Self-managed super funds: know the essentials

Factsheet
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Just like any other type of super fund, self-managed super funds (SMSFs) can help you save for your retirement and provide income to you once you retire. Historically there have been, and continue to be, advantages and benefits of having an SMSF for some people. Similarly, there continue to be advantages and benefits to public offer funds (e.g. retail or industry funds).

Given regulatory changes, increased competition in the superannuation sector and advancements in administration technology, you should periodically review your superannuation structure, carefully consider and seek advice from a suitably qualified professional on the benefits you may achieve through an SMSF to determine whether to establish, or continue with, one.

What are the key benefits of an SMSF?

Broader access to investments

Traditionally, superannuation funds only allowed you to invest in a range of shares, fixed interest and property through managed funds. There has been a significant change to this, but each fund will still have its limits.

SMSFs, however, have historically offered a greater range of additional investment options through the ability to hold assets directly such as direct shares, residential and commercial property, physical commodities such as gold and platinum and collectables such as artwork.

SMSFs have also historically been used by investors to access investments where they were restricted to wholesale or sophisticated investors, such as certain types of managed fund investments.

SMSFs can hold property directly

Historically, a major reason many doctors were advised to set up an SMSF was so they could purchase or transfer their medical practice premises (which is business real property) into their SMSF. This can provide a steady income for the SMSF, because the premises is leased back to the doctor (or their practice or service entity), there can be tax advantages upon the eventual disposal of the premises and it may also free up capital in order to grow the practice if the property is already owned by the doctor.

Note: Under the relevant legislation regulating SMSFs, only business real property can be transferred by a member into their SMSF. A member cannot, for example, transfer residential property to their SMSF.

Considerations:

- With advancements of technology in superannuation fund platforms, funds other than SMSFs may also now enable the holding of direct assets such as shares, which has not always been the case.
- If you are classified as a sophisticated investor, there are now public offer funds that enable you to hold such investments, providing you supply an up-to-date accountant's certificate declaring your sophisticated investor status.
- You should seek advice as to whether an SMSF, public offer fund or some other type of fund is appropriate in your circumstances.

SMSFs can borrow to invest

An SMSF can borrow to invest in property and any other type of investment, provided the borrowing is limited in recourse to the assets of the SMSF (and complies with the relevant legislative requirements). This allows the SMSF to purchase larger single assets and introduces the concept of leverage to an SMSF's investment returns. Put simply, leverage means using borrowed money to potentially increase the return from an investment, but it also commensurately increases the risk of loss if the investment posts a negative return.

Considerations:

- Seriously consider the diversification risks of acquiring residential property in an SMSF, particularly if you already own or are paying off your own home, or have an investment property portfolio.
- Interest rates on borrowing from SMSFs to acquire property are usually about 2% p.a. higher than outside of super. This is because the loan arrangements need to be non-recourse.

Tax benefits

The benefits of franking credits, concessional tax treatment on income derived by the SMSF, and the deferral or elimination of capital gains by transferring assets from the accumulation phase of an SMSF to the pension phase are often promoted. Generally speaking, SMSFs provide greater flexibility than other types of superannuation funds. This is in large part due to the ability of an SMSF to hold direct investments such as real property.

However, for the most part these can also now be replicated through other non-SMSF superannuation providers and investment platforms.

Estate planning

This has been a common reason for using SMSFs historically. Two examples of the benefits are:

- SMSF members could make binding, non-lapsing death benefit nominations dealing with their superannuation balances after their death (by contrast, binding nominations for public offer super funds must be renewed every three years)
- a death benefit could be paid to financial dependants as an income stream (pension) rather than a lump sum.

While this enabled, the investment portfolio of the SMSF in many cases to remain largely intact, there are now many public offer super funds that include this flexibility. This includes the ability to make a non-lapsing binding death nomination that is not required to be renewed every three years.

What else should I consider regarding SMFs?

If you're a hands-off investor or your portfolio is professionally managed

You should seek advice and consider if it is beneficial to have an SMSF structure, because most investment strategies can be implemented and managed in low-cost super structures.

If, however, you wish to hold shares and investments directly and manage these yourself, an SMSF structure may be preferred. SMSFs can also be used in conjunction with medical practice structures to open up tax planning opportunities not possible with a public offer fund.

Costs of operating an SMSF

There are some unavoidable costs to establish an SMSF, including the SMSF Trust Deed and related documents, and the company establishment cost if there is a corporate trustee. Costs for establishing an SMSF typically range between \$150–\$1,000 plus professional fees, such as those billed by your accountant or adviser.

Once established, there are ongoing costs to operate an SMSF, including the preparation of annual financial statements, tax return, audit and ATO supervisory levy. These services are usually bundled and cost between \$1,000–\$3,500 p.a.

There is also the cost of ongoing advice should you require financial advice on the most appropriate investments and ongoing review of these. This cost will vary depending on your needs.

You should seek advice regarding the establishment costs and ongoing costs in determining whether an SMSF is the right structure for you in light of your personal circumstances.

Trustee compliance obligations of running an SMSF

Each member of an SMSF must also act as a trustee of the SMSF (or as director of any corporate trustee). This imposes upon each member specific trustee responsibilities, including the following:

- developing the investment strategy of the fund
- considering the risk insurance requirements of members, specifically income protection, total and permanent disablement and life insurance
- accepting contributions and making payments to members and for the operation of the fund, while ensuring legislative caps and preservation rules are adhered to
- general administration of the fund
- ensuring tax returns and financial statements are prepared on time
- appointing a registered auditor.

Get advice that suits your situation

Good quality advice will confirm whether an SMSF is appropriate for your circumstances and goals, or if you can achieve your objectives with more cost-effective strategies, such as a standard superannuation structure. Perhaps there may even be a need for both. The team at Doctors Wealth Management can review your situation and recommend a solution for your individual circumstances.

You can find additional resources and information about Doctors Wealth Management at **avant.org.au/doctorswealthmanagement** or call **1800 128 268**.