



## **How to Setup a Self Managed Super Fund (SMSF). [15.07.08]**

This article will discuss in general terms on **How to Setup a Self Managed Super Fund (SMSF)**.

SMSFs, also referred to as do-it-yourself (DIY) funds are established and managed by individuals themselves. SMSFs can only have a small group of individual members (fewer than five people).

Anybody can run a SMSF, but because they often cost several thousand dollars each year, they are mostly suited to people with several hundred thousand dollars in superannuation. The general consensus is that due to the initial set up costs and on going administrative costs you would need to have approximately \$200,000 before setting up your own SMSF becomes economical.

Advantages to having your own SMSF are that it gives you greater control over your investments together with a wide choice of assets in which you can invest. It is important to remember however, that the sole purpose of superannuation is to fund your retirement so you cannot use the assets in your SMSF for your current employment.

Running your own SMSF also requires you to have the appropriate skills and time to manage your own fund.

The Australian Tax Office (ATO) has the following general steps involved in setting up a self managed superannuation fund:

- Obtain a trust deed & appoint the trustees
- Elect to become a regulated fund, and
- Obtain a tax file number (TFN) and Australian business number (ABN)

### **Obtain a trust deed & appoint the trustees**

The first thing you need to do is prepare a trust deed. This will require the assistance of a professional such as your accountant or solicitor. Unless your accountant or solicitor holds an Australian Financial Services Licence they will not be able to provide financial advice as to whether setting up a SMSF is the right decision for your. They will only be able to help you establish the SMSF.

The trust deed details the rules of the trust, including the nominated trustees, how they are appointed and the powers they hold to make contributions and pay benefits. You must make sure the trust deed is properly executed and dated.

All SMSFs must have trustees and in turn all members of the fund must be appointed beneficiaries. To be a trustee, you must be over 18 and have not been convicted of an

offence involving dishonesty and cannot be an undischarged bankrupt. A corporation can not be permitted to act as a trustee where; a receiver, official manager or provisional liquidator has been appointed to the company or action has commenced to wind up the company.

The trustee is legally responsible for the actions of the SMSF. These responsibilities include the lodging of an annual tax return, member contributions statements and engaging an approved auditor to complete the annual audit.

### **Elect to become a regulated fund**

Electing to become a fund regulated by the Superannuation Industry (Supervision) Act (SISA) allow the fund to receive concessional tax treatment. The trustees have 60 days to lodge the election with the Tax Office by way of an application form to register for the new tax system superannuation entity.

The decision to elect to be a regulated fund cannot be reversed without winding up the fund.

### **Obtaining a TFN and ABN**

Once the application form to register a new tax system superannuation entity has been processed by the ATO, a Tax File Number and an Australian Business Number will be issued.

Once the above processes have been completed, the next step is the implementation of an investment strategy. Establishing an investment strategy involves formulating a plan that takes into account risk, return, diversification, liquidity, cash flow, asset allocation and the ability to discharge existing and prospective liabilities. Seeking the assistance of a licensed Financial Advisor may help you move in the right direction.

As the SMSF is its own separate legal entity it will require its own bank account in its own name. This will keep assets of the SMSF separate from your own personal assets.

The establishment of your own SMSF can be a fulfilling experience but you must remember that running your own self-managed super fund demands great responsibility. There are severe penalties if you fail to meet the requirements set out in the legislation, such as failing to meet the sole purpose test of saving for your retirement.

(Source: La Trobe Financial)

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