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6 steps to an SMSF

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If you are considering setting up or joining an SMSF, you need to work out whether an SMSF is right for you. To assist you in your decision, the ATO has recently identified the 6 critical steps to take in deciding whether the SMSF option is the right choice for you. The 6 steps are summarised below:

Steps		Comments
1	Consider your options & seek professional advice	There are various professionals who can provide you with advice on an SMSF (such as lawyers, accountants and licenced financial advisers). Make sure you get the advice from the right advisers. Mistakes can be made from the outset and these can be costly.
2	Make sure you have enough assets, time & knowledge	You need to ensure you have enough super funds to make your SMSF viable. You need to be aware of the costs involved and make sure that you are a wise investor. In addition, you should consider the amount of time you will need to meet all your obligations as trustee of the SMSF.
3	Understand risks & laws	You need to think about how to manage the risks associated with your investment options. It is important to diversify the fund's investments to reduce risk. You will also need to comply with tax and super law. Significant penalties may apply to breaches of the law.
4	Tailor investment strategy to suit members	A standard deed may be suitable to your needs or you may need to tailor it to your personal circumstances, but the deed needs to be drafted correctly to meet legal requirements. You also need a good investment strategy that increases member benefits for their retirement.
5	Understand record keeping & reporting	Good record keeping provides you with further protection. In addition, you need to report any changes to your fund to

	obligations	the ATO and meet annual reporting obligations.
6	Make sure you understand auditing obligations	Your SMSF needs to be independently audited each year. At the outset, you should appoint an approved auditor, who will provide you with a report on your SMSF and report to the ATO if your fund has breached any of the superannuation rules.

We now consider each of the above 6 steps in greater detail.

1 Consider your options & seek professional advice

There are many professionals who profess to specialise in SMSFs. They can provide you with advice which will help you understand SMSFs.

Lawyers or accountants can help you set up an SMSF and advise you on the establishment, operation and structuring of an SMSF.

Licensed financial advisers can advise you on your investment options and risks. They will consider your personal situation and recommend a suitable product for you. By using a financial advisor, you get additional protection if anything goes wrong because you have recourse to an independent complaints scheme (ie the Financial Ombudsman Service).

It is critical, however, to choose advisors who are familiar with tax and superannuation law and can assist you in ensuring compliance with tax and super law. Many lawyers and accountants are not experts in the area and mistakes can be made. These can be costly.

Also, it is important to note that a professional can provide advice and assistance but you are ultimately responsible for the superannuation fund's obligations.

2 Make sure you have enough assets, time and skills

You need to ensure you have enough super funds to make the SMSF viable.

An SMSF can generally be opened with a balance of around \$100,000. Given the negative returns experienced by large industry funds in recent years, it may be that an SMSF will prove competitive even with such a balance.

It is also important to take into account the costs of operating an SMSF including the cost of tax, audit and legal fees. It will usually cost around \$2,500 annually to operate a fund including an annual supervisory levy of \$150.

Since you are responsible for the investments of the fund, you should make sure that you are a knowledgeable investor. In addition, you should consider the amount of time you will need to meet all your obligations as trustee of the fund.

3 Understand the risks and laws

When thinking about how to manage the risks associated with your investment options, you should consider your age, risk preferences and objectives. Generally, it is important to diversify your investments to reduce risk. For example, investing in different sectors of the economy may spread your risk.

You will also need to comply with tax and super law. Most importantly, the assets and money in your fund will generally be required to stay in your fund until your retirement. Significant penalties may apply to breaches of the laws.

4 Tailor your trust deed & investment strategy to suit members

The rules contained in your trust deed together with the super laws form the fund's governing rules. Therefore, while in some instances a standard trust deed may be suitable, in other instances, you may need to tailor your trust deed to your own needs. Make sure your trust deed meets legal requirements.

You should also devise an investment strategy for your super fund. An investment strategy provides you and the other trustees or members with a framework for making investment decisions to increase member benefits for their retirement.

You need to choose from a range of investment assets including cash, bonds, property or shares. A financial advisor may assist you in determining the right mixture of assets.

5 Understand your record keeping & reporting obligations

Good record keeping provides additional protection to you. For example, if you invest the SMSF's funds in an investment that yields negative returns, the other trustee(s) could take action against you for failing to be diligent in your duties. You can reduce the risk by having a record showing the other trustees agreed with your actions.

To comply with the law, you also need to make certain records available to your fund's approved auditor and to the ATO. Further, you will need to report any changes to your fund to the ATO and meet annual reporting obligations. It is important to familiarise yourself with these requirements.

6 Make sure you understand auditing obligations

Finally, you are under a legal obligation to have your SMSF independently audited on an annual basis.

You need to appoint an approved auditor, who will provide you with a report on your SMSF and report to the ATO if your fund has breached any superannuation rules.

Clearly, therefore, starting an SMSF is an important decision and it can be complex, so it is critical that you see a qualified and experienced professional, such as batallion legal, to help you decide if it is the right super fund for you.

batallion legal has expertise in the areas of superannuation and tax law and can refer you to a licenced financial advisor, if required, to assist you with your investment choices.