THE AUSTRALIAN

Printed November 03, 2009 09:24pm AEDT

Keys to unlock success with SMSFs

Aaron Dunn | *May 14, 2008*

Article from: The Australian

SELF-MANAGED superannuation funds are increasingly popular as people seek to have more say in how their super is invested, managed and protected.

SMSFs can be just the ticket as a suitable structure to make your super contributions and other assets work harder, more tax effectively and more flexibly for you. But to make the most of them, investors need to look carefully at a number of considerations, which we have dubbed "the seven golden keys to SMSF success".

A number of potentially dangerous myths surround SMSFs, so it's vital to start by understanding exactly what you want to achieve from your SMSF.

Don't get hooked into believing these SMSF myths: A standard trust deed will do the job. (No it won't, if you want to protect assets, save tax and provide equitable treatment for your children.) Anything goes when it comes to SMSF investments. (No it doesn't. There are very clear rules on what may and may not be tipped into your super asset bucket.)

Paying tax on benefits is inevitable. (Perhaps, but the amount payable can be considerably reduced with the right structure.)

You just have to wear capital gains tax. (Again, the right structure will help you manage CGT and time its assessment to suit you.)

Your kids will get their fair share. (Not unless you specifically arrange matters to make sure assets are passed to them to take into account their differing circumstances and tax status.)

Someone will look after you if you lose your marbles. (Maybe. But wouldn't you rather set the standard of that looking after, well before you need to have it?)

1. Establish the right trust deed

Ask yourself, does your existing trust deed stack up to suit the Better Super reforms? Does it cater for account-based pensions, multiple super interests and transition to retirement income Lstreams? Does it provide the flexibility of how and when to draw down on your super assets? And what about including your kids? Does your trust deed ensure fair treatment, even if some of your offspring are no longer financial dependents for tax purposes and some are?

2. Optimise your super components

With the right SMSF structure, you'll be able to use your contribution caps, multiply your super interests and lock in tax freedom by taking advantage of the power of pensions.

3. Manage capital gains tax actively

There is a right time and right way to cash in your assets. With the right structure and the right advice, you'll be able to hold on to more of your hard-earned assets.

4. Consider your death benefit nomination

You will be faced with a number of choices here, which have different outcomes. For example, is it the right decision in your circumstances to make a binding nomination? How will your nomination affect the taxability of assets transferred on your bequest? Your SMSF specialist will be able to answer these questions and help you come to the best decision for your situation.

5. Implement a comprehensive will

Without an effective will structure, you run the risk of having a substantial chunk of your assets eroded through tax, plus the prospect of the wrong people ending up with your assets. Do you have assets worth more than $300,000? Is your family structure complex or changing? Do you control assets (such as super) as well as own assets (such as property or other investments)?

If you answered yes to any of these questions, you need a comprehensive will, which allows for the creation of testamentary trusts after your death. These give you certainty over who is entitled to inherit. In fact, they can place conditions on inheritance (such as minimum age, or what happens in case of second marriages and the like). They can also protect assets (such as in the case of bankrupt beneficiaries) and can minimise the tax assessed to your beneficiaries.

6. Set up appropriate powers of attorney

There are several levels of powers of attorney. You need to consider whether an enduring power of attorney is more appropriate than a temporary one. For example, you may simply want to enable your delegate to be able to pay bills to maintain your household. Or you may decide to confer full powers to manage your entire financial regime. Here's where your adviser can really help you identify the issues, and the risks (both if you don't assign power of attorney and if you do!). By creating an enduring power of attorney, it provides an ability for that person to act as trustee of your SMSF when you can't.

7. Factor in medical powers and guardianship

We've all heard stories about people having to deal with the pain of having a parent needing full-time medical care, but whose financial arrangements had not factored in their mortality or the increasing chance of incapacity. And there's also the tragic situation where aging parents are faced with having to deal with sorting out the long-term care of their disabled children after their deaths.

So the best answer is to hope for the best and plan for the worst so you can control the standard of long-term care you will receive if you become incapacitated.

Take a moment to see how your existing arrangements stack up against them and if you find areas where your fund structure can be enhanced. Pick up the phone and make an appointment to speak to a specialist adviser. The benefits could make a substantial difference to your lifestyle.

Aaron Dunn, authorised representative, Outlook Financial Solutions