CRITIQUE
Private Clients

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Self Managed Superfunds:

Myths and Mystery Revealed

Self Managed Superfunds (SMSFs) are gaining in popularity and have been brought to the forefront of investor's minds after the fall of their superfund balances over the last two years. Many people have thought 'I could do better myself' and feel that taking absolute control of their super is the path for them without understanding the mechanics of what they are getting themselves into.

A SMSF should be considered in the same terms as any other superfund. These funds require their own Australian Business Number and are regulated by the ATO. SMSFs are subject to the same rigid legislative requirements as an AMP, MLC or ING retail superfund so investors need to be wary of regulations to prevent costly breaches of Superannuation Law. This means that 'The Joe Bloggs Superfund' will need to have; 1.An investment strategy outlining how the assets within the fund will be invested, 2. Auditing & accounting on annual basis to ensure the fund complies with Superannuation Industry Supervision (SIS) act. 3. The trustee/s 'Joe Bloggs' will have to ensure the fund meets the 'sole purpose test', simply meaning the investment assets are used solely for the purposes of funding one's retirement, so buying a ski lodge with your super is out of the question.

What could you possibly lose? SMSFs extra degree of control does come at a cost. All investment decisions will need to be made either by the trustees themselves (hopefully in consultation with a financial adviser) and are no longer in the hands of expert fund managers. Retail funds are usually invested in many different types and classes of assets, whereas the options for SMSFs to have this level of diversification are limited. In this sense the greater control could present a higher degree of risk of loss or eroding of one's retirement savings. A golden rule is to proceed down this path with caution and rely on expert advice.

What is so special about SMSFs?

SMSFs allow an investor to exercise control and freedom on what type of assets they invest in and this provides new opportunities to invest in direct equities, investment properties and exotic assets (such as artworks and wine) which are not available through retail funds.

A favourite strategy of small business owners is to utilise SMSFs to purchase their company's assets (only commercial buildings), placing these assets into the superannuation environment and then leasing them back to their business. The end result is the business provides investment income, building the small business owners super balance.

SMSFs can also borrow to invest in assets using a 'bare trust' arrangement and non-recourse loan arrangement. This can increase your superfunds exposure to particular assets for those inclined to take this extra degree of risk.

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How Much Does it Cost?

A SMSF has to be put through a full accounting and independent audit each year as well as have its own company registered. The fund is also legally required by the Australian Tax Office to have an investment strategy defining what asset classes and long term outcome the fund is aiming for.

So in terms of cost, the initial setup should total around $1,800+ GST. Critique Business Consultants (Our Accounting Arm) will charge $800+ GST to establish the fund and provide the first 12 months accounting administration. Critique Private Clients can create an investment strategy for the fund for $1000+ GST. The ongoing auditing and accounting fee will be around $2,000+ GST per annum.

A good indicator of whether it is cost effective to setup a SMSF is to consider firstly the minimum balance where you would be ahead of a retail fund after the fees and costs described above. Using a balance of $200,000 you could expect an investment fee of 2% in public offer funds being an annual fee of $4,000. While this is less than $1,800 you do need to consider the other costs such as brokerage, legal fees to setup a trust deed, ongoing audit fees and transaction costs.

We do need to stress that cost should not be the only factor in deciding whether an SMSF is the right option for you, this type of vehicle provides flexibility and control which could be costly in terms of your own time.

For further information, please contact Robert Wolski or Jason Abrahams to discuss whether an SMSF is suitable for you.

How Does Borrowing Funds Through an SMSF Work?

The SIS act currently prohibits SMSFs from borrowing, however through the creation of a ‘bare’ trust (BT) and amending the fund’s trust deed, SMSFs can borrow to purchase investment assets such as shares and investment property. The BT will have to be the legal owner of the assets and beneficially owned by the SMSF to prevent a breach occurring.

Borrowing will be through a ‘limited recourse loan’ so that if the interest obligations are defaulted upon, the lenders access is limited to the asset in question not other SMSF assets.

Critique has access to specialists who can draft the correct structures and entities to make leveraging through a SMSF possible.