SUPERMATTERS

SUPERANNUATION STRATEGIES FOR YOU AND YOUR BUSINESS

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Understanding various kinds of super fees

No matter the kind of super fund you opt for, you will be subject to super fees. Understanding how these fees work and the difference they can make to your nest egg is vital.

When it comes to super fund fees, there are two factors you need to get your head around; the kinds of fees you are being charged and the rate of fees you pay. Opting for a super fund based on these two factors can see you retire with hundreds of thousands more money.

You should be aware of the various types of fees you are being charged. If you would like to find out the fees you are being charged, you should do two things. Firstly, Google your fund's product disclosure statement and scroll through to the fees section. You should see a list of different types of fees, with an explanation of what they are, how they are applied, and how often they will be incurred. Secondly, you should log in to your super fund account and take note of all the fees being charged to you. Investigate how closely these correspond and correlate with the product disclosure statement.

If you feel there are discrepancies, do not hesitate to contact your super fund or financial advisor and ask for clarification. It is worthwhile doing your research and comparing the fees you are being charged against other super funds and what they charge. Being complacent and not paying attention to your super is extremely irresponsible; the dividends you will receive later in life for being diligent now outweigh the burden of taking time to be informed today.

Some common fees across the board include:

- Administration fees: fees covering the costs of operating and managing your super fund account.
- Exit fees: fees incurred for leaving or switching super funds. While this is a common fee, not all funds charge it.
- Investment fees: fees incurred due to the cost of managing where your money is invested. These fees can fluctuate, depending on where your money is invested.
- Activity-based fees: fees incurred for any activity you require your super fund to perform outside of the ordinary management of your account, such as a family law split fee.

Another major factor contributing to how much you accumulate in your super account throughout your working life is the rate of fees you pay. Plain and simple, some funds offer much lower fees than others, creating a difference of hundreds of thousands of dollars when it comes time to retire.

Generally, funds are categorised into three groups; low super fees, medium super fees and high super fees. You will need to weigh up your options and decide whether you want a fund that charges low, medium or high super fees. While it seems like the best option to choose a fund with low super fees, these funds do not necessarily perform as well as medium or high fee super funds. Making a fund analysis before weighing in would be wise.

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Common SMSF mistakes to avoid

Running a self-managed super fund can be a great strategy for your super and your retirement, provided you manage it correctly.

To ensure you can enjoy the later stages of life and retire comfortably, you will need to be aware of common SMSF mistakes and how to avoid them.

Record keeping

Bad record keeping when it comes to SMSFs is very common and very problematic. If the ATO decides to look into your SMSF and your record keeping is subpar, you and the rest of the members of the fund could land themselves in hot water. Good record keeping practices are a great preventative measure for being liable for fines and penalties should the ATO choose to investigate the fund. It is also a great habit to get into as proper documentation makes all decision making regarding your fund much more legitimate.

Financial assistance or loans to members

By law, you cannot loan or offer financial assistance to a member of the self-managed super fund at any time, either directly or indirectly. Many members entertain the mindset that because it is their money, they can allocate loans to other members and to themselves, but this is not the case. Should the ATO catch a member of an SMSF doing this, they will face harsh penalties. They may also lose all concessional tax benefits, which impacts the whole fund and not just the guilty member.

Contribution cap

According to the Australian Taxation Office, if a member of a self-managed super fund makes a contribution or their contributions in any given financial year exceed the contribution caps, they may be liable for an additional tax on the excess contributions. As of 1 July 2017, the contribution cap for all members of an SMSF regardless of age is $25,000 which is taxed at a rate of 15 per cent. If members contribute over this amount, they could be taxed at 47 per cent on additional contributions.

Education

For the most part, most mistakes or errors surrounding your SMSF and the management of the fund can be avoided if you and the other members in the fund educate themselves on rules, regulations and strategies to remain compliant. With the internet available virtually everywhere, you can always read up on and stay up to date with ways to run the SMSF effectively. Just be aware of where you are getting your information from and ensure it is a trustworthy site. You can also always speak to your financial advisor for guidance and advice.

Setting up your SMSF correctly

Setting up your self-managed super fund can be a daunting process; you want to ensure you are covering all legal requirements throughout the process

The Australian Taxation Office has outlined steps to take when setting up your SMSF to ensure you are eligible for tax concessions, able to receive contributions and are looked after if a trustee is unable or decides they no longer wish to be the active trustee.

When setting up your SMSF, you ought to consider the following:

- Whether you wish to appoint a professional financial advisor to help you. If you do not have any experience with super regulations, this is a wise approach. Laws and regulations are constantly changing, and it is safest to work with someone who knows what they are doing.
- Decide whether to have individual trustees or a corporate trustee. Generally, a corporate trustee structure often costs more money to set up but removes individual liability as the SMSF acts under the company's name.
- Ensuring all SMSF members sign a trustee declaration within 21 days of becoming a trustee or director of the corporate trustee.
- Tax File Number (TFN) and an Australian Business Number (ABN). You will then need to provide the ATO with each members' TFN so that they can receive appropriate tax concessions.
- Ensuring a trust deed is created and is a legally recognised document signed by all SMSF members. The trust deed needs to discuss how to establish and operate the fund.
- Fund must be registered with the ATO. You should also elect the fund to be regulated by the ATO.
- Set up a bank account for the SMSF and an electronic service address.
- Prepare an exit strategy. This should include details pertaining to the process for appointing an individual as an enduring power of attorney.

Should you follow all of these steps, the SMSF you are setting up will be compliant with SMSF regulations. Once these aspects are considered, you need to make sure all SMSF trustees are compliant with super and tax laws. These laws are often being updated, so staying educated on current compliance issues is paramount to the success of the SMSF.

Exiting your SMSF

For an array of various reasons, individuals may opt to discontinue their self-managed super fund, which can be daunting and costly without knowing what this entails

Some of the common reasons why individuals choose to wind up their SMSF may include:

- One or more of the SMSF members living in a country other than Australia.
- Ongoing operating costs of the SMSF are too high for the amount of funds available.
- No longer wanting the responsibility of running one's own SMSF.
- Lacking the interest and resources such as time and expertise to run the SMSF.
- Breakdown of relationships.
- The fund has paid members their retirement savings.

When opting to exit your SMSF, there are necessary processes to take to minimise costs, thus minimising the risks to the members' retirement savings.

According to the ATO, in order to wind up your SMSF, you need to:

- Give the ATO 28 days notice
- Pay out or rollover all super
- Pay any outstanding tax
- Complete requirements that the trust deed specifies
- Appoint SMSF auditor to conduct a final audit
- Close the fund's bank account, after all liabilities have been settled.