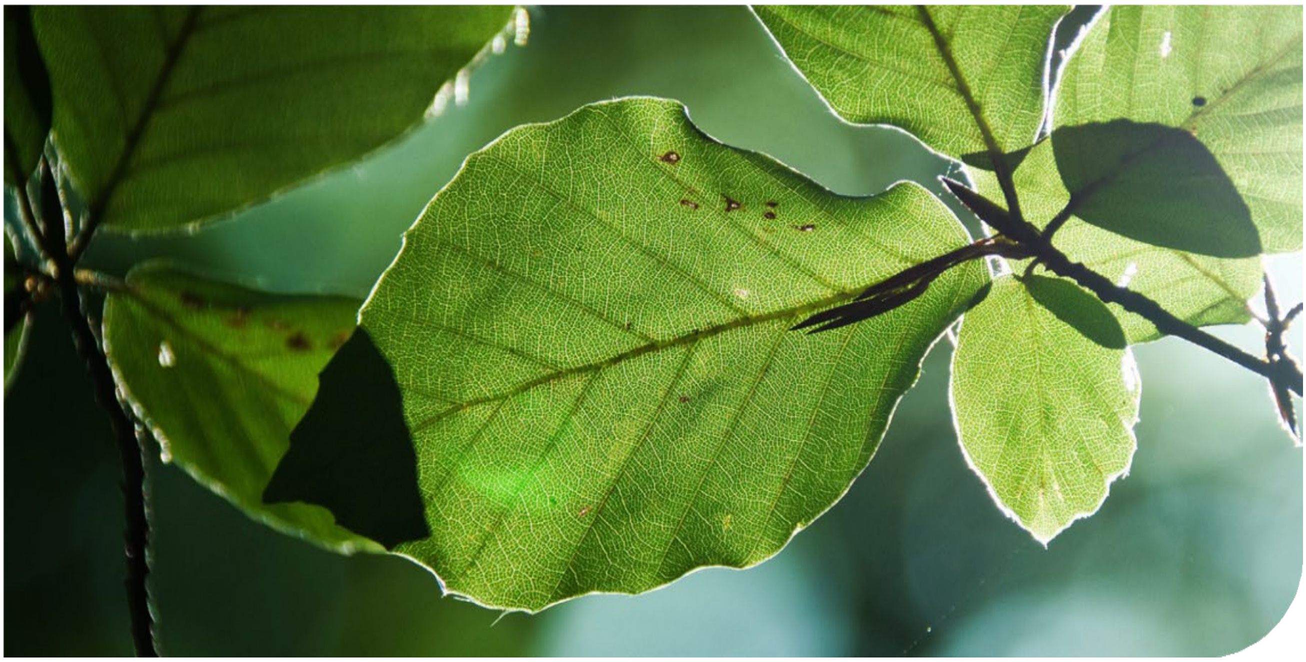
YOUR GUIDE TO ESTABLISHING & OPERATING A SELF MANAGED SUPER FUND (SMSF)

WealthAdviser

Contents



Before you get started

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Before acting on any information contained herein you should consider if it is suitable for you. You should also consider consulting a suitably qualified financial, tax and/or legal adviser.

Information in this handbook is no substitute for professional financial advice.

We encourage you to seek professional financial advice before making any investment or financial decisions. We would obviously love the opportunity to have that conversation with you, and at the rear of this handbook you will find information about our authorised representative and how to go about booking an appointment.

If ultimately you decide not to meet with us we still encourage you to consult with another suitably licensed and qualified financial adviser.

In any circumstance, before investing in any financial product you should obtain and read a Product Disclosure Statement and consider whether it is appropriate for your objectives, situation and needs.

Letter from the Wealth Adviser Library

Dear Reader

Welcome to the Wealth Adviser Library

This library was built specifically to facilitate the provision of sound financial information to everyday Australians.

Our mission is to build an accessible, comprehensively supported team of members who share our vision and commitment to providing tailored financial advice and a new foundation of financial understanding and security for everyone.

With a national network of likeminded experts, we have the potential to provide the financial building blocks for future generations.

Knowledge gives you a huge advantage

We believe that knowledge gives you a huge advantage in creating and effectively managing wealth; in planning to reach your goals; and in being prepared for whatever unexpected twists and turns life may present.

That’s why our team of experts has created this series of digital handbooks and manuals that seek to inform you of not only the benefits but also the potential risks and pitfalls of various strategies and investments.

We trust you enjoy this publication and find it informative and professionally presented. Of course, your feedback is always welcome as we strive to continually offer content in a format that is relevant to you.

Take the next step

Wealth Adviser (a division of WT Financial Group Limited) supports more than 400 privately owned and operated advice practices around the country. We invite you to engage with one of our advisers to discuss what it was you were hoping to achieve when you obtained this handbook, and to establish if they can help you achieve your goals and objectives.

At the rear of this handbook you will find details on how to book an appointment.

Wealth Adviser Library

Introduction

Many financial advisers believe that setting up a 'Self-Managed Super Fund' (hereafter referred to as SMSF) is one of the most tax effective and efficient ways of saving for your retirement.

Unfortunately, many people are already 'heading for the exits' upon hearing the words 'self-managed'!

The purpose of this eBook is to attempt to 'demystify' the process of setting up a SMSF by outlining the characteristics of SMSF's and the benefits of setting them up. We will also focus on some of the practical issues related to establishing and managing a SMSF.

We trust that the information provided here will be of benefit to you as you decide whether going the 'SMSF route' is the right thing to do in your circumstances.

What is an SMSF?

An SMSF is a superannuation fund setup for the benefit of 1-4 members who are also the trustees1 of the fund. To be recognised and regulated by the Australian Taxation Office (ATO) an SMSF must comply with the Superannuation Industry Supervision Act 1993 (SISA) and other rules and regulations governing SMSF's. If the fund complies and remains compliant, it will enjoy significantly reduced tax rates (when compared to 'regular' investments) namely:

- 15% on the income of the fund
- 10% on realised capital gains on investments held for more than 12 months.

In order to continue to enjoy concessionary tax rates, compliance with SISA and ATO standards should be investigated and confirmed on a regular basis.

The fund should also meet the so-called 'Sole Purpose Test'. This states that all the investment activity of the fund should be aimed at securing and providing retirement benefits for the members (or their dependents if a member dies before retirement).

The Advantages and Disadvantages of SMSF's

One of the big questions surrounding SMSF's is: "Why should anyone bother to set up his/her own super fund if there are so many 'professional' products available on the market?" The short answer to this question is that, if managed well and prudently, a SMSF can be one of the best ways to maximise your retirement income as it allows you to reduce costs and to benefit from highly advantageous tax rates.

Consider the following benefits:

Increased Control: With most commercially available super products you simply send off your contributions and hope for the best!

SMSF's allows you to take active control of your retirement funds as all the assets of the fund are under the control of the trustee/s who also take responsibility for all investment decisions.

'Keeping it in the Family': A SMSF is an ideal vehicle for a family to 'save together' as it allows up to four trustees to actively participate in the fund and benefit from it.

Choice and Flexibility: The trustees have a great deal of leeway to make independent decisions on the types of investments that are made (subject to the 'Sole Purpose Rule' of course).

This allows them the flexibility to respond to changing market conditions and to design 'tailor-made' retirement income streams.

Cost Savings: If a fund is well set up, and costs are managed carefully, a SMSF can represent a significant cost saving when compared to the fee structure of commercially available superannuation funds.

It should be clear from the above that there are several distinct benefits in using a SMSF to save for your retirement. However, in the interest of full disclosure, it should also be noted that there are certain features of an SMSF which mean it is not the ideal option for everyone, such as:

Increased Time Commitment: The very nature of a SMSF requires all trustees to take an active interest in the management of the fund. It is therefore certainly not a kind of 'set and forget' investment and will require a certain time commitment from you. It should be noted,

however, that this commitment can be reduced by making use of a specialist SMSF administration service.

Risk of non-compliance: The ATO takes compliance issues surrounding SMSF's very seriously and the penalties for non-compliance are severe (up to a 45% tax penalty and the risk of prosecutions). Trustees, must therefore, keep a very close eye on their fund. This is, again, a burden that can be reduced by making use of professional services.

Costs: Cost savings can be one of the greatest benefits of making use of a SMSF. However, the opposite can also be true. Investors with very minimal funds to invest, and those who are not careful to minimise costs as much as possible, may find managing a SMSF prohibitively expensive.

Three things should be clear from the information presented above:

Setting up a SMSF could be one of the best possible financial decisions that you will ever make. This is, however, not 'automatically' the case. You will first have to investigate whether it is the right thing to do given your specific circumstances.

There are so many different routes that you can take with a SMSF that it is imperative that you speak to an independent and professional financial adviser to discuss your options before you take any steps.

Compliance is extremely important. It will, therefore, be necessary to surround the trustees with the best possible 'team' (i.e. an accountant, legal professional, investment adviser) in order to help you set up and manage the fund.

Setting up an SMSF

The process of setting up a SMSF is fairly straightforward. The most important thing is to ensure that each of the prescribed steps I completed before you move to the next one. The steps recommended by the ATO are:

Step 1: Obtain a Trust Deed

A 'Trust Deed' is a legal document that will govern every aspect of the setting-up and management of your SMSF. Since it is a legal document, it should be drawn up by a qualified legal professional. He/she should be able to advise you about the items that should be included in the deed. As a general rule of thumb, the deed should spell out the membership of the fund (i.e. the trustees and their responsibilities), the aims of the fund, the management and payment of benefits and procedures for the appointment of professional advisers. The trust deed should be reviewed regularly to ensure that it continues to comply with current legislation.

Step 2: Appoint Trustees:

After obtaining your trust deed you can formally appoint the trustees of your fund. There are several options available to you, including:

- Appointing yourself as a sole trustee
- Appointing up to four individual members
- Appointing a corporate trustee. (This is where you set up a company to act as the trustee of the fund. Every member of the fund will also have to be a director of the company)

The following persons may not serve as trustees:

- Undischarged bankrupts
- Anyone convicted of a serious offence involving dishonesty
- Anyone who has committed a serious breach of the SISA act
- Mentally impaired individuals
- Minors under 18 years of age

The latter two groups may be recognised as members of a SMSF but cannot be trustees.

In practice, this means that they will be represented by another trustee (usually a parent or other relative).

In addition to the above exclusions, it should also be noted that no trustee may be employed by another trustee (unless they are related) and that no trustee may receive compensation for his/her activities as a trustee of the fund.

If you make use of a corporate trustee all of the above provisions apply, and you will also have to pay attention to the following in setting up your company:

- Every member of the fund will also have to be a director of the company.
- The corporate trustee (company) may not be paid for its services as a trustee
- The directors of the corporate trustee may not be paid for duties and services in direct relation to the fund.

Step 3: Sign a trustee declaration

The trustee declaration is a document that should be signed by all trustees to confirm that they understand their duties and responsibilities as trustees (or as directors of the corporate trustee). This declaration should always be easily accessible in case it is requested during an audit or review. Noncompliance with this could attract severe penalties.

Step 4: Elect to be regulated by the ATO

As soon as your fund is legally set up you should register it with the ATO and elect for the fund to be regulated by them. This election must be registered within 60 days of establishing the SMSF otherwise the ATO may not accept your registration.

Election to be regulated is an absolutely vital step, as funds that are not regulated cannot claim the tax concessions associated with SMSF's. Members will also not be able to claim deductions for contributions that they have made to the fund. Once you have made the election it is irreversible and the fund will remain regulated until it is wound up.

Once you are officially registered with the ATO your fund will be allocated a Tax File Number (TFN) and an Australian Business Number (ABN). This will allow you to open a bank account and to carry out normal business functions.

The ATO will also place details of your fund on the Australian Business Register and on the 'Super Fund Look-up' website at http://www.abn. business.gov.au.

These entries will allow other super funds to ascertain whether you are operating a

compliant fund for the purpose of transferring superannuation benefits.

Operating and Managing a SMSF

You've gone to all the trouble to set up SMSF. Now what!? The short answer is that it should be operated and managed to maximise the retirement income of its members. It should also comply with SISA and all relevant ATO requirements in the process. Here are some suggestions for making this happen:

Always keep the 'Sole Purpose Test' and investment restrictions in mind

The 'Sole Purpose Test' states that all the investment activity of the fund should be aimed at securing and providing retirement benefits for the members (or for dependents if a member dies before retirement). This provides a general framework for the activities of the fund and forms an important part of compliance testing.

In addition to the 'Sole Purpose Test' you should also be aware of the following general restrictions on the investment activities of an SMSF:

- No money may be loaned to members or their relatives
- Assets, other than business properties or stock exchange-listed securities, may not be acquired from members
- The fund may not borrow money unless it is for short term loans to cover certain approved expenses (e.g. paying a benefit to a member or for bridging finance for an investment)
- An SMSF may not have 'in-house assets' of more than 5% ('in-house assets' are investments that are linked directly with a member's company).

Work out an investment strategy

Having access to a powerful investment vehicle, like a SMSF, is of little use if you do not operate according to a clear investment strategy designed to deliver on the retirement goals of the members. Therefore, it is very important that you regularly spend time with members to chart the course of your fund with a view to maximise returns. A professional financial adviser will prove invaluable in helping you achieve this. He/ she can assist with the following:

- Drawing up a risk and investor profile to assist you in choosing the kinds of investments that you would be 'comfortable' with.

  Suggest strategies for maximising returns within the parameters of acceptable risk.

  Suggest ways in which you can diversify the fund's investment portfolio across different types of assets (e.g. securities, property, fixed interest accounts, etc.)

  Help you to factor the requirement to pay benefits, taxes and costs into your calculations.

Once drawn up, your investment strategy should never be seen as a 'static' document. Instead, it should be reviewed regularly to conform with the needs of fund members and with market conditions.

Get the best possible 'team' around you

Someone once said: "If you think education is expensive, try ignorance!" The same principle applies to 'buying in' knowledge to help you run your fund to maximum benefit. Yes, it does cost some money to get experts involved, but it should pay handsome dividends over the long run. We suggest that you seriously consider getting the following people on your 'team':

- A legal professional
- A qualified accountant
- A tax advisor
- A financial planner/adviser

Some people also find it beneficial to 'outsource' some of the administrative and compliance tasks to companies that can handle it on their behalf. This is not an absolute requirement since you should be able to complete most of these tasks yourself. It would however, make sense to pay someone to do it on your behalf if you think that it will save you a lot of time and hassle.

Maintain compliance at all times

We have already emphasised the importance of compliance when operating a SMFS. In general, this means that your fund should always be operated in accordance with relevant legislation (particularly SISA), directives and ATO guidelines. It is a good idea to conduct regular compliance audits to ensure that you are not caught on the wrong side of the law. You can do so by consulting ATO compliance guidelines (referenced below) or by paying someone to do the audit on your behalf. Some of the issues that such an audit should assess are whether:

- Correct procedures were followed in setting up the SMSF
- All trustees meet the requirements for trusteeship
- The 'Sole Purpose Test' is applied
- All fund investments are within the ATO's stated guidelines
- Proper records are kept and safely stored (for at least ten years)
- All taxes and fees are paid
- Regular reports are submitted to relevant bodies as required

The importance of maintaining compliance cannot be emphasised enough. It is the one area that requires special attention and where you should get outside help if necessary.

Payment of Benefits

A member cannot receive his/her preserved benefits unless one of the following criteria is met:

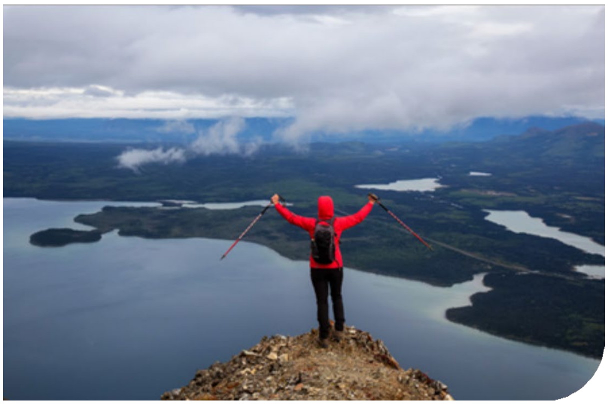
- Retirement[1]
- Death (in which case the benefit will be paid to a nominated beneficiary)
- Permanent incapacity

  Permanent departure from Australia (only in the case of temporary residents)

  Severe financial hardship

  Compassionate grounds

It is a very good idea to maintain a register of when members are likely to require the payment of their benefits. This will provide you with some handy reference points to work toward in the management of the fund.



[1] SMSF members may make use of the 'Transition to Retirement' provisions described in the Moneytree ebook entitled: "Your guide to benefitting from the 'Transition to Retirement' measures"

More information on SMSF's

You are more than welcome to contact us should you require more information on the setup and management of an SMSF. We undertake to serve you with independent and professional advice and to the best of our ability.

We highly recommend that you study the ATO's own publications on SMSF as a source of firsthand information to complement the advice that you receive from other sources.

The four most relevant publications are:

1. Thinking about self-managed super: https://www.ato.gov.au/Super/Self-managed- super-funds/Thinking-about-self-managed- super/
2. Setting up a self-managed super fund https://www.ato.gov.au/Super/Self-managed- super-funds/In-detail/SMSF-resources/SMSF-videos/?page=3
3. Running a self-managed super fund https://www.ato.gov.au/uploadedfiles/content/ spr/downloads/spr46427n11032.pdf
4. Winding up a self-managed super fund https://www.ato.gov.au/Super/Self-managed- super-funds/Winding-up/

Conclusion

It is our sincere hope that the information presented above set you thinking about some of the issues that you will have to pay attention to in planning your financial future.

It would be impossible, however, to present a complete guide to all your financial planning needs in a document as brief as this. We urge you to continue your explorations by making use of some of the other resources and eBooks available.

We also stand ready to serve you with independent and professional advice, so please do not hesitate to contact us if we can be of further assistance.

Take the next step

We trust you enjoyed this publication and found it informative and professionally presented. Of course, your feedback is always welcome as we strive to continually offer content in a format that is relevant to you.

We now invite you to take the next step and meet with an adviser to discuss what it was you were hoping to achieve when you downloaded this handbook and to establish if we can help you achieve your goals and objectives.

Next you will find details on how to book an appointment with an adviser.

We look forward to meeting you soon.

Appointment booking request form

About the Adviser

Our services

Contact details

Please complete the Appointment Booking Request below and scan and email to:

Appointments are available Monday-to-Friday.

Please nominate your preferred day, date and time to meet with us. One of our client services representatives will call you to confirm your appointment.

Preferred appointment day and time

Day

Date

Time am/pm

If you would like us to contact you via email to confirm your appointment or to answer any questions you have, please provide a valid email address for our records.

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Your Details

Title

First name

Last name

Mobile

Reader Notes

Reader Notes

Wealth Adviser

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