

# Good reasons a must

## You are responsible for your DIY fund

### DIY SUPER

Monica Rule



While the thought of having their own self-managed super fund excites some people, without any concrete plans they don't really know what to do with it once it is established.

These people rely heavily on their accountant for advice on what to do but by doing that, and forking out big fees, these SMSF investors may not be using their retirement savings effectively.

There is a good chance they are not implementing useful strategies to accumulate wealth in their SMSF. Worse, they may have to pay penalties, imposed by the Australian Taxation Office if they misinterpret the law.

Having worked in the superannuation area of the tax office for more than 17 years, I have witnessed many people establishing SMSFs without really understanding their responsibilities.

If you are a person who is too busy to take the time to understand superannuation law and need other professionals to manage your SMSF, then an SMSF is not for you.

However, if you are someone who takes an interest in managing your retirement savings, you may wish to learn about the following superannuation strategies and discuss them with your adviser to see if they are suitable for your circumstances.

SMSFs can have a useful mechanism known as contribution reserves that allow you to claim a deduction in a financial year when you most need it without blowing your concessional contribution cap for that year.

They can also have great estate planning uses, including through

re-contribution strategies and setting up anti-detriment reserves.

As with retail or industry funds, you can use binding death benefit nominations to give you extra confidence that your super assets go where you want if you die.

And just like retail and industry funds, you can enter transition-to-retirement arrangements and use the bring-forward rule to make big lump sum non-concessional contributions of up to \$540,000 to your fund in one year.

The big advantage of an SMSF is that you might be able to contribute assets you already own, such as shares or a business property.

Potential SMSF operators should know that regardless of whether you rely on your accountant or other professionals to manage your SMSF, the ultimate responsibility and accountability for managing your SMSF lies with you.

If your SMSF does not comply with the law, the tax office can take a number of actions against you and your fund.

It can impose an administrative penalty ranging from \$900 to \$10,800. If an SMSF is established with individual trustees then the penalty is imposed on each

trustee, with a four-member fund potentially attracting fines totalling \$43,200.

The tax office could disqualify you from being a trustee even if the mistake by the SMSF was not your fault. A disqualification as an individual trustee means you can never occupy the role of a trustee for any superannuation fund again.

The worst outcome, in my opinion, is the tax office could remove the compliance status of your SMSF.

If the office removes the compliance status of your SMSF, your SMSF will end up losing almost half of its assets to a tax liability. For example, if an SMSF has accumulated retirement savings of, say, \$1 million, the tax bill would be \$470,000.

SMSFs are not for everyone. Consider carefully what your reasons are for having one.

If a retail or industry superannuation fund already does the things that meet your investment goals without you having to do any work, you might be better off leaving your money with them.

Monica Rule is the author of *The Self Managed Super Handbook - Superannuation Law for SMSF in plain English*. [www.monicarule.com.au](http://www.monicarule.com.au)



**IF YOU ARE TOO BUSY TO UNDERSTAND SUPERANNUATION LAW, AN SMSF IS NOT FOR YOU.**

### THE JOY OF SELFIES

**Contribution Reserves:** Allow avid DIY super savers can defer the counting of a contribution against your concessional cap to the following financial year. Some SMSF members use a contribution reserve to make concessional contributions in excess of the \$35,000 limit in a financial year.

**Re-contribution strategies:** Putting your superannuation benefits back into your SMSF may change the tax-free and taxable components of your superannuation account. This reduces the tax payable by your adult children when they receive your death benefit.

**Anti-detriment payments:** Some set up anti-detriment reserves in their SMSFs so that their dependants will receive a larger death benefit upon their death. There is some talk the government may change the rules on anti-detriment payments. While it is currently available, you may want to investigate whether this strategy is worth implementing before any potential changes.

**Binding death benefit nominations (BDBN):** A BDBN can ensure that your retirement savings go to people you nominate to receive your death benefit. This will avoid disputes particularly where members have remarried and have children from previous relationships.

**Two year bring forward rule:** You can make non-concessional contributions valued

up to \$540,000 in one year, as long as you are aged 65 at any time during the year and have not already used the two year bring forward rule in the two prior years. A non-concessional contribution covers assets on which the tax is paid.



## Lads have more swag

Neale Prior

Men are more likely than women to be confident about running their self-managed superannuation fund and to believe they have a better understanding of asset classes.

A study by the SMSF Association and Commonwealth Bank shows this extra confidence translates into investment attitudes, with men far more likely to invest in shares, cash management accounts and hybrid securities.

The study found the biggest gender confidence gap involved Australian shares, international shares and exchange traded funds.

More than 50 per cent of men were quite confident or very confident that they understood their level of exposure among international asset classes, whereas 27 per cent of women had the same levels of confidence. More than 30 per cent of women were not confident at all.

Commonwealth Bank SMSF executive Marcus Evans said the report highlighted a gender divide about confidence and knowledge.

With funds that had joint trustees, Mr Evans said major life events such as death and divorce could leave many women lacking confidence in managing what could well be their biggest investment.

"Given that women account for nearly half of all SMSF members, more must be done to better support and empower female trustees," he said.

SMSF Association chief Andrea Slattery said the research highlighted how women particularly could be in need of assistance to become confident in continuing their savings programs.

The results reflect international studies showing men are more confident than women about investing. However, US research has found that male overconfidence was likely to trigger more regular and aggressive trading and to damage their investment returns.

While women comprise 47 per cent of trustees in the Australian study, men were far more likely to be the main decision-maker among multiple trustees.

Only 49 per cent of trustees were confident they would have sufficient knowledge to become the sole trustee if their partner died.



## What about the kids?

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