



Discretionary Trust or SMSF

What Are The Key Differences

Dear Reader

Welcome to the Investax Group Resource Library.

Our resource library has been created to assist you to navigate your way through the a range of accounting, taxation, wealth and financial planning, retirement planning situations that you may encounter when considering property investment, tax planning or planning for your financial future.

We are specialist property tax accountants renowned for reliable tax advice and property tax accounting services for property investors.

The property, development and construction sectors are complex and continually changing. New legislation from the State and Federal governments with funding challenges change how we invest and do business every year

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 eBook that seeks 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. 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

We invite you to meet with one of our advisers to discuss what it was you were hoping to achieve when you obtained this document, and to establish if they can help you achieve your goals and objectives. Visit our website to discover our range of e books or to arrange an appointment with a member of our team. www.investax.com.au

We look forward to meeting you soon.

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What is a SMSF Trust

What is a SMSF Trust

A SMSF (self-managed superannuation fund) is a superannuation trust structure that provides benefits to its members upon retirement. The main difference between SMSFs and other super funds is that SMSF members are also the trustees of the fund. SMSFs can have between one and four members, and one of the main advantages is the level of control that trustees have when it comes to tailoring the fund to meet their individual needs.

With a SMSF you can:

- Purchase direct Property
- Manage life and disability insurance
- Increase asset protection
- Manage the asset for the family while minimising their taxes

How does an SMSF work?

SMSFs are established for the sole purpose of providing financial benefits to members in retirement and their beneficiaries on death. They have their own Tax File Number (TFN), Australian Business Number (ABN) and transactional bank account, which allows them to receive contributions and rollovers, make investments and pay out lump sums and pensions. All SMSF investments are made in the name of the fund and are controlled by the trustees. As a trust, an SMSF requires a trustee. There are two trustee structure options:

1. Corporate trustee – a company acts as the trustee and each member is a director. This structure allows simpler recording and registering of assets, providing administration efficiencies and flexibility in membership. Company establishment and ongoing fees are applicable with this structure.
2. Individual trustee – each member is appointed as a trustee, with a minimum of two trustees required.

What are your responsibilities as an SMSF trustee?

As an SMSF trustee, you are responsible for making investment decisions and ensuring implementation of an investment strategy for your fund. SMSFs also have strict administrative obligations that require you to maintain records, provide financial statements, complete a tax return and organise an independent audit. For this reason, many trustees engage SMSF specialists to help them manage their accounting, auditing, and tax reporting, as well as provide financial and investment advice. However, they always remain completely responsible for the decisions and administration of their fund.

Note: This is a simple overview of an SMSF Trust. There are important steps that need to be taken if you intend to set up an SMSF Trust and you should obtain advice from you accountant, financial planner and legal advisor. Please visit our website – www.investax.com.au to obtain more detailed information about How to Set up and SMSF or How to Establish and Operate a Discretionary Trust.



What is a Discretionary/Family Trust

A discretionary trust or family trust is a common type of trust used to hold assets or run a family business. It is one of the most common trust structures. Essentially, it is a relationship where a trustee holds property or assets for the benefit of a beneficiary or beneficiaries.

The one who holds the assets is called a trustee. A trust is not a legal entity, and it requires the establishment of a legal entity to enter into agreement for it on behalf of the trust. Trustees can either be an individual or a company.

The Trustee

The trustee can be an individual, individuals or a company and they are the legal entity who owns the assets and makes decisions on the trust's behalf. There can be more than one trustee and more than one beneficiary. In most cases, the trustees are usually parents or a company that they own, and the beneficiaries are their children or dependants.

The trustee owns and controls the business' assets, distributes income, and must comply with the obligations of the trust deed and act with the best interests of the beneficiaries in mind.

The trustee is also responsible for registering the trust for tax purposes, lodging tax returns and meeting any other tax obligations on behalf of the trust.

Beneficiaries

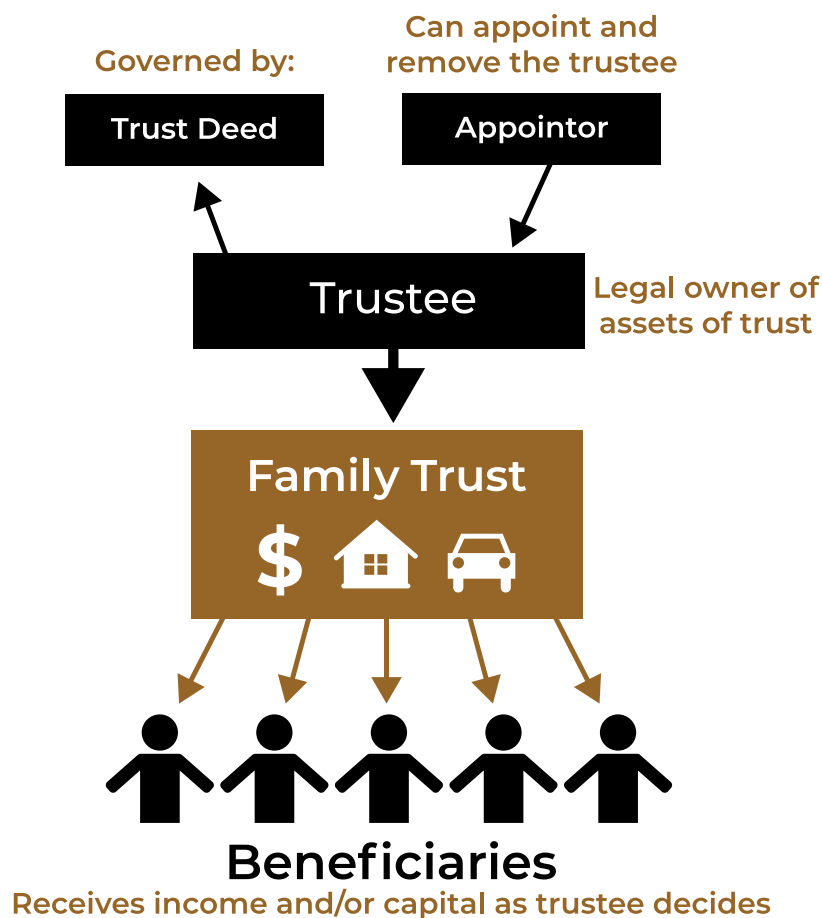
The beneficiaries are the people entitled to the income and assets of the trust. The beneficiaries of the trust are usually members of a family (family group), as well as companies and trusts that are controlled by that family. For example, the primary or default beneficiaries may be a parent or parents and the secondary beneficiaries maybe children, grandparents, companies etc.

The role of the default beneficiary is to receive and/or decide the direction of any funds that aren't allocated by the trustee. It's also important to note that you cannot change the default beneficiary without triggering capital gains tax and stamp duty. Beneficiaries will generally include their share of the trust's net income as income in their own tax returns and if they receive income from other sources they will be taxed for these as well.

How do Trusts work?

The Trust is the relationship or structure between trustees and beneficiaries. You could think of a Trust as a container of sorts, that things are placed within. All assets placed into the container become property of the Trust, controlled by the trustee for the sake of the beneficiary.

How Family Trusts Work





Differences between a Discretionary/Family Trust and a SMSF Trust

KEY DETAILS	DISCRETIONARY/FAMILY TRUST	SELF MANAGED SUPERFUND
Reason For Establishment	Asset Protection, Tax & Estate Planning	Retirement Planning
Type Of Structure	Trust	Trust
Requires A Trustee	Yes	Yes
Trustee Requirement	Individual Or Corporate Trustee	Individual Or Corporate Trustee
Is It A Requirement For The Beneficiary Or Members To Be The Trustee	No	Yes
Require Annual Tax Return And Financials	Yes	Yes
Requires An External Auditor	No	Yes
Operational Cost	Less Than SMSF	More Than Discretionary Trust
Profit	Must Be Distributed To The Beneficiaries	Retain Profit After Tax
Can You Withdraw Profit	Yes	No
Who Pays The Tax	Paid By The Beneficiary	Paid By The Fund
Tax Rate	Tax Is Paid By The Beneficiaries	15%
Tax Rate During Retirement Phase	Tax Is Paid By The Beneficiaries	0%
When Can You Draw Funds?	Anytime Of The Year	After Retirement (Subject to meeting condition of release)
Tax On Drawing After Retirement	Marginal Tax Paid By The Beneficiaries	Members Pay 0%
Purchase Shares, Crypto Etc.	Yes, Based On The Trust Deed	Yes, Based On The Trust Deed
Purchase Property?	Yes, Based On The Trust Deed	Yes, Based On The Trust Deed
Borrow Money To Purchase Property	Yes, Based On The Trust Deed	Yes, Based On The Trust Deed
Interest Rate	Similar To Residential Rate	Higher Rate
Type Of Loan	Normal Residential/Commercial Loan	Non Recourse Borrowing
Do You Require Holding/Bare Trust?	No	Yes
Can You Take Equity Out To Purchase More Property?	Yes	No
Land Tax Threshold (Please Check The State Tax Rule)	No (In Majority Of The State Except Qld)	Yes



Why Choose Investax Group

Property Tax Specialist

We are specialist property tax accountants renowned for reliable tax advice and property tax accounting services for property investors.

We assist property investors with the following:

- Ownership Structure planning and asset protection
- Tax Planning & Tax Returns
- CGT, GST and Margin Scheme

Small to Medium Business Tax Specialist

The last 15 years of industry experience taught us no two businesses are the same because different individuals operate them. Success could mean completely different things to different individuals.

At Investax, our business tax accountants and business specialists work closely with you to meet your personal business goal, strategic planning, succession planning, and use structure to create better tax planning and asset protection.

Our team has experience doing bookkeeping, BAS and Annual tax returns for clients ranging from but not limited to start-ups, online stores, family-owned businesses, law firms, real estate businesses, franchise models, mortgage businesses, property developers, Electricians, builders, medical practices, coffee and retail shops.

Superannuation Tax Specialist

At Investax, our team understand that every decision you make regarding your super will impact your retirement. We know how critical it is to have a solid foundation for your superannuation investment journey. We collaborate with a reliable, trustworthy, and expert team of advisors in the industry to help you achieve your financial objectives. Our wealth management team can help you identify and achieve a realistic superannuation goal. If the plan is to purchase a property in the SMSF, our wealth management team and finance team can work together to achieve the best possible result for your retirement objective.



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