from which no regular payments (income streams) are paid.*

**Imputation credits -** *A tax offset for dividends where company tax has already been paid.*

**Regulated Fund -** *A fund that has elected to be governed by the rules of the SIS Act.*

**SIS Act -** *The Superannuation Industry (Supervision) Act is the key piece of legislation governing superannuation funds.*

**Trustee -** *An appointee who monitors a trust's activities on behalf the members.*

- Business (non-residential) real property can also be transferred at market value
- Members choose the timing of purchase and disposal of assets
- Members have more control over costs which may yield better overall performance

### But Remember...

- Trustees have to manage and review regularly the investment strategy/ies, which can take time
- Trustees must ensure that rules relating to superannuation, including acceptance of contributions and preservation, are abided by
- There are legal, compliance and management responsibilities of being a trustee of the fund. The ATO website www.ato.gov.au and their publications provide extensive information
- Reports and returns may require professional assistance e.g. audits must be conducted by an approved SMSF auditor registered with ASIC
- The associated cost of accounting, auditing and administration (if used) must be met
- Estate planning needs to allow for replacement of trustees

## Taxation

- Complying superannuation funds in the accumulation phase pay tax at a maximum rate of 15% on their income unless members have an income greater than $250,000 when the rate is 30% - known as Division 293 tax. Funds in a Transition to Retirement Pension (TRP) are also taxed up to 15%.
- Allowable income tax deductions and imputation credits can reduce taxation liability during the accumulation phase and/or TRP.
- Capital gains in a superannuation fund receive concessional treatment.
- Earnings on assets supporting an income stream (except TRP) are not taxable up to the Transfer Balance Cap (Refer to fact sheet 'Superannuation and Tax – Withdrawals').
- A new SMSF member verification system has been introduced to ensure individuals requesting a roll-over to a fund is a member of the SMSF.
- From 1 July 2011 an annual independent audit report is required.

## Government Income Support

- During the accumulation phase assets held are exempt from assessment until pension age or service pension age as applicable. Reportable superannuation contributions such as salary sacrifice and other reportable fringe benefits of an income support recipient or their spouse are counted as income for the Income Test
- Complying income streams set up before 20 September 2004 are 100% assets test exempt. Those set up between then and 20 September 2007 are 50% exempt while all income streams set up since are fully assessable as assets
- New or transferred Account Based Income Streams (ABIS) set up from 1 January 2015 are assessed under the 'Deeming Rules' for the income test

## Income Streams from SMSF

ABIS and/or Immediate Annuities can be paid by a SMSF. Details of these payments are outside the scope of this leaflet. Issues can be complex and expert assistance should be sought. Refer to our fact sheets Account Based Income Streams and Introducing Immediate Annuities.