Is an SMSF right for me?
SMSF: is it right for me?

Self-managed superannuation funds (SMSFs) are growing in popularity as more Australians seek greater control and flexibility over their retirement savings.

But SMSFs are not for everyone. In an increasingly complex and changing regulatory environment, it’s a responsibility you should only take on if you have a good understanding of what’s involved.

xpal in conjunction with ipac south australia can provide you with specialist technical advice to help you understand the advantages and disadvantages of having a self-managed super fund and ensure you are equipped to make an informed decision that’s right to meet your long-term goals.

Why are SMSFs popular?

SMSFs are an attractive option for people who want to take active control of how their retirement savings are invested.

In particular, SMSFs appeal to those who want to invest in assets that aren’t generally available in ‘regular’ (ie retail, industry or corporate) super funds. These assets may range from the ordinary (eg rental investment properties) right through to the exotic and collectible (eg cases of Grange Hermitage, antiques, jewellery etc), although restrictions on these assets do exist.

Another common reason people start an SMSF is to reduce their investment costs. And while it’s true you could pay fewer fees with an SMSF, there are additional costs that need to be considered, such as tax, audit, legal and regulatory expenses. There is also a considerable investment of your time in overseeing the administration of your SMSF.

Before you make the decision to start an SMSF, here are some of the advantages and disadvantages you need to consider.

Advantages of an SMSF

Some of the reasons an SMSF may suit you include:

• It can give you greater control and flexibility over the types of assets you can invest in.
• You may invest directly in commercial property, residential property and other types of investments.
• You may be able to borrow to invest in residential or commercial property – it may be an attractive structure in which small business owners can own their business premises.
• You can avoid some of the ongoing administration and member fees associated with retail, industry or corporate super funds.
• You may be able to defer tax on your contributions. That’s because SMSFs don’t work out and pay their tax liability (if any) until after the end of the financial year, whereas regular super funds generally deduct 15 per cent tax within the month or quarter a contribution is received.
Disadvantages of an SMSF

As a trustee, there will be demands on your time for administration, monitoring and reviewing assets and their performance.

• You may incur accounting, legal, auditing and actuarial costs, regulatory levies, administration and valuation costs.

• You may incur an upfront cost to establish:
  • a Trust Deed and an investment strategy and this will vary depending on the complexity of your SMSF and its members.

• Super is complex and ever-changing and it’s your responsibility to keep up with changes in the rules and regulations.

• Personal use of investments is not allowed (e.g., using your own residential investment property, displaying art and collections in your home or wearing that jewellery etc) and there are severe penalties if rules are breached.

• An SMSF is not protected like a retail super fund by the Australian Prudential Regulation Authority (APRA) if there is fraud or loss of funds.

• Any disputes will need to go to court instead of the Superannuation Complaints Tribunal.

• It is difficult for an SMSF to make an additional ‘anti-detriment payment’ when a member dies (these payments reimburse contributions tax paid by the member).

Considering an SMSF?

Before establishing an SMSF you should ask yourself:

• Do I have sufficient assets to warrant the set-up costs involved? (It is often suggested that at least $250,000 is required, but that depends on your personal circumstances).

• Do I have the time, skills and expertise to make my own investment decisions and actively manage and oversee the fund?

• Do I understand the responsibilities of running an SMSF?

• Do I have the time to ensure my SMSF meets its ongoing auditing, record-keeping and reporting obligations?
About xpal

xpal tax & accounting formerly XPAL Accounting Pty Ltd, was established by staff of both xpal and AMP (formerly ipac south australia). Originally the business stemmed from Tax & Financial Services Pty Ltd which came into being on 1 January 2000, when three long standing accountancy practices (Peter L Lines & Associates, In Home Taxation Services Pty Ltd and Tax & Financial Services Pty Ltd), merged and took on the name of Tax & Financial Services Pty Ltd (TFS).

xpal was established over 25 years ago and was formerly known as Peter L Lines & Associates, Tax & Financial Services Pty Ltd and XPAL Accounting Pty Ltd.