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Your Simpler SMSF Solution!

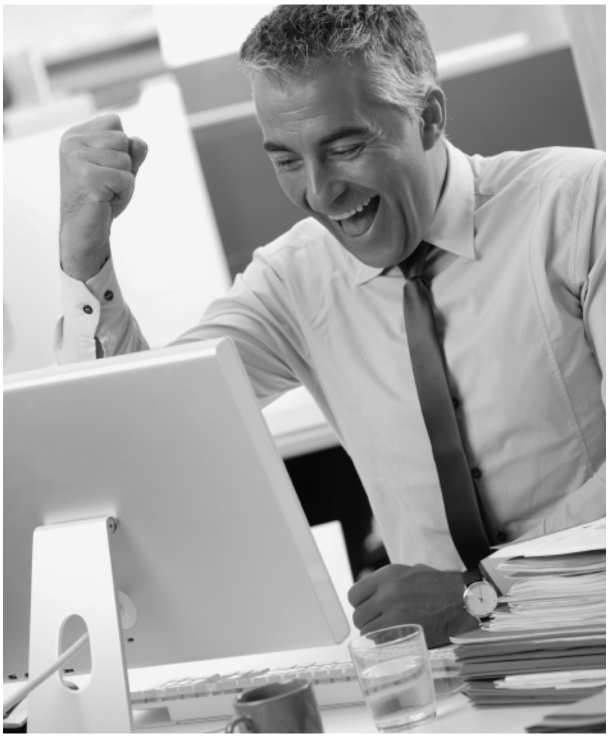
Top 10 Trustee Tips to Running a Successful SMSF

With over 570,000 SMSFs controlling nearly $600 billion in assets, it is obvious many Australians are opting to establish their own self managed super fund and take control of their retirement savings.

SMSFs have now become the largest and fastest growing segment of the superannuation industry as more and more people are recognising that SMSFs hold considerable advantages over other super funds. Running your own SMSF offers greater control, flexibility, greater choice and diversity of investment assets, and potential cost savings.

However, whilst there are many benefits associated with running your own SMSF, it is important to understand that SMSFs demand more time, effort and responsibility. When you become a trustee of an SMSF you take on the responsibility for every aspect of the fund and its performance. In addition, you also have to comply with certain superannuation rules to ensure your SMSF remains compliant.

Here are our top 10 trustee tips to running a successful SMSF:



1 Utilise Investment Strategies

Under SIS Act 1993, all trustees of an SMSF are required to have an investment strategy. An investment strategy outlines the fund's objectives and specifies the type of assets the fund can invest in.

In order to run a successful SMSF it is important to ensure that your investment strategy is specific to the needs of the members of the fund and is reviewed at least annually. The investment strategy needs to consider the diversification and liquidity of the fund's assets as well the fund's ability to pay benefits and cover expenses as/when they fall due.

It is important to understand that members of the fund may each have different investment goals (ie. adult child vs retiree), and therefore the strategy should reflect the risk profile of the member.

It is important not to think of an investment strategy as another compliance obligation but rather treat it as a way to assist you achieve your retirement goals.

2 Consult with Professionals

It is virtually impossible to run an SMSF without some support from accountants, financial planners, actuaries and lawyers. Although some may choose to manage their SMSF with limited professional help, should you wish to run a successful SMSF it is important that you are not afraid to consult with professionals.

With superannuation laws constantly changing and becoming more complex, an SMSF specialist can help you not just with the day to day administration and compliance issues, but also with the more technical and complex issues (ie. SMSF borrowing, change of trustee, death or disability etc,) It is important to consult with a professional when running an SMSF as it allows you to leverage off their expertise to ensure you are maximising the benefits of your SMSF and to provide you with peace of mind about your superannuation.

3 Keep Personal & Fund Assets Separate

All SMSFs must adhere to the sole purpose test, meaning you must ensure everything that happens within the fund is for the sole purpose of providing retirement benefits to its members.
Therefore, it is important that you keep the money and assets of the fund separate from other money and assets (eg. your personal assets).

Successful SMSFs typically choose a corporate trustee upon establishment as this is the easiest way to comply with these rules. A corporate trustee clearly identifies assets in a name other than the member's personal name (ie. ABC Pty Ltd as trustee for ABC Family SMSF), thereby reducing the risk of having fund assets mixed with personal assets.

4 Ensure your Fund is Compliant

Running a successful SMSF means ensuring your fund remains compliant. This is important to remember because as trustee, you have the sole responsibility for the compliance, operation and management of your fund. This includes lodging an annual return for your SMSF, preparing financial statements in accordance with accounting standards and also ensuring the SMSF is audited annually by an approved auditor.

In order for your fund to remain compliant, as trustee, you also need to comply with the following:

- Superannuation Industry (Supervision) Act 1993
- Income Tax Assessment Act 1997
- Corporations Act 2001 (if there is a corporate trustee involved)
- SMSF Trust Deed
- and other general rules, including those imposed under other tax and trust laws

The ATO can impose significant penalties should you knowingly do the wrong thing in your SMSF which is why you need to know, understand and complete your responsibilities and obligations to ensure your fund remains compliant at all times.

5 Avoid a liquidity trap

When trying to run a successful SMSF it is important to avoid a liquidity trap and ensure your fund has liquid funds available to facilitate payments being made if needed.

As seen, one of the advantages of an SMSF is the ability to invest in a variety of assets, including property and business premises. Although these assets can be very beneficial in growing your long-term wealth, they may present a problem if your fund needs to suddenly pay

benefits out to one of its members (eg. due to disability or death). In this instance, you may be required to sell the asset quickly in order to pay the member's benefit – resulting in the fund potentially receiving a lower than market price.

Having a portion of the SMSFs funds invested in liquid assets (such as shares, cash etc.,) is a great way to potentially avoid this trap as it allows quick access to your money should you need it.

6 Choose the right SMSF Administrator

Utilising an SMSF Administrator to look after the day-to-day management, and to assist with the legal requirements of your fund is a great step towards running a successful SMSF as it can save you both time and money.

An SMSF Administrator can offer efficient, fast service and up-to-date online reports. In addition, they can also assist you with ensuring your fund remains compliant.

There are many SMSF providers and administrators in the marketplace and so it can be difficult to choose the right one for your fund. When searching for an administrator, it is important to consider the credibility of the provider, the access to live reporting and whether they are the most cost-effective solution for your fund.

7 Update your Trust Deed

Your trust deed is a legal document that sets out the rules for establishing and operating your SMSF. For example, they contain the fund's objectives, who can be a member and can also determine how benefits are paid. Together with the superannuation laws, your trust deed is considered to be the fund's 'governing rules.'

It is important to review and potentially update your trust deed every time there is a change to the superannuation laws. Even if superannuation laws allow a certain transaction, if it is not permissible under the trust deed it is not allowed. This is why it is essential to ensure your trust deed is up-to-date with the current legislation.

An out-of-date trust deed guiding your actions as trustee, could result in significantly adverse effects on member's benefits, and with the recent introduction of administrative fines for SMSF trustees, potential monetary penalties. As a result, we recommend you consider your trust deed and superannuation changes annually as part of your SMSF review.

8 Educate Yourself

Running a successful SMSF does not mean 'setting and forgetting.' As a trustee, you have a responsibility to stay up-to-date with all the changes to superannuation and opportunities that can affect your retirement savings.

Trustee education is important as it provides a better understanding of the rules for running an SMSF as well as an understanding of the obligations that can't be ignored. Keeping abreast of changes to superannuation helps minimise the risk of your fund being managed incorrectly, which could have potentially led to SIS act breaches, audit qualifications and ATO penalties .

The ATO has recently been given a wider range of enforcement powers, meaning SMSF trustees can be personally liable for any substantial administration penalties. Therefore, it is more important than ever, that as trustee, you keep yourself educated with your responsibilities to ensure your fund remains compliant.

9 Stay Within the Limits

To ensure you are running a successful SMSF and maximising the tax benefits available to your fund it is important to stay within the limits.

Whilst it may be beneficial to contribute additional money to your fund, it is important to be aware of the restrictions and caps around this. For both concessional and non-concessional contributions there is a maximum amount that can be contributed each year. Should you contribute more than this, an excess tax will be levied on the excess contributions.

It is also important to be mindful of the pension payment limits. For example, should you not meet the minimum pension for a retirement phase account based pension, your SMSF will not receive the tax exemption on the income generated by the pension for the entire year. In addition, the pension payments in that year will be treated as lump sum withdrawals. One way to ensure your minimum pension requirements are met is to review your fund in May each year and ensure the minimum pension is met before 27 June for safety.

10 Prepare an SMSF Succession Plan

Although often overlooked, one tip to running a successful SMSF is to ensure a succession plan is prepared. Succession planning is all about considering and planning for events that will have a major impact on the lives of the members and also on the fund and its administration.

Should a trustee die or lose legal capacity, there is a possibility the money in the SMSF may be tied up and inaccessible if appropriate steps have not been taken beforehand. Or worse, if you have not prepared a succession plan, your superannuation money may be left in the control of someone who is not willing to act in accordance with your wishes.

By having a corporate trustee in place, preparing a binding death benefit nomination and by appointing an enduring power of attorney you can simplify the succession planning process, ensure your wishes are kept and eliminate any additional stress and expense that may occur should you lose mental capacity or pass away.

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