



## The Benefits of Self Managed Superannuation...

With less than six months to 'Choice of Super', more and more clients are considering the benefits of self managed super funds.

Generally, if a client fits one of the following categories, they could benefit from establishing a SMSF, and should seek advice from a qualified Financial Planner or Share Broker:

- Individuals or couples with more than \$150,000 in superannuation
- Individuals or couples with less than \$150,000 but who will be contributing substantial amounts in the near future
- High net worth individuals
- Small business owners
- Individuals nearing retirement
- Individuals who enjoy control over their investments

So, what are the benefits in setting up a self managed super fund?

### Tax Savings

Superannuation law in Australia provides significant taxation advantages, whether by way of an industry fund or self managed fund. However, there are significant planning opportunities available within SMSFs that are simply not available to the retail super fund member.

In addition, capital gains tax and income on investments held within the super fund can be minimised to as low as 10% as opposed to as high as 48% if held by an individual.

### Direct Control

By running your own SMSF, you can benefit from the flexibility and control the SMSF environment offers. You can customise your savings and investment strategy to suit your individual circumstances and enjoy a variety of investments, in:

- Term Deposits
- Listed securities
- Business premises
- Commercial rental property
- Public sector funds
- Life Insurance
- Investments in geared trusts
- Farms with private use
- Artwork
- Residential rental property

Direct control can be significant at crucial times. For example, investment markets fell drastically in the time of uncertainty post the September 11 terrorist attacks. Whilst many saw the value of their superannuation drop significantly, individuals with their own super funds were able to make investment decisions swiftly, and minimise their losses.

### Potentially better performance

Unlike Fund Managers, you can deal direct with an investment advisor who is responsible for designing an investment strategy which fits in with your personal goals and is tailored to maximise your returns. This generally offers you a more diverse investment choice, and better investment opportunities. With greater attention given to maximising the returns on your investments, you should see faster growth in the value of your super.



### Costs

Unlike industry funds, the cost of managing a self managed fund can be significantly less, and you have so much more flexibility.

Typically, administration fees for retail superannuation funds are calculated as a percentage of the amount invested. For example, a fund with \$500,000 in investments might attract a 1.5% management fee, which is \$7,500 per annum. For this sum, the investment decisions are made for you as is all administration. This fee is charged each year regardless of the level of investment activity.

A SMSF on the other hand, can have lower management fees. Brokerage fees will apply to share purchases and sales. If the administration of tax, accounting and auditing is outsourced to a specialist administrator, fees are often set on a fixed basis, irrespective of the amount of funds invested. For example, a fund with \$500,000 invested, might attract an administration fee of \$1,830 per annum, plus perhaps \$1,000 in brokerage fees, totalling \$2,830 per annum. Significantly lower cost than the retail super fund alternative!



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## Flexibility

A SMSF can accept personal contributions and multiple employer contributions. One member can still be accumulating super while another member starts up a pension. Everything relating to the fund is tailored to your individual needs.

## The ability to pay your own pension

You get to decide how you want to pay your pension, in a lump sum, fixed amounts, or a combination of both. Your advisor will design a pension strategy to best suit your individual needs and maximise your Centrelink benefits.

## Choice of Financial Advisor

If you're not satisfied with the returns on your super fund, you have the ability to seek advice from another Advisor, without any effect on your portfolio.

## Estate Planning

A SMSF can provide significant estate planning opportunities. For example, the low tax rate that applies to the earnings of super funds (between nil and 15%) means that super funds can be used to accumulate income at low tax rates which, if not all used in retirement, can be passed to beneficiaries at the time of death.

Although this is possible with retail funds, in some cases any undrawn balance at the time of death might be retained by the retail fund for distribution to other members. In a SMSF any undrawn balance goes to family members.

## Security

All of your investments are held in *your* name. You have the final say on how your money is invested. For small business owners, the money held in your superannuation is safe from creditors, providing you with a secure environment to store your hard-earned savings.

These advantages must be weighed against the management issues associated with SMSFs. Apart from the establishment cost (usually around \$800), there are significant responsibilities placed on trustees to properly manage the fund's investments, and, although much of the work can be outsourced, the responsibility ultimately rests with the trustees.

However, with nearly 300,000 SMSF funds in Australia, and with new fund establishment happening at the rate of more than 2,500 per month, it is clear that SMSFs are a popular choice for many people, who, together with their advisors, enjoy the task of undertaking investment and being in control of their financial destiny.

## Employer Spouse Contributions

The Australian Taxation Office (ATO) has released a determination (TD 2004/D82) which should allow a private company to pay sizable employer superannuation contributions to an associate employee, without being attacked for tax avoidance.

What this means for business owners is that they can pay their spouse generous employer contributions (subject to the spouse being employed), rather than paying over-inflated wages, which remains an unacceptable practice by the ATO.

Anyone considering doing this should first obtain professional advice, and take into account the effect of superannuation surcharge, contributions tax, and the recipient's reasonable benefit limit.

## Treasury review of ban on Defined Benefit Pensions from SMSFs

Further to requesting feedback from the public in relation to the announcement to ban defined benefit pensions from small superannuation funds (including SMSFs), Treasury has now released a review paper on the provision of defined benefit pensions from small funds. This paper takes into account concerns raised from submissions to Treasury over the issue. The document is accessible from <http://dbpensionreview.treasury.gov.au>.

## SuperGuardian Support Services

In addition to the full administration, accounting and compliance service provided by SuperGuardian, we also offer other specialist SMSF services.

## SMSF Health Check

Where Financial Advisors or Accountants come across a self managed super fund they fear may not be complying with SIS legislation, we offer a 'Health Check' service. A 'Health Check' involves a compliance review of the fund, the investment strategy, the investments held within a fund and a review of the trust deed.

A 'Health Check' is undertaken on a fee for time basis, with an average fee of around \$300 per review.

If you have a SMSF that could benefit from a 'Health Check', please call either Phil Jaquillard or Ed Bernard on 1300 787 576.

And remember, if a super fund doesn't comply with SIS legislation, it stands to lose all its tax concessions - so why take any risks?



## Technical Support Line

As a self managed super fund specialist, we offer a technical support line for Financial Advisors or Accountants that may have a technical question they need assistance with. For quality, technical advice - please call us on 1300 787 576.

## FREE Initial Consultation

Where a client may be considering establishing a super fund and is keen to find out more about the obligations of Trustees, and what's involved with managing a self managed fund - we offer a free initial consultation, and are happy to meet with clients to discuss in detail. To arrange an individual appointment, phone Olivia Molina on 1300 787 576.

## Self Managed Superannuation Funds for Medical Practitioners

For medical practitioners owning or planning to own their own practice rooms, it is worth considering the use of a Self Managed Superannuation Fund to acquire the practice rooms as an asset.

Although a Self Managed Superannuation Fund is prohibited from acquiring assets from 'related parties' of the fund, there is an exception to this rule if the asset is business real property (such as a medical practitioners practice rooms).

**To highlight the potential for tax savings by using this structure, below is a simplified example:**

A doctor currently owns their practice rooms outright, and from their business activity earns a net profit of \$100,000 per annum (before tax).

This profit will be taxed at the individuals marginal tax rate, meaning a tax bill of \$34,212 and an after tax profit of \$65,788.

By establishing a Self Managed Superannuation Fund, the doctor may transfer their existing superannuation balance into their fund, and use these funds to purchase their existing practice rooms (at market value). Alternatively the asset maybe transferred to the SMSF as an 'undeducted' (tax free) contribution. The SMSF will of course need to then charge rent to the doctor.

For example, assume a situation where the value of the practice rooms is \$300,000, and has a market value rent of \$30,000 per annum. The doctor will have the obligation to pay this amount of rent every year to the SMSF (ultimately increasing their own

*cont'd above*

superannuation balance and any other fund member's balance).

This annual rent payment will give rise to an additional \$30,000 tax deduction to the doctor, yet be taxable income to the SMSF.

As a result, the doctor will now have taxable net income of \$70,000 per annum (i.e. the \$100,000 minus the rent deduction of \$30,000). This level of income will attract a tax bill of \$19,662, leaving net after tax income of \$50,338.

The SMSF will have taxable net income of \$30,000 (the SMSF will also be entitled to claim the deductions on the property expenses), and be subject to a maximum 15% tax rate. This means a tax bill of \$4,500.

Further still, a doctor may employ their spouse at their practice to fulfil administrative duties, and then make sizeable deductible employer contributions to them. If the doctor used their SMSF to own the practice rooms, as outlined above, then made a \$35,000 employer contribution to their spouse into their SMSF every year, the overall income tax will be further reduced.

The doctor will now have taxable income of \$35,000 (ie the \$70,000 minus a \$35,000 deductible contribution). This level of income will result in a tax bill of \$7,197, leaving \$27,803 of net after tax income.

The SMSF will now have to pay 15% contributions tax on the \$35,000 employer contribution and 15% income tax on the \$30,000 rent, total income of \$65,000 and a tax bill of \$9,750.

**Below is a table summarising the tax benefits of the three different outcomes:**

	No SMSF	SMSF owns property	SMSF owns property, makes large contributions
Individual Net Income (before tax)	\$100,000	\$70,000	\$35,000
Super Fund Income & Contributions (before tax)	\$0	\$30,000	\$65,000
<b>Total Income</b>	<b>\$100,000</b>	<b>\$100,000</b>	<b>\$100,000</b>
Individual Tax (marginal rates)	\$34,212	\$19,662	\$7,197
SMSF Tax (@15%)	\$0	\$4,500	\$9,750
<b>Total Tax</b>	<b>\$34,212</b>	<b>\$24,162</b>	<b>\$16,947</b>
Individual Net After Tax Income	\$65,788	\$50,338	\$27,803
SMSF Net After Tax Income & Contributions	\$0	\$25,500	\$55,250
<b>Total Net After Tax Income</b>	<b>65,788</b>	<b>\$75,838</b>	<b>\$83,053</b>

From this simplified example, it is clear that the tax benefits can be significant for medical practitioners with the use of a Self Managed Superannuation Fund.

Before adopting such a strategy, be aware that there will be tax implications upon accessing the accumulated superannuation benefits from the SMSF, and may be other implications with executing the strategy in general. The accumulated superannuation balances will also have restrictions on when the benefits may be accessed from

the fund. Before deciding to set up a SMSF, make investments from a SMSF, or access benefits from a SMSF, you should first obtain professional advice.

If there are any aspects of this article you would like to discuss, please call **Phil Jaquillard** or **Ed Bernard** on **1300 787 576** or email us at [info@superguardian.com.au](mailto:info@superguardian.com.au)

Stay tuned next month for an informative article on 'Children in the SMSF'.

