SPECTRUM WEALTH

• PARTNERS PTY LTD •

Self-Managed Super Funds

Contents

01 *Introduction*

02 *What makes an SMSF different from other funds?*

03 *Ongoing Responsibilities*

04 *Typical SMSF Investment Strategies*

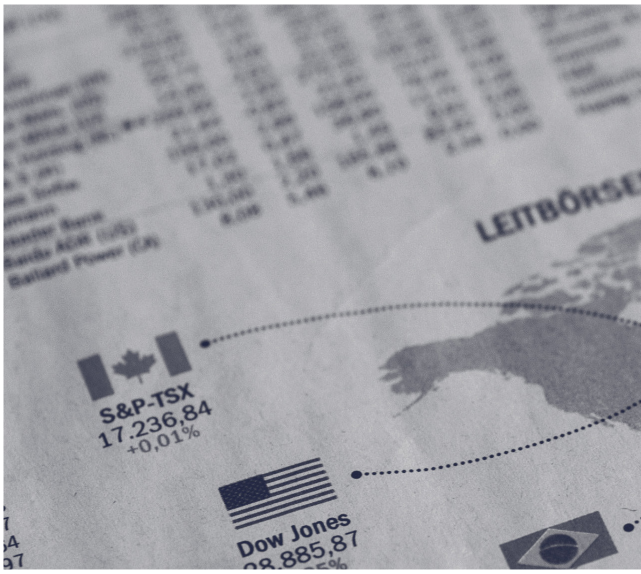
05 *Advantages and Disadvantages*

06 *Case Study*

07 *How Spectrum Wealth can help*

Introdu

As the name suggests, a Self-Managed Super Fund (SMSF) offers individuals a greater degree of control, as well as choice, over their retirement investment plan. From investment properties to precious metals, from term deposits to shares, SMSFs have the capacity to create a diverse portfolio on fiscal terms that can be far more attractive than if they were privately owned. SMSFs generally benefit the following people:



Those who wish to be more actively engaged in their wealth creation

Those with large individual tax burdens that can be eased through transfer of assets into a more tax-friendly environment.

Those with an existing Super base of $200,000 or more, to offset higher start-up and ongoing costs of an SMSF.

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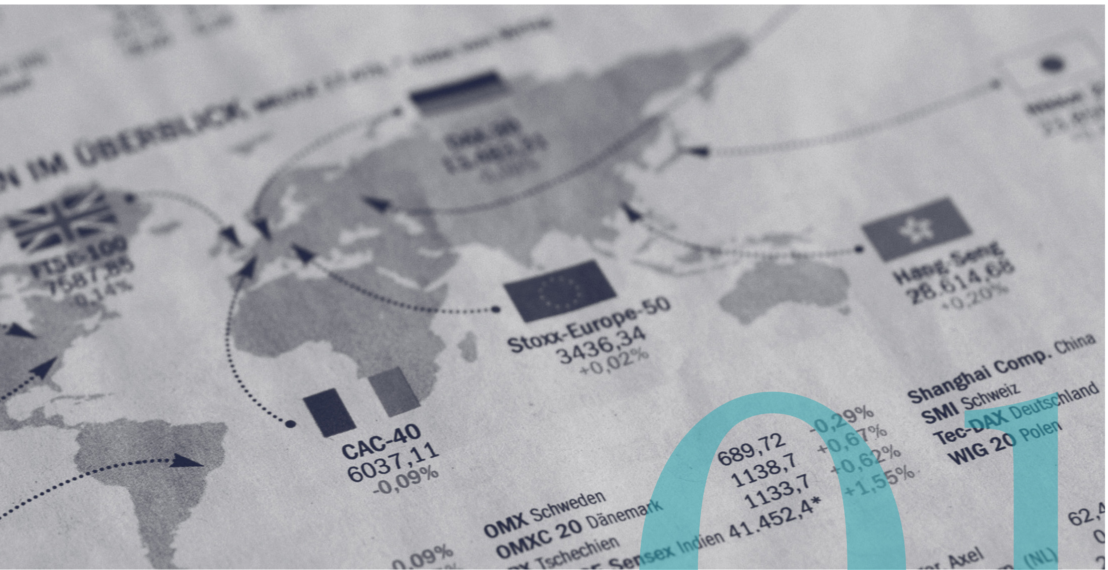

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If you tick one or more of the above boxes, an SMSF can be a powerful tool to turbo-charge wealth accumulation during your working years, and reward you with incredibly tax effective income streams upon your retirement.

What makes an SMSF different?

Membership: Individual or Corporate.

An SMSF can be controlled by up to four individual members, who also act as trustees.

Alternatively, an SMSF can be controlled by a company, with the directors acting as trustees.

Regulation

The Australian Taxation Office (ATO) regulates the operation of SMSFs, as opposed to the Australian Prudential Regulation Authority (APRA), which regulates other managed funds.

Setting up an SMSF

Decide whether the SMF will be controlled by individual trustees or a company. This is an important decision as the two SMSF structures offer different options in terms of cost, administration of assets, separation of assets, and succession planning.

Decide who the members or directors will be.

Create a Trust Deed, which sets out the rules of the SMSF. This document needs to be carefully considered and drafted to make the SMSF flexible and capable of embracing as many investment opportunities as possible.

Comply with registration and legal requirements to set-up the SMSF.

Open a bank account in the SMSF's name and start investing!

Ongoing Responsibilities

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With power comes responsibility. SMSF members and controlling entities are bound to comply with numerous regulations and reporting requirements to maintain the lawful operation of their fund. Although SMSFs offer greater investment choice than other funds, there are some restrictions they must obey to ensure proper separation of assets from members and their associated entities.

These responsibilities include:

Record keeping:

Records such as operating statements, annual returns, meeting minutes and trustee declarations must be kept for between five and 10 years.

Timely Reporting:

The ATO can impose a raft of harsh penalties, including the revocation of attractive tax concessions, on SMSFs that do not comply with their reporting requirements on time.

Annual Audit:

SMSFs must engage an auditor, independent of their regular accountant, to audit the fund every 12 months.

Annual Asset Valuation:

An SMSFs assets must be independently valued on an annual basis.

Investment Strategy:

This document explains and confirms how the trustees intend to invest money held by the SMSF. It should contemplate each trustee's individual circumstances, be reviewed regularly, and be revised to accommodate significant changes, such the death of a trustee.

Arms Length Investment:

SMSFs cannot buy assets, or loan money, from or to members, or their associates. All investments made by an SMSF must be conducted on proper commercial terms.

Sole Purpose Test:

Investments must comply with the 'Sole Purpose Test', which means they are being made to provide retirement income, or a death benefit, as opposed to deliver immediate benefits to members.

04

Typical SMSF Investment Strategies

Real Business Property

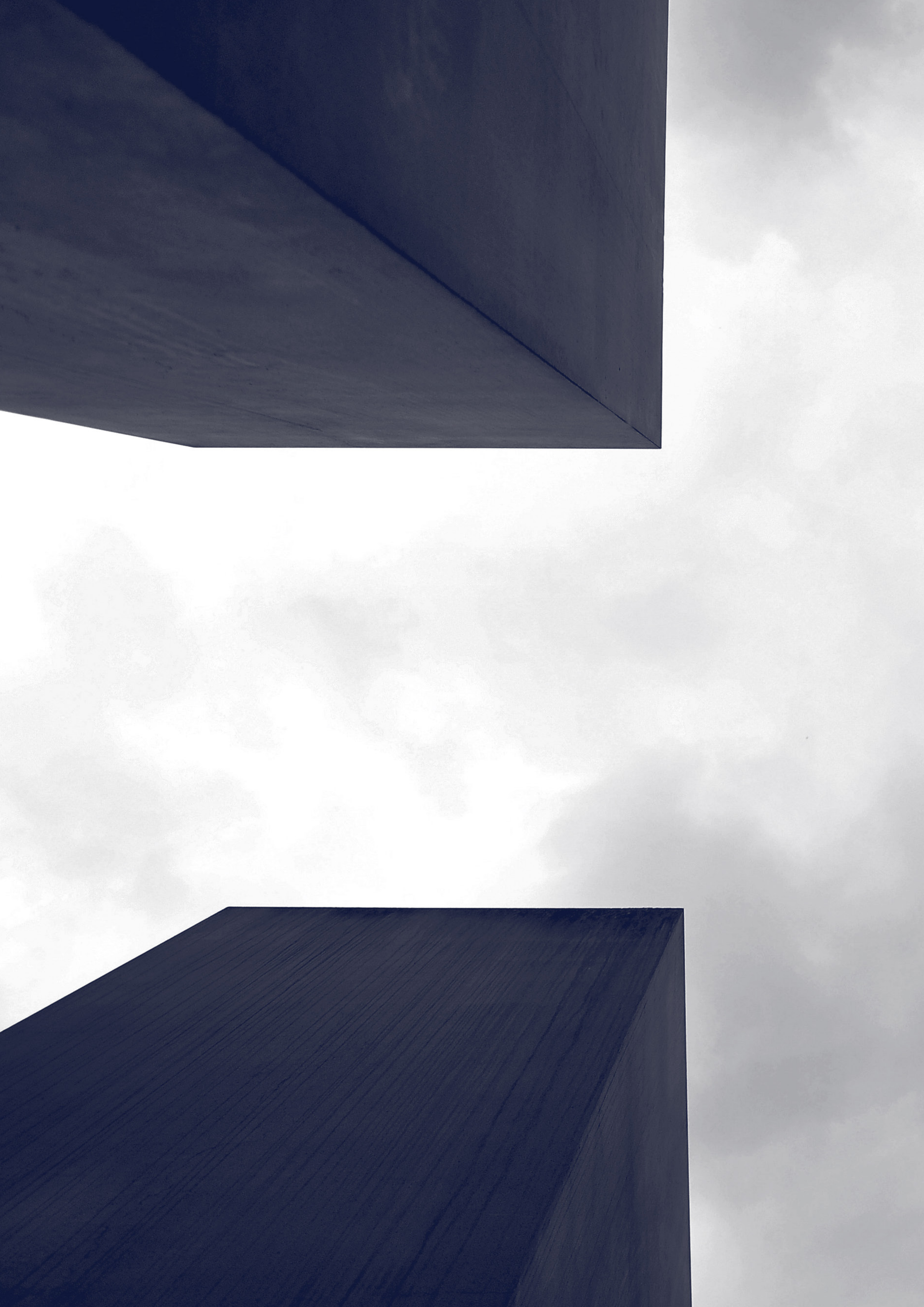
SMSFs can purchase income-generating business property belonging to an individual, such as a rented office. The generous tax conditions in the SMSF environment means rent is levied at much lower rate (15 percent during accumulation phase, zero during pension phase), while Capital Gains Tax is also reduced should the property be sold (10 percent during accumulation phase if owned for a year, zero during pension phase).

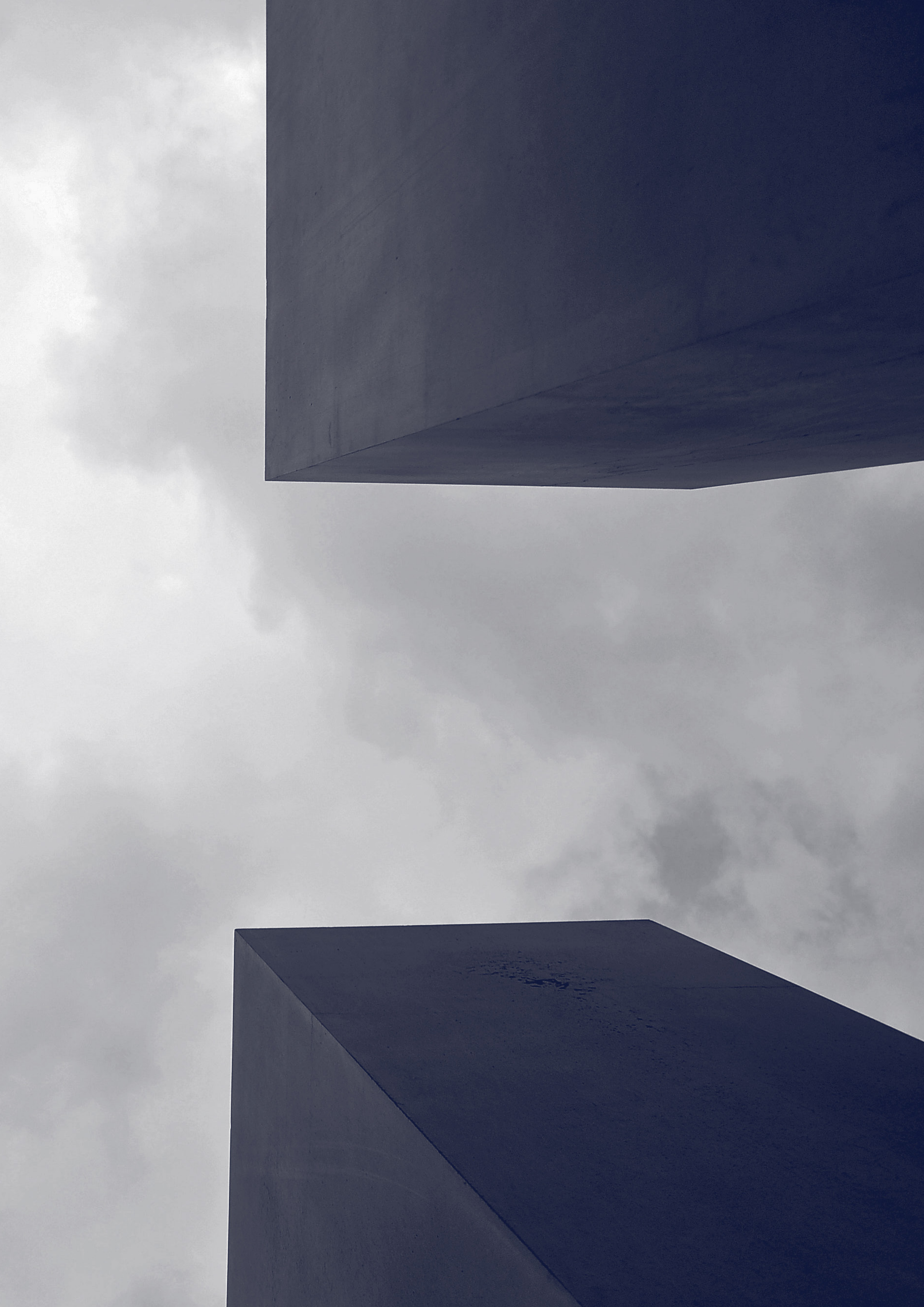
Direct Shares

Many SMSF's perform best with a long-term share strategy. This is because of franking credits offered to the fund, which negate the 30 percent company tax that was originally applied to their dividend from the ASX entity. Instead of receiving 70 cents in every dollar from a fully franked dividend, SMSF funds in the pension phase get the entire amount. SMSF funds in the accumulation phase receive half the difference (taxed at 15 percent).

Negative Gearing

SMSFs can further offset their tax obligations by taking out loans to accumulate income-generating assets, such as property. If the interest paid on the loan exceeds the amount of income generated, the difference deemed is tax-free, regardless of which phase the SMSF is in. However, SMSFs do not have the same freedom to make as many improvements to the property as individuals who use negative gearing to minimize their tax exposure.





Advantages 05

Flexibility

SMSFs offer far greater choice of investment than other, managed funds, as well as the ability to pivot between investment categories as market opportunities arise.

Cost savings with wealth accumulation

Provided the SMSF is well-funded, proportionate costs can become relatively low as wealth accumulates because they are generally fixed.

Control

SMSF members enjoy more control over the fund's assets, as well how and when it pays pensions.

Tax Relief

SMSFs are subject to the same tax rates as other funds. However, well-versed members, trustees or their advisors will be able to time asset purchases or disposals to trigger additional tax benefits.

Estate Planning

SMSFs give greater flexibility around payments to beneficiaries upon the death of a trustee, as trustees can make specific nominations to reflect their wishes, in the trust deed.

Disadvantages

Greater responsibility

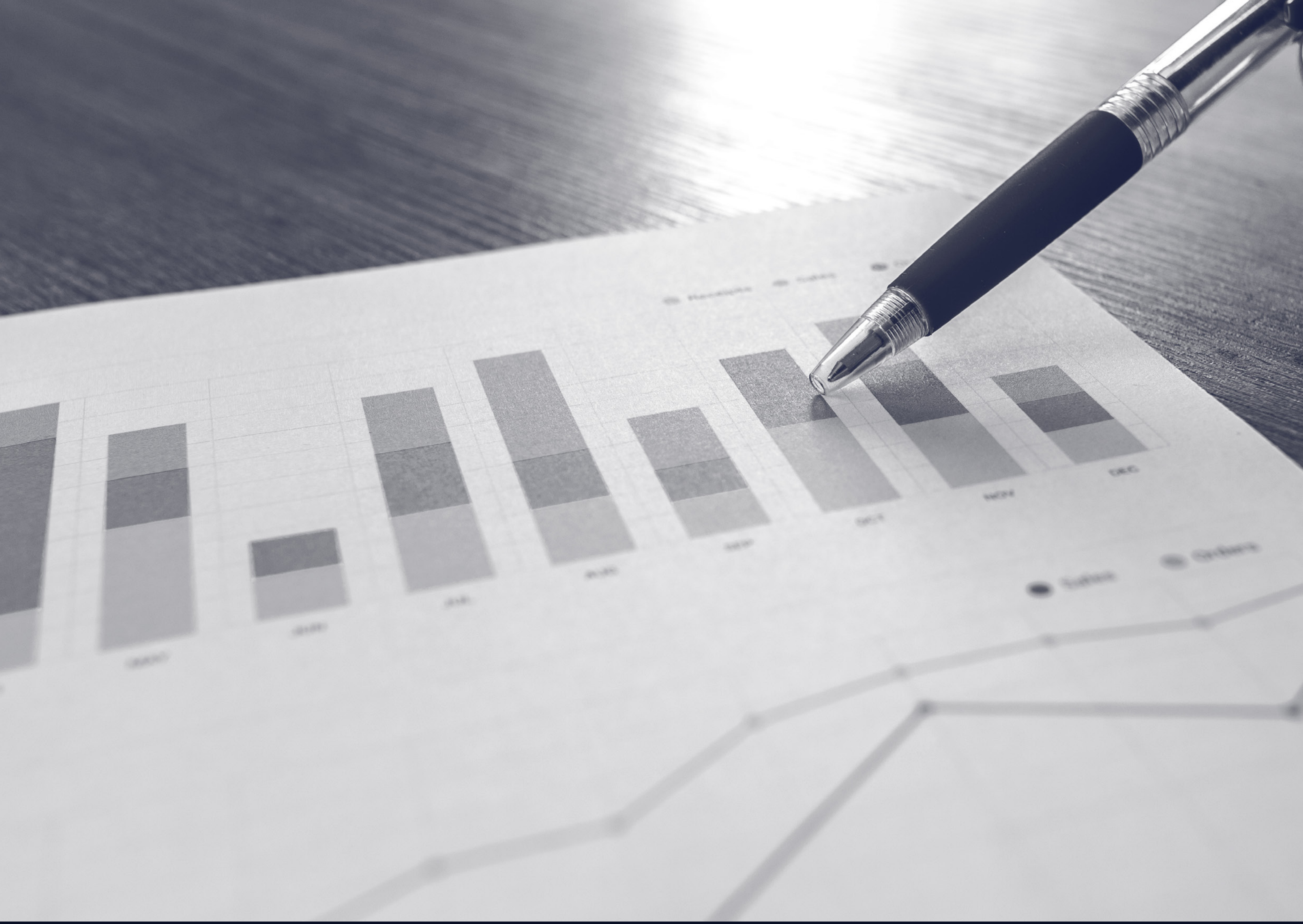
SMSF trustees have the added burden of a ensuring the fund complies with a raft of regulatory requirements, both during creation and throughout its life.

Administration and Compliance

Rules around SMSFs can change regularly, and these changes are often implemented quietly. It is the trustees' responsibility to ensure the SMSF is compliant at all times, as ignorance is no defence.

Higher Fixed Cost

The above responsibilities cannot be met without a financial cost, not to mention time and attention. The fixed costs of SMSFs are higher than other funds, and might be increased should the members decide to engage an external advisor to assist with the fund's compliance and regulatory requirements.



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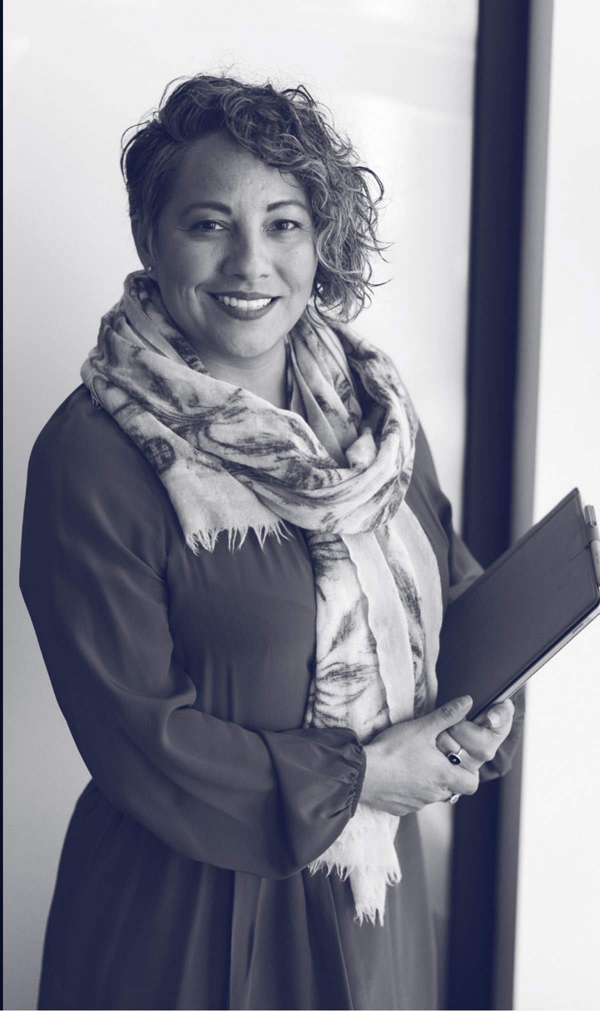
Case Study

Situation

Barbara owns a long-running and successful medical practice in a country town, worth $300,000. She rents consulting rooms to three other doctors who work from the practice, for a combined annual rent of $20,000. Barbara has an SMSF, which current manages $900,000 worth of liquid assets via a specifically created company, including cash and shares.

A medical colleague has suggested that Barbara consider transferring her practice into the SMSF. Barbara turns to a financial advisor for guidance.



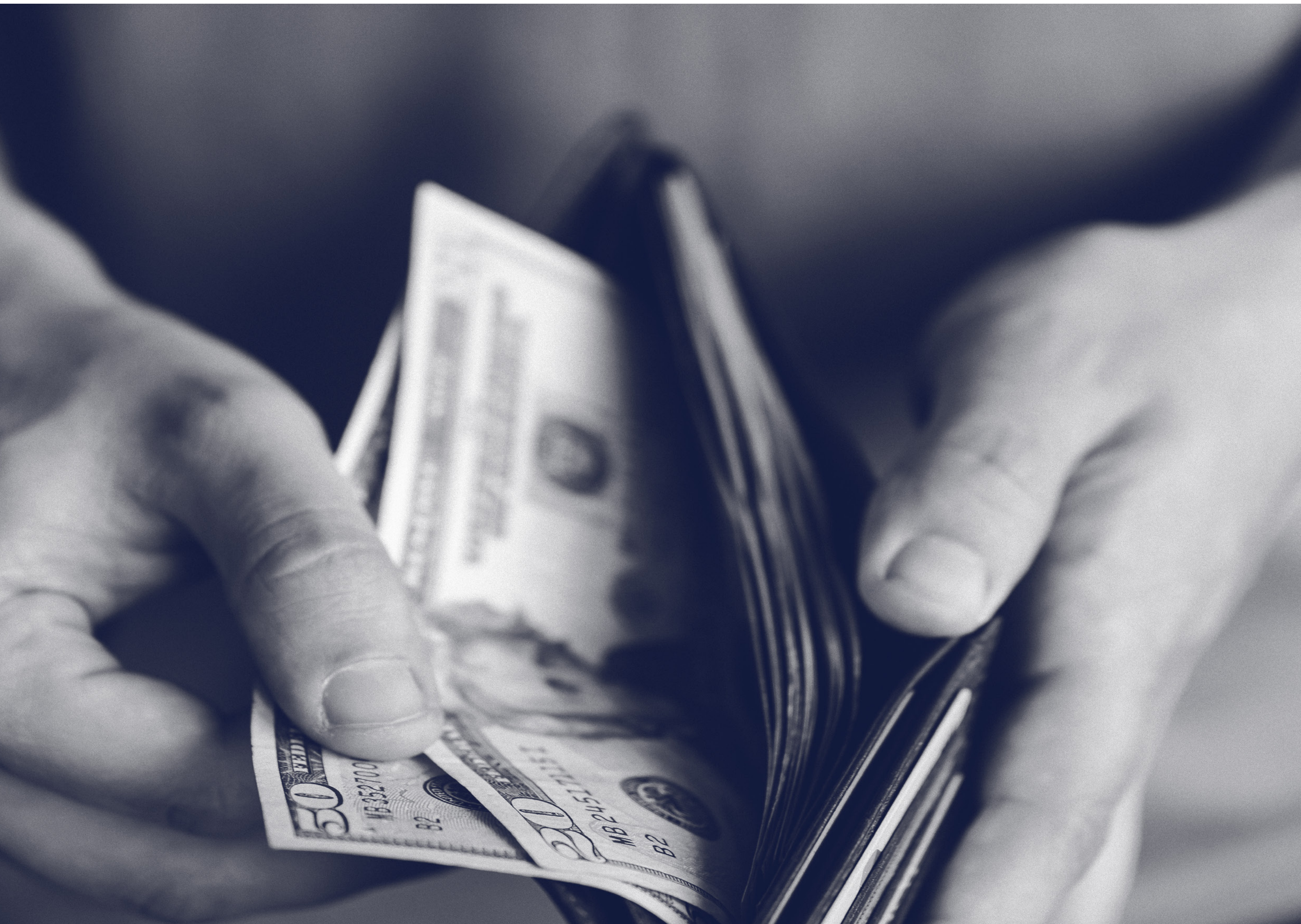
The process of transferring the practice involves Barbara selling it to her SMSF at a fair market rate. The SMSF would then charge her and the other doctors working from the practice rent, also deemed at a fair market rate. The transfer would most likely involve the payment of CGT, and also stamp duty. However, these levies can be significantly reduced through the help of Barbara's advisor, who has overseen similar transfers in the past, and has access to the appropriate accounting resources. Barbara's advisor is also mindful that her SMSF needs to have adequate liquidity after purchasing the practice, to meet its ongoing overheads and as well as its own financial responsibilities.

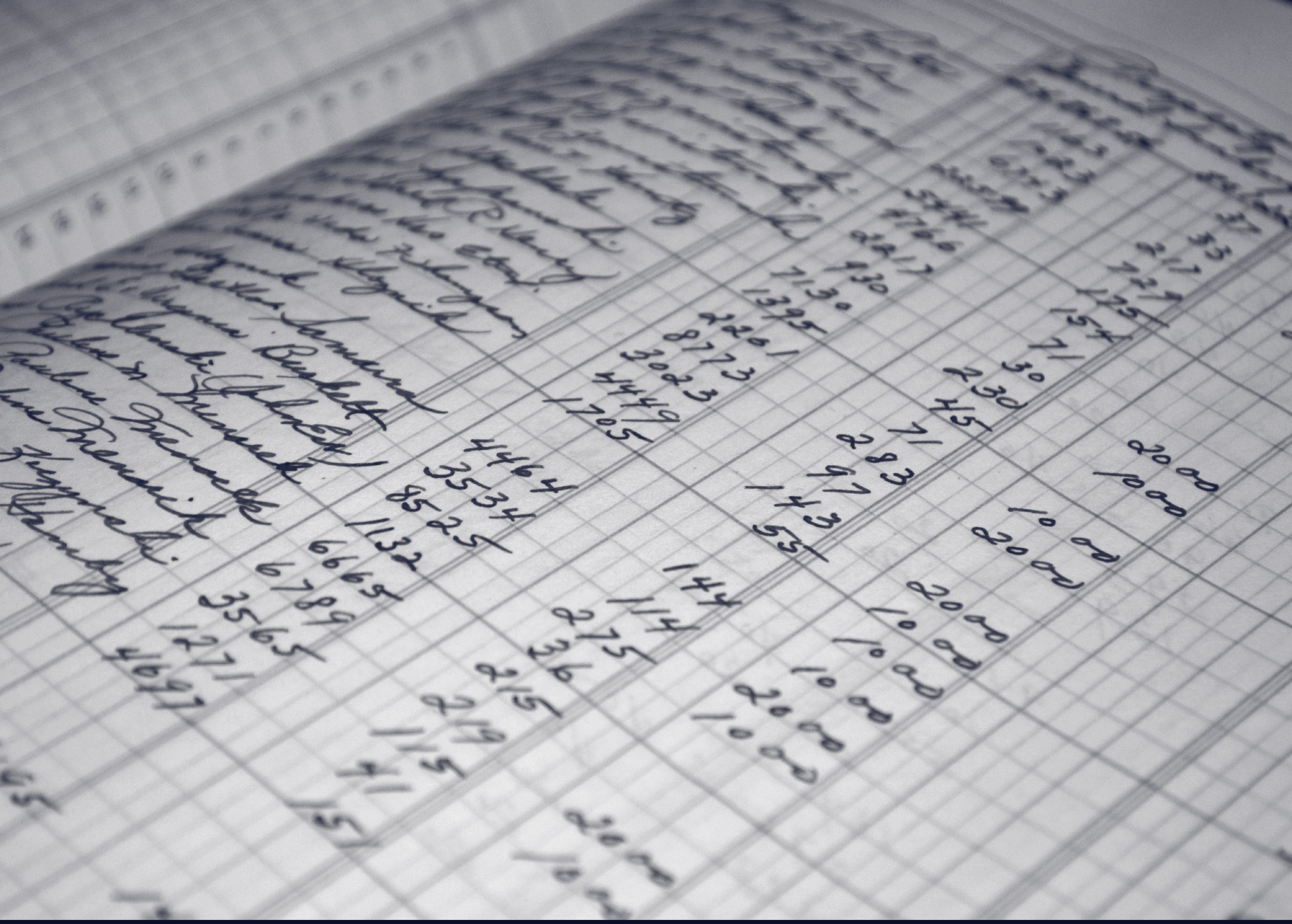
There are numerous options for the SMSF to purchase the practice: through its own cash reserves, a one-off contribution from Barbara (maximum $540,000), or a bank loan. Barbara's financial advisor will closely look at her personal plan before deciding which fits best.

The next step is to meet her advisor to discuss the pros and cons:

Pros:

- The overall rent that Barbara and her co-tenants is taxed at just 15 percent during the accumulation phase of the SMSF, and nil once Barbara begins drawing a pension (anytime from 55 years onwards).
- The practice could be exempt from CGT should Barbara decide to sell it after retirement.
- Held within the SMSF, the practice is protected from creditors, who could seek to claim and liquefy the asset in the event of her being ordered to pay damages for medical negligence.





Cons:

- All commercial agreements, including rent and dealings with service providers, must be done at market rates. ASIC is renowned for giving closer scrutiny to doctors’ practices held by SMSFs, so this requirement must be strictly adhered to.
- If the SMSF purchases the practice via a bank loan, the interest charged will be higher than a residential purchase, as the bank can only reclaim the practice as collateral. All other assets held in the SMSF are off-limits.

08

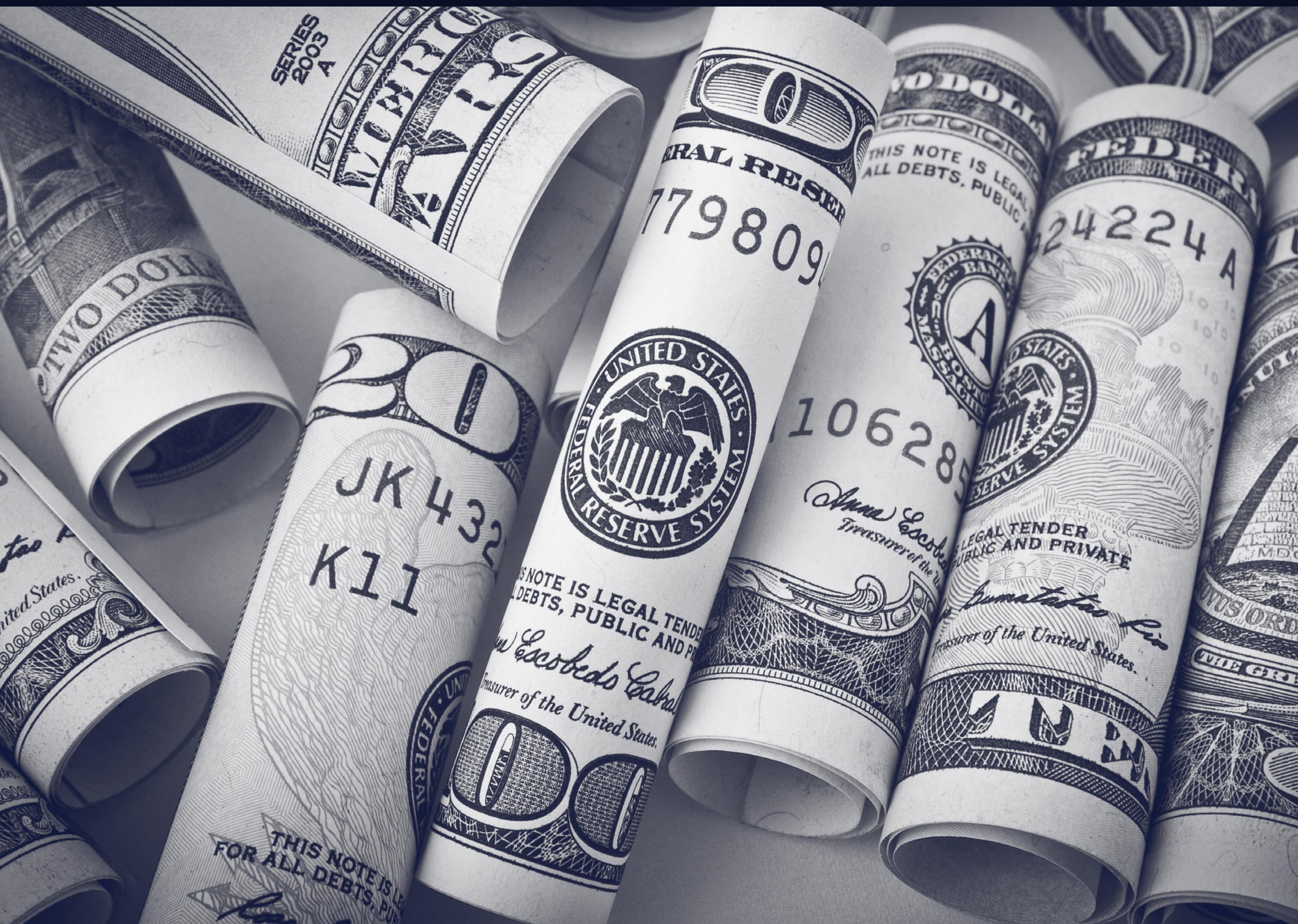
How Spectrum Wealth can help

Now that you are familiar with the basic principles of SMSFs, the question is whether you feel the time, effort and cost associated with creating and managing this type of fund will be beneficial in the long run.

As you might suspect, SMSFs are not for everyone. But for those at the right stage of their earnings and investment cycle, an SMSF can be an unrivalled tool for accumulating wealth that sets the individual up for a comfortable and tax-friendly retirement.

Without independent advice from a financial expert, many people find it difficult to determine whether an SMSF is the best fit for them, let alone navigate the regulatory minefield of creating and operating one in compliance with a constantly evolving statutory framework.

Fortunately, Spectrum Wealth is well-versed when it comes to helping Australians make this very important choice. Getting to know the individual on a deeper level, including their appetite for risk and control, is essential to giving the right advice. Spectrum Wealth takes the time to do this so that if you do decide to embark on the exciting journey into an SMSF, we’ll be there to guide and help you every step of the way.



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