



BARBARA SMITH & Dr ED KOKEN



The Self Managed Superannuation Fund Handbook

A PRACTICAL GUIDE TO STARTING AND
MANAGING YOUR OWN FUND

- HOW TO SET UP AND RUN AN SMSF
- NEW CONTRIBUTION AND TAX RULES
- INVESTMENT TIPS AND TRAPS
- NEW SUPER PENSION AND PAYOUT RULES



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BARBARA SMITH & Dr ED KOKEN



First published 2007 by Wrightbooks
an imprint of John Wiley & Sons Australia, Ltd
42 McDougall Street, Milton Qld 4064

Office also in Melbourne

Typeset in Berkeley LT 11.5/13.8 pt

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National Library of Australia Cataloguing-in-Publication data:

Smith, Barbara, 1944–.

The self managed superannuation handbook: a practical guide to starting and managing your own fund.

Includes index.

ISBN 9780731404926.

1. Pension trusts—Australia. 2. Retirement—Australia—Planning. 3. Australia—Officials and employees—Pensions. I. Koken, Ed, 1958–. II. Title.

331.2520994

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Cover design by Rob Cowpe

Cover images © Photodisc, Inc

Wiley bicentennial logo: Richard J Pacifico

Printed in Australia by McPherson's Printing Group

10 9 8 7 6 5 4 3 2

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Introduction

The flurry of interest in superannuation as a tax-effective investment has been triggered by sweeping reforms that have simplified and revolutionised the contribution rules and tax treatment of superannuation. The reform causing the most excitement is that most people aged 60 or more will pay no tax when they withdraw their superannuation either as a pension or as a lump sum.

In the wake of the reforms and increasing account balances, more people are considering the alternatives available, how best to manage their superannuation, and what type of superannuation fund best suits their needs.

A superannuation fund is not an investment in itself; rather, it is an investment structure that holds money and other assets on behalf of individuals referred to as 'members' for their retirement.

The sole purpose of superannuation is to provide benefits to members when they retire or reach age 65, or to a member's dependants if the member has died before retirement or reaching age 65.

Those benefits can either be paid in the form of a lump sum of money or as a regular stream of income called a pension. Benefits can also be paid in the form of

what is called a non-commutable pension (one that cannot be converted to cash) when a member has not retired but has reached preservation age.

Superannuation funds have various types, ranging from funds with one to four members in which the members manage the assets, to those with hundreds of thousands of members, with billions of dollars under management of the trustee. This handbook discusses and explains the rules relating to the most prolific type: the self managed superannuation fund.

The vast majority of superannuation funds that are self-managed by their members and have one to four members are commonly referred to as DIY super funds. However, legally they are called self managed superannuation funds (or sometimes SMSFs for short). Where a superannuation fund is a self managed superannuation fund, the general rule is that all the members must also be the individual trustees of the fund, with a minimum of two individual trustees where there is a single member, or, where the trustee is a company, the director or directors of that company.

The popularity and number of self managed superannuation funds have been increasing at a stellar rate for more than a decade, even though some of the rules have been complex and confusing.

This growth in self managed superannuation funds is bound to continue or even accelerate because the federal government has made major changes to superannuation rules that have simplified the complex rules relating to superannuation benefits. Those changes make superannuation a very tax-effective way of reducing tax while you are working as well as providing tax-free income when you retire.

Considerably more than 600 000 Australians are members of self managed funds, and their popularity is naturally growing. This handbook will explain how they work so you can decide whether a self managed fund is appropriate and suitable for your superannuation, and if you decide it is, the rules you need to know to set up and run it successfully. It also provides valuable guidance and information if you already have a self managed superannuation fund and want to maximise your benefits both now and in the future.

Outline of this handbook

Part I of this handbook discusses issues involved in controlling your superannuation, and the investment and taxation benefits of superannuation generally. We also explain some of the advantages and disadvantages of running your own self managed superannuation fund and the importance of understanding that a self managed fund is a separate entity from the business and investment interests of the individuals involved in the fund.

Part II deals with setting up a self managed superannuation fund and discusses the legal and administration requirements of the fund as well as the rules relating to making contributions to the fund. There are chapters on the legal requirements concerning superannuation investments and investment rules.

Part III covers investments, because appropriate investments and investment management are vital to any self managed superannuation fund. We have included chapters on shares, property, fixed-interest and other investments, as well as general investment information. In addition, chapter 11 covers taxation and the treatment of tax credits that are attached to certain investment income, and the special rules for taxing capital gains.

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Part IV explains specific aspects of investment management in self managed superannuation funds. It includes a chapter on the fund's investment strategy and the allocation of capital to different investment areas. Another chapter discusses the ability to consider, where appropriate, the fund's investments in conjunction with personal investments. This part also looks at continuing investment management, the need to review investments and the necessity of keeping up to date with any changes in the law.

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They are joint owners of Oasis Wealth Pty Ltd, a boutique and licensed financial services company that is totally independent of any fund managers and other financial services organisations. The services they offer include fee for service advising, coaching and assisting people who are considering establishing a self managed superannuation fund, and where this course of action is decided to be appropriate, establishing their fund and complying with all ancillary requirements, providing tax and investment strategy advice to people who have a self managed superannuation fund and assisting clients with their tax affairs and tax returns, including evaluating their options for retirement income.

They have also co-written several books on tax, superannuation and retirement income streams as well as social security.

