SMSF success: Getting the most out of your SMSF

Macquarie SMSF

You're already realising the benefits of managing your own super, but are you super-charging it?

The world of self managed super funds (SMSFs) can be complex; specialised knowledge and understanding of the super environment is key for success. However there are many benefits to realise if you are aware of the ins and outs.

Your future, in your hands

As an SMSF trustee, you already know that your SMSF allows you to take control of your financial future by creating an investment portfolio tailored to your fund members' needs and investment preferences.

You're responsible to determine and manage the investment strategy and underlying investments of your super. Your SMSF foregoes set menu limitations that can be common in larger non-SMSFs and creates the opportunity for you to invest in a broad range of assets subject to the fund's investment strategy.

Here is a reminder of the key benefits that you can access as an SMSF trustee. If you are not receiving some of these benefits and you feel they may be applicable to you, discuss them with your financial adviser.

1. Flexibility through investment choice

As you generally cannot access your super until retirement, it's vital to choose the right investments that will help achieve your long term retirement savings goals. SMSFs, along with many leading-edge retail funds, can allow investments in the following common assets:

- managed funds
- bonds
- shares
- warrants
- options

SMSFs are recognised as offering considerable investment flexibility. Although the larger non-SMSF market offers increasing choice of investments; direct investment into exotic investments such as collectables – for example artwork, jewellery, antiques and postage stamps – are likely to remain the exclusive domain of SMSFs.

In addition to the above, an SMSF may be able to directly hold real property. If you are a small business owner, it can be quite appealing to acquire business real property (such as an office or factory) from a member or other related party of your fund. This type of investment is not available through non-SMSFs and may be of benefit to some SMSF members.

It is important to note that these investments are subject to strict rules and you should seek specialist advice if contemplating these types of investments within your SMSF. Further to this, investment choices must be aligned with the fund's investment strategy which, once implemented, needs to be regularly reviewed to ensure it remains appropriate. In some cases, you can also in-specie transfer assets such as listed securities or business real property that you hold personally into your SMSF. There can be tax consequences of transferring assets including capital gains tax (CGT) and stamp duty and, like cash contributions, in specie contributions are subject to contribution limits.

As always, the consequences of such transfers are best explained by your tax adviser.

2. Tax advantages

Assets held within the superannuation can offer significant tax advantages over non-superannuation investments.

For example:

- tax deductions may be available for contributions made by self-employed members or members who earn substantial income from non-employment sources, with contributions up to the concessional contributions cap being taxed at concessional rates
- employer contributions, including salary sacrifice amounts, are taxed at concessional rates up to the concessional contributions cap
- a tax rebate for certain contributions made on behalf of a low income-earning spouse
- certain contributions may qualify for Government co-contributions, depending on a member's level of income
- lower tax on investment earnings (maximum 15 per cent tax on investment earnings in a super fund compared with marginal tax rates which, for some, can be as high as 49 per cent outside superannuation)
- an effective tax rate of 10 per cent for any capital gains realised on fund assets held for 12 months or more.

If a member has reached the pension phase and is drawing upon from superannuation, some of the tax benefits that may be available to you include:

- subject to the member meeting a condition of release, super benefits may be paid tax free to members aged 60 or over
- any income or capital gains earned on pension assets are generally not taxed within the fund.

As an SMSF trustee, you also have the flexibility to recognise and manage the tax effect of investment transactions on individual member accounts. By contrast most non-SMSFs provide little scope for a particular member to influence tax outcomes in relation to their investment choices, with the exception of some of the more sophisticated retail master trusts.

> For example, as fund trustee you can buy and hold investment assets while you are accumulating your super, then sell them in the pension phase after you retire. As the proceeds support the payment of a pension, the fund may not pay CGT on the sale of those shares.

3. Tailored retirement income

When the members of your SMSF reach retirement and want to draw down on SMSF assets, your fund may be able to pay each member a retirement income stream tailored to meet their personal financial needs.

The most common pension paid by SMSFs is an 'account based pension'. Account based pensions offer investment flexibility, access to their remaining capital and flexibility to choose the total income they receive from the fund each year (subject to government minimums).

4. Life insurance benefits

As trustee and as part of your investment strategy considerations, you may be able to take out life insurance cover on the lives of members within your SMSF. Trustees are required to give consideration to the need for insurance as part of the fund's investment strategy. Premiums paid through super for life insurance, total and permanent disablement and disability income insurance are typically a tax-deductible expense to the fund. If the benefit of a tax deduction is passed on to a member, the overall effective cost can be lower compared to holding cover outside super.

5. Effective estate planning options

The growing significance of superannuation savings means it is important to consider both retirement savings strategies and and the payment of benefits upon a member's death to dependants. With the help of specialist financial adviser and legal adviser, arrangements can be put in place to facilitate to whom and how death benefits can be paid from the fund – including payment in the form of an income stream.

Taking full advantage

To help you enjoy all the benefits your SMSF can offer, you should seek professional advice from SMSF experts who may include an accountant, a solicitor and a financial adviser. These advisers can help navigate the regulatory and tax environments and ensure your SMSF meets your needs appropriately.

For more information consult your financial adviser if you would like more information on the correct approach for you.

This document offers a basic overview of SMSFs. For more detailed information related to SMSFs, please visit macquarie.com/au/advisers/expertise/smsf