

advantages and disadvantages of setting up an SMSF

 investax.com.au/knowledge-base/what-are-the-advantages-and-disadvantages-of-setting-up-an-smsf

advantages and disadvantages of setting up an SMSF: Superannuation is an investment environment designed specifically to help you save for retirement. Retirement may be the end goal for most Australians but with it comes the fact that you will no longer receive a regular income.

The Australian Government has implemented many measures to encourage people to plan for their eventual retirement; the biggest being the introduction of compulsory contributions to retirement savings into Superannuation over an individual's working life.

We can't normally access our super during our working life, but that's not such a bad thing. It means your super will be there for you when you need it most – in retirement. As you near retirement you may want to wind down your working days and your super can be used to provide additional funds to live on or supplement your income through a 'transition to retirement' pension.



It's your money

It's worth taking an active interest in your super savings during your working years. It's your money and your super's investment performance over time will impact how much you eventually have in retirement. A popular method of saving for retirement is through a **Self-Managed Superannuation Fund (SMSF)** which allows people to directly control and manage how their retirement savings are invested. There are, however, a considerable number of rules and regulations that govern SMSFs which in-turn places a lot of responsibility on anyone operating a SMSF and therefore may not be suitable for everyone.

We have put together a summary of the advantages and disadvantages of running an SMSF.

ADVANTAGES

Investment choices

- SMSFs offer a wider range of investment options compared to other superannuation funds. With some limited exceptions, a SMSF can invest in virtually anything providing that this also meets the sole purpose test and adheres to the regulations. This includes investing in direct property.
- An SMSF can also borrow to purchase an asset, however this is becoming increasingly difficult as many banks have removed their SMSF lending products from the market.
- SMSFs are attractive to small business owners or the self-employed as a commercial property can be purchased by their SMSF. This property can then be rented to their business providing this is at the prevailing market rates.
- Artwork and other collectables, physical gold and investments in some unlisted entities are all permitted within an SMSF. There are, however, stringent criteria that have to be met for these investments to ensure the SMSF remains compliant with the law.

Flexibility & control

As the members of the fund are also the trustees there is the flexibility to tailor the rules of the SMSF to suit their specific needs and circumstances. This is not available with other superannuation funds. Managing your own super investments directly allows you to make quick adjustments regarding your portfolio following market changes or to take up sudden investment opportunities.

Effective Tax Management

SMSFs have the same tax rates as other superannuation funds, however, through a SMSF you can more easily put in place tax strategies that best benefit you and your situation.

Accountability

Being both the trustee and member means you will be more aware of how your super monies are invested and the performance of those investments. This would not be the case with Industry or Retail Super Funds where, due to their size, investment performance is aggregated and not released until many months down the track. A good SMSF administrator will utilize software that allows you to keep track of the value of your super regularly and give you the ability to obtain up-to-date information whenever you need so that you can track the outcome of your decisions and make the management of your fund easier.

Costs of running your fund

The level of professional support you engage in will determine the costs associated with running your SMSF. Most of the operational costs of running a SMSF are fixed. Therefore, as a fund grows in value its costs will generally reduce proportionally. This is different from Industry or Retails Super Funds where costs are usually taken as a percentage of your overall balance.

Pooling your super with others

SMSFs allow you to pool your superannuation with up to 3 other people. This opens the opportunity to invest in things an individual may not be able to on their own such as direct property.

Protection from Creditors

Creditors cannot generally access an individual's superannuation. That is unless clawback laws apply where someone has deliberately transferred their assets into a SMSF to escape paying their creditors.

DISADVANTAGES

Although SMSFs carry many benefits they are not suitable for everyone. The disadvantages of having a SMSF include:

Duties & Responsibilities of being a Trustee

When you 'self-manage' the retirement savings you take on the responsibility of all investment decisions; compared to outsourcing this duty to an investment manager within an Industry or Retails Super Fund. Therefore, as a trustee, you should make sure you have a reasonable understanding of investment options and markets as poor investment decisions will have a direct impact on the assets of your fund and the retirement savings of other members. Some people simply do not have this expertise.

Trustees are responsible for ensuring that their fund complies with the legislation and rules which is a responsibility that should not be taken lightly. Trustees should become familiar with the tax laws governing superannuation. If the ATO considers there has been a breach of these obligations and responsibilities it can impose high penalties on trustees who will be personally liable. Serious breaches can result in an imposition of a tax rate of up to 47%.

Apart from the knowledge requirements, SMSFs also demand a lot of time from their trustees to ensure investments are managed properly. You should engage an accountant to assist you with the annual compliance requirements for managing your SMSF.

Living overseas

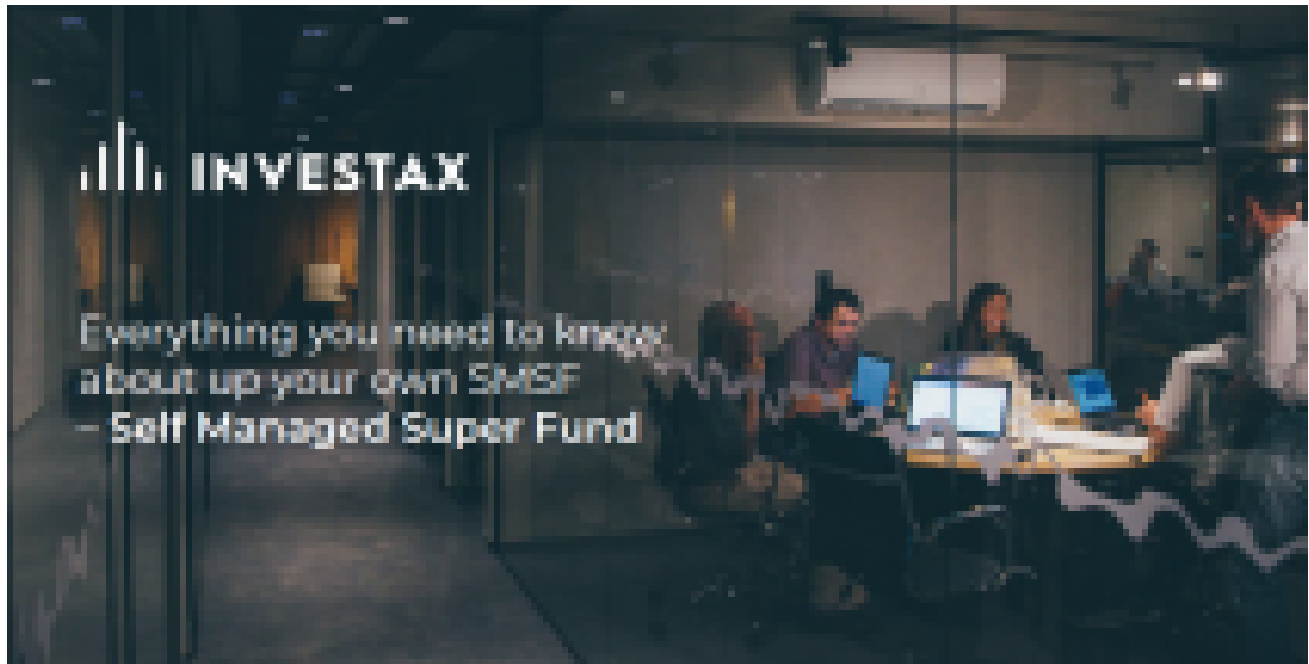
The majority of SMSF's members must permanently reside within Australia. If you intend to move overseas permanently or make contributions to your fund while living overseas this could make your fund non-compliant with the law. It would be best to seek advice before moving overseas to understand your options available.

Costs of running your fund

The cost of running an SMSF can be disadvantageous when the assets held within the SMSF are low in value. As outlined above, many SMSF management costs are fixed and can therefore erode low-value SMSFs. Costs to operate a SMSF do, however, reduce proportionately when the value of the fund's assets is high. You must do the maths and see whether a SMSF is worthwhile for you based on your circumstances.

The consensus is that you should have at least \$250,000 of assets in your fund to make the costs of running a SMSF worthwhile.

We have put together a guide to 'Setting Up and SMSF'. [You can download your copy here.](#)



The SMSF setup process | What you need to consider when thinking about setting up your own SMSF

Have you decided to join more than one million Aussies with a self-managed super fund? Having your own SMSF can be a personally and financially rewarding experience, provided your fund is set up correctly from the get-go.

Investor Group Tip

Attention to detail now will avoid penalties and save you time in the long run. It's also worth remembering that SMSFs must be set up correctly to be eligible for the tax concessions that super legislation provides. Member contributions and fund earnings are taxed at the concessional super rate of 15% in Australia (up to certain contribution limits). If you are thinking about setting up a SMSF, there are a number of decisions you will need to make regarding the structure, operation and management of your fund.

Should you set up an SMSF yourself or get help?

It's possible to set up an SMSF yourself, but it's wise to get independent professional advice. After all, it's your future financial security at stake and the rules around compliance are strict. Depending on your own level of SMSF and investment knowledge and expertise, you may need the services of an accountant, a financial adviser and possibly a lawyer to help set up your fund.

To help you understand the process and decisions involved, the ATO has recently identified key aspects that you should consider in setting up a SMSF.



Please contact our office to arrange an initial no cost discussion to ascertain your suitability for an SMSF as part of your retirement /wealth creation strategy.

General Advice Warning

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Before making an investment decision based on this advice you should consider, with or without the assistance of a securities adviser, whether it is appropriate to your particular investment needs, objectives and financial circumstances. In addition, the examples provided on this page and on this website are for illustrative purposes only.

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Everything you need to know about up your own SMSF – Self Managed Super Fund

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