

ADVANTAGES AND DISADVANTAGES OF AN SMSF

Unlike a retail or industry fund, a Self-Managed Super Fund (SMSF) is its own entity; it has its own ABN and is required to do its own tax return at the end of each year.

Hence, an SMSF is arguably in a better position to manage outcomes on behalf of the members (in terms of achieving their retirement objectives) as is in charge of its own destiny.

ADVANTAGES OF AN SMSF

The main benefits of having an SMSF can best be summarised as the flexibility, transparency and control to:

1. Invest in any asset class including:

- Shares (both domestic and international)
- Direct property (both residential and commercial)
- Units trusts, managed funds, EFT's
- Physical assets such as gold, silver etc

In a retail or industry fund, investors are only able to invest in investments approved by the trustee. This will often mean:

- Limited access to shares i.e. nothing outside the top 300
- Limited access to international shares or ETF's
- Limited access to managed funds, investment trusts ETF's, LICs etc
- Limited access to term deposits and cash accounts. Typically, you will have to invest in the retail or industry fund cash account which pays little to no interest
- Strict controls as to how much you can invest in share, LIC, ETF or managed funds
- Limited access to insurance products
- Limited trading access (i.e. the trades are controlled by the fund, therefore you cannot necessarily access the best price at the best time)

2. Effectively manage tax outcomes including:

- Setting up pension account and the pension payments
- Making in-specie contributions to funds
- Contribution splitting
- Using franking credits to offset tax payable to the fund
- Managing losses in the fund

For example, in a retail or industry fund, the fund lodges one tax return. If your fund makes a loss, this is offset against another fund which makes a gain. Your fund then relies on the administrator to credit your account which may or may not happen.

Further, when you set up a pension or make a change to a pension account in a retail or industry fund you must notify the ATO immediately so that the fund can update a member's Transfer Balance Cap amount. With SMSF's you have until the end of the quarter.

As a result, Trustees can better manage tax outcomes as they are able to choose the most tax effective payment, i.e. pension payment or commutation after the event.

You also don't pay contribution tax until year end.

3. Effectively manage Estate Planning objectives including:

- The tax and tax-free amounts that are paid to dependents
- Setting up reversionary pensions
- Managing insurance payments

For example, when a member dies and an insurance payment is received, it is up to the Trustee to release the funds. Further, when you roll back a pension or start a new pension for estate planning purposes, a retail or industry fund must notify the ATO within ten days so as to manage the Transfer Balance Cap reporting.

In the SMSF world, you have until the end of the quarter. For reversionary pensions you have over a year to setup the paperwork and ensure that pensions paid to the reversionary member are in order.

DISADVANTAGE OF SMSF'S

With the above being said, there are some disadvantages of having an SMSF (they are not for everyone). In summary, the main disadvantages of having an SMSF are:

- 1. Trustees are responsible for running their fund and must ultimately ensure that the fund is compliant with the SIS Act. This includes:**
 - Completing annual accounts and tax returns which have to be audited
 - Ensuring proper records and minutes are kept.
 - Ensuring that the fund has an up to date investment strategy
- 2. SMSFs have no access to the Superannuation Complaints Tribunal. This means that conflicts between Trustees will need to be resolved privately.**
- 3. SMSFs are also not entitled to claim a grant for financial assistance from the Government/Regulator in the event of a loss of funds through fraud or theft.**