

Taxation

- Complying superannuation funds in the accumulation phase pay tax at a maximum rate of 15% on their income
- Allowable income tax deductions and imputation credits can reduce taxation liability during the accumulation phase
- Capital gains in a superannuation fund receive concessional treatment
- Earnings on assets supporting an income stream are not taxable in the funds hands and for this reason assets supporting the income stream must be segregated from those supporting benefits in the accumulation phase. Imputation credits are fully refundable

Government Income Support

- During the accumulation phase income sacrificed and assets held in SMSF are exempt from assessment until the member is of age pension age. Department of Veterans' Affairs exempt the asset until service pension age but count any salary sacrificed to superannuation under the income test
- Complying income streams set up before 20 September 2004 are 100% assets test exempt. Those set up between then and 20 September 2007 are 50% exempt while all income streams set up since are fully assessable as assets

Income Streams from SMSF

Account based pensions can be paid by a SMSF. Assets supporting these pensions should be segregated from other assets in the fund. Details of these payments are outside the scope of this leaflet. Issues can be complex and expert assistance should be sought.

Glossary

Accumulation phase - Super monies to which contributions may be made and no regular payments (income streams) are paid.

Dividend Imputation - A tax offset for dividends where company tax has already been paid.

Payment phase - Monies in super converted to an income stream.

Regulated Fund - A fund that has elected to be governed by the rules of SISA

SISA - The key piece of legislation governing super funds

Trustee - An appointee who monitors a trust's activities on behalf the beneficiaries

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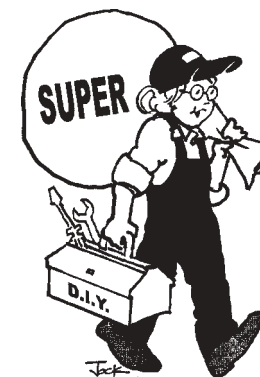
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Self Managed Super Funds



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Self Managed Superannuation Funds

Self Managed Superannuation Funds (SMSF) or Do It Yourself (DIY) funds are becoming more popular as pre-retirees and retirees search for different options for their retirement planning.

The Australian Taxation Office (ATO) regulates the majority of SMSFs and provides information on setting up and running of these funds. It also suggests consulting a professional adviser.

To qualify for concessional taxation a superannuation fund must be a complying fund and this means that the trustees must have elected to be a regulated fund in terms of the Superannuation Industry (Supervision) Act (SISA) and operate the fund accordingly.

The objective of a superannuation fund is to accumulate and grow assets on behalf of the members of the fund and provide them with a benefit in retirement. This is commonly known as the 'Sole purpose test'.

For information on contributing to superannuation and tax issues see NICRI leaflets *Introducing Superannuation* and *Superannuation Tax Considerations*.

Setting up

- A SMSF can have up to 4 members.
 - It can have either a Corporate trustee, where each member is a director of the company and all directors are fund members, or individual trustees where all members are trustees of the fund. Sole member funds must have a second trustee who is either related to the member or any person of whom the member is not an employee.
 - A member cannot be an employee of another member unless they are related.
 - Trustees cannot be remunerated for their services.
 - A trust deed needs to be purchased or one drafted by an accountant, solicitor or legal service company. This deed establishes the existence of the trust and provides the rules of operation of the fund.
 - A tax file number must be obtained
 - An Australian Business Number (ABN) must be obtained
 - An investment strategy needs to be formulated which must take into account the following:
 1. Investing to maximise returns having regard to the risk associated with the chosen investment
 2. Diversification across asset classes
 3. Ensuring the ability of the fund to pay benefits and meet the costs of the superannuation fund
 4. The needs and objectives of the members
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Features

- Members have control of the investment decisions of the fund
- Listed securities can be transferred in specie from a member to a SMSF at market value
- Business (non-residential) real property can also be transferred at market value
- Members choose the timing of purchase and disposal of assets
- Costs of managing may be less than retail funds
- May be potential for better performance

But Remember...

- Trustees of the fund have to manage the investments of the fund and this can take time
 - Trustees must ensure that rules relating to superannuation, including acceptance of contributions and preservation, are abided by
 - There are legal responsibilities of being a Trustee
 - Various reports and returns must be furnished
 - Costs of accounting and auditing of fund must be met
 - Investment decisions have to be made
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