

Self-managed super funds and small APRA funds

With approximately 447,000* self-managed super funds (SMSFs) and over \$430 billion in assets, the SMSF sector is the fastest growing sector in the superannuation industry... but is it the right solution for your clients?

There are two self-managed super options: self-managed superannuation funds (SMSFs) and small APRA funds (SAFs).

An SMSF is a superannuation fund which is operated, managed and controlled by its members, who are also trustees of the fund.

A SAF provides all the freedom and flexibility of an SMSF, but without the associated responsibility of being a trustee and the risk of compliance breaches.

Similarities of SMSFs and SAFs

Both SMSFs and SAFs have no more than four members. The members are usually related and each member has a high level of control over their superannuation investment.

Investments are not limited to a menu of managed funds or direct shares like a retail fund, but can be any kind of investment, provided the fund adheres to certain guidelines established under the Superannuation Industry (Supervision) Act 1993 (SIS Act), the fund's trust deed and its documented investment strategy. It is generally suggested that the minimum balance be around \$200,000, given the fixed cost of fund audits and statutory returns.

Key features of an SMSF

- The options for investment are unlimited (subject to the SIS Act, the fund's trust deed and investment strategy) and may include private company shares, small cap shares, unlisted managed funds, direct property and business real property purchased from a related party.
- All members of the SMSF must be trustees (or directors of the corporate trustee) and, therefore, all trustees must be members (different rules apply for single member funds). This means that the member takes on the responsibility of the trustee function.
- The fund is regulated by the Australian Taxation Office (ATO).

Key features of a SAF

- The options for investment under a SAF are also unlimited (subject to the SIS Act, the fund's trust deed and investment strategy) and may also include private company shares, small cap shares, unlisted managed funds, direct property, collectables and borrowings.
- Trustee duties and responsibilities are provided by an approved trustee, such as Australian Executor Trustees (AET).
- The fund is regulated by the Australian Prudential Regulation Authority (APRA).
- The trustee must be licensed and authorised by APRA.

* APRA Statistics, Quarterly Superannuation Performance, March 2011

Why choose an SMSF or SAF?

- Low cost – compared to retail superannuation funds and master trusts.
- Tax planning – the member is able to control the realisation of capital gains tax (CGT).
- Retirement income options – can be tailored to the member's individual needs.
- Estate planning – ability to control how benefits are paid to the member's beneficiaries.
- 'In specie' asset transfers – allows the member to transfer assets that they own personally, such as listed securities or business real property, into their fund.
- The conversion from accumulation to pension phase is seamless.

Additional benefits of a SAF

- The trustee function is performed by a specialist trustee company, so the risks associated with maintaining the fund's compliance are minimised and not held by the member.
- A disqualified person can be a member of a SAF but not an SMSF.

What are the differences between an SMSF and a SAF?

Features	SMSF	SAF
Fund regulator	ATO	APRA
Title to assets	Held in name of trustee	Held in name of trustee
Maximum number of members	Four	Four
Identity of trustee	Fund member(s)	Professional licensed trustee
Member protection under 'culpability test'	✗	✓
Investment control	✓	✓
Tailored investment strategy	✓	✓ However, trustee may impose restrictions
Responsibility for fund compliance	Trustee	Professional licensed trustee
Non-resident member compliance risks ¹	✓	✗
Complaints resolution through Superannuation Complaints Tribunal	✗	✓
Financial assistance funding scheme	✗	✓
Trustee remuneration ²	✗	✓
Need for standard financial reports	✓	✓
Annual regulatory return	✓	✓
Annual supervisory levy	\$180	\$500
Disqualified person as member	✗	✓

1 There are no additional benefits for non-residents who wish to make contributions to a SAF. However, SAFs may assist with the central management and control test for non-residents.

2 Trustees do not receive remuneration for providing trustee services to an SMSF. This does not apply to remuneration received from services provided by the trustees within their professional lives.

For more information please contact your financial adviser or
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