

A guide to running your own super fund

Promenade
Wealth Management

An SMSF can give you greater control
of your retirement savings

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Why run your own fund?

Self Managed Superannuation Fund (SMSF)s can offer a number of features and benefits.

More investment control

If you're a member of an SMSF, you have greater control over how your super's invested and how it's paid when you retire.

You can establish your own investment strategy and directly control where and how your super is invested. This includes:

- setting the fund's investment objectives
- determining how much to invest in the different asset classes such as shares, property, cash and fixed interest
- selecting the specific investments you want the fund to hold.

You can also implement:

- different investment strategies for each fund member, which may be appropriate if the members have significantly different ages, super balances or risk tolerances; or
- one investment strategy that takes into account the collective needs of all members, which may be easier to administer.

More investment choice

You can select from a wider range of investments, such as:

- managed funds
- all listed shares
- some unlisted shares
- residential and business property
- collectables such as artwork, stamps and coins.

One fund for the family

You can have up to six members in an SMSF. Adding family members may provide greater scale to enable the fund to purchase assets it currently doesn't have sufficient money to buy, such as residential or business property; and make some significant cost savings, as many of the costs involved when setting up and running an SMSF are fixed.

Having one fund for the family can also give you more flexibility to decide which assets are sold to pay a death benefit if a fund member dies.

Borrowing to make larger investments

SMSFs can borrow using a limited recourse borrowing arrangement to buy assets (such as shares and property). Typically this occurs when it doesn't have enough money to purchase the asset outright. For example, if you're a business owner, your SMSF could purchase your business property using cash already in the fund and borrow the rest.

Tax considerations

With SMSFs you may be able to:

- take greater control over the timing of tax events, such as when capital gains and losses on assets are realised
- transfer certain assets directly into your fund by making 'in specie' contributions, where investment earnings will be concessionaly taxed.

Greater estate planning certainty and flexibility

You can nominate which of your eligible dependants you'd like to receive your benefit in the event of your death.

An SMSF trust deed can include specific provisions that outline how and to whom death benefits will be distributed, so long as these provisions align with super law.

Other super benefits

Just like other super funds, if you have an SMSF:

- you may be able to make contributions from your pre-tax salary or claim your contributions as a tax deduction
- investment earnings are generally taxed at a maximum rate of 15%
- there's no tax on investment earnings relating to 'retirement phase' pensions¹
- you won't pay tax on lump sum and pension payments received from an SMSF at age 60 or over
- your fund may be able to hold life, total and permanent disability and income protection insurance.

1. A transfer balance cap (TBC) limits the amount of super that can be transferred into retirement phase. The cap is \$2 million in 2025/26. This cap may be indexed in future years. Your personal TBC may differ.

Is an SMSF right for you?

While running an SMSF can give you greater control of your super and retirement savings, it's a big commitment. There are important issues to consider before deciding whether to set up an SMSF.

1. How much money do you need to set up an SMSF?

The balance available to invest is one factor you should consider before setting up an SMSF.

A lower starting balance may be suitable if you as trustee are:

- willing and able to undertake much of the administration and management of investments to make the fund more cost effective
- will be making a large contribution into the SMSF shortly after setup.

2. Do you have enough time, knowledge and skills to manage your own super?

You and all members must be fund trustees (or directors of the corporate trustee). This means you are all responsible for running the fund and meeting a range of legal and administrative obligations.

3. Who can be an SMSF trustee?

Essentially anyone can be a trustee of an SMSF provided they:

- are not an employee of another trustee unless they are related to them
- are not a 'disqualified person'.

A disqualified person is someone who is disqualified by the Australian Taxation Office or the Australian Prudential Regulation Authority to act as trustee of a superannuation fund; is an undischarged bankrupt; or has been convicted of an offence for dishonest conduct, such as fraud.

An SMSF can have between one and six members, although generally funds have two members.

4. Have you considered whether a publicly available super fund may be more suitable?

With publicly available super funds, such as retail and industry funds:

- you can access a broad range of investment options, which may be more than sufficient for your needs
- you don't have to take on the burden and responsibility of being a fund trustee
- you have access to the Australian Financial Complaints Authority, which can help resolve complaints regarding decisions and conduct of fund trustees
- you may be eligible for compensation under superannuation laws if the fund suffers loss as a result of theft or fraud.

Also, if you transfer (rollover) all your super to an SMSF you may lose valuable life, total and permanent disability, income protection or other insurance cover provided by the publicly available fund; and the cost of taking out replacement cover in your SMSF may be higher.



Trustee obligations

All SMSF members must be either individual trustees or directors of a corporate trustee and are responsible for meeting a range of legal and administrative obligations. Penalties may apply if you don't perform your duties.

Some key trustee obligations are:

- holding assets for the sole purpose of providing retirement benefits to members or to their dependants if a member dies before retirement
- developing, implementing, adhering to and reviewing an investment strategy for your fund
- keeping super assets separate from other assets (e.g. personal or business assets and assets of employers who contribute to the fund)
- preparing and keeping proper records, including financial statements, tax returns, audits, actuarial certificates (where applicable) and minutes of trustee meetings and decisions
- not lending money or providing financial assistance to members or their relatives using fund assets
- not borrowing money except in limited circumstances, such as to purchase investments using a 'limited recourse borrowing arrangement'
- not acquiring assets from a member or other related party with limited exceptions
- not releasing benefits to members earlier than is legally permitted.

Who can help you manage your obligations?

If an SMSF is the right super solution for you and any fellow members, there are a range of professionals who can help you set up and manage your super fund and manage your compliance risks.

These include:

- solicitors who can provide you with an appropriate trust deed and governing rules for your fund and advise you on other legal matters
- financial advisers who can help you develop and implement an investment strategy for the fund, select investments to match that strategy, determine the right insurances, advise on starting and running pensions in your fund and coordinate your estate planning
- accountants who are registered tax agents and can look after the fund's record keeping and reporting requirements and provide taxation advice.

It is important to understand however that as trustee of the fund, you remain ultimately responsible for ensuring that the fund complies with super legislation.

ATO information for SMSF trustees

The Australian Taxation Office website, www.ato.gov.au contains written information, webinars and educational courses for SMSF trustees.

It's also important to check the ATO website regularly to keep up to date on important SMSF issues.



Steps to setting up an SMSF

If the decision is made to start an SMSF, there are 10 key steps to get the fund up and running.

Step 1: Choose a trustee structure

Decide whether you and any fellow members will each be an individual trustee or you will use a corporate trustee.

This is an important decision as it will impact a range of other steps, such as the name(s) in which the investments are held and how your fund will need to be run.

Step 2: Obtain a trust deed

SMSFs need to have a 'trust deed'. This is a legal document that sets out the rules for establishing and running your fund and, along with the superannuation laws, governs how your fund needs to be operated. Because the trust deed is a very important legal document, it must be prepared by a suitably experienced legal professional.

Step 3: Sign trustee declarations

All new trustees must sign a 'trustee declaration' within 21 days of becoming a trustee or director of a corporate trustee. This form requires you to acknowledge you understand:

- the rules that apply when making contributions, purchasing and managing investments and paying benefits
- the general duties you will need to meet your fund is to be maintained for the 'sole purpose' of providing benefits to the fund members upon their retirement or the members' beneficiaries if they die
- investment restrictions which apply to the fund
- your legal and other obligations.

The ATO has developed a 'Trustee declaration form'. Directors of a corporate trustee need a director identification number. The director can apply for a director ID on the Australian Business Registry Services online.

Step 4: Record members' TFNs

Your fund will need to record each member's Tax File Number (TFN).

Step 5: Register with ATO

Your fund needs to be registered with the ATO within 60 days of being established and you will need to elect for your fund to be regulated, so that it will be eligible for the superannuation tax concessions.

This is achieved by completing the 'Application for ABN registration for superannuation entities' form (NAT 2944), which is available from the ATO website.

You will also need to register your fund for GST if it is likely to have an annual turnover of more than \$75,000 p.a.

Once the ATO has approved your fund's registration, you will be issued with a TFN and ABN for your fund.

You may also need to be registered for PAYG withholding tax, such as in the case where your fund is going to make payments (lump sum or pensions) to members aged less than 60 years old.

Step 6: Open a bank account

Your SMSF will need a bank account so it can accept cash contributions, receive income from investments, pay fund expenses and pay benefits to members.

The account needs to be opened in the names of your fund's trustees and the money must be kept completely separate from your personal or business assets. You will need to notify the ATO of the SMSF's bank account.

Step 7: Prepare an investment strategy

You must prepare an investment strategy for your fund that takes into account all your fund's members' needs and circumstances before any investments can be made.

Step 8: Accept contributions and rollovers

To receive contributions and make rollovers into or out of your SMSF you need an electronic service address. It ensures you meet the legislative requirement under the SuperStream data and payment standard.

Cash contributions can be made into your fund. Money can also be rolled over (transferred) directly from another complying super fund. It is usually only possible to rollover money to your fund when it is up and running.

Step 9: Appoint professionals

You need to appoint an independent auditor to review your fund's activities each year and ensure it complies with the relevant laws.

If you have not engaged them already in the establishment of your fund, you may also want to use the services of other professionals.

Step 10: Plan for the future

Your fund's members should consider completing a suitable death benefit nomination so their super will be paid according to their wishes when they die. The options available in your SMSF will depend on what's allowed under the trust deed. An exit strategy must be created to plan for events that may require the SMSF to be wound up.

Investment strategy and rules

When creating and implementing an investment strategy for your SMSF, it's important to follow these six steps.

Step 1. Assess your fund's circumstances

This involves considering and addressing:

- your fund members' ages and investment timeframes, risk tolerances, assets and income expectations
- the need for diversification
- the potential risk and return from different investments
- your fund's liquidity and cashflow needs.

Step 2. Identify your fund's investment objective

An investment objective is a statement that captures the desired investment outcomes for your fund (or part thereof). It must:

- reflect your fund's members' needs and circumstances
- be meaningful and easily understood by interested parties (such as your fund's members, auditors and the ATO)
- be measurable (e.g. comparable to a benchmark, such as the cash rate or inflation, or index such as the ASX200).

Step 3. Prepare your fund's investment strategy

This is where your fund needs to stipulate how much it will invest in each of the asset classes to achieve the stated investment objective. This is known as developing an asset allocation. One way to do this is to assign minimum and maximum weightings.

The investment strategy should also state how sufficient cashflow will be maintained to meet fund expenses, as well as to make pension payments if a pension will be or has commenced.

Step 4. Consider insuring your fund members

It is a legal requirement that the trustees consider whether your fund should take out life, total and permanent disability and income protection insurances on behalf of the members.

While there is no legal obligation to actually take out insurance, it must be documented that insurance was considered and the reasons for taking or not taking out the insurance.

Step 5. Accept and implement the strategy

The next step is for you and your fellow trustees to meet, discuss and agree on the strategy for your fund and document the decision in the minutes of the meeting. Investments made after accepting the investment strategy must be consistent with the strategy.

Step 6. Review the investment strategy

You also need to monitor the performance of your fund's investments and review the strategy on an ongoing basis. Reviews should be done at least once a year but more frequent reviews are a good idea to ensure you are optimising your investments; and minimise the risk of mismanagement or fraud.

When reviewing your investment strategy some things to consider include:

- have any members joined or left your fund
- have any members made significant contributions
- does your fund need to pay benefits to a member
- has a member's circumstances changed
- have there been significant movements in investment markets or changes in the economic climate
- has there been (or about to be) a significant change in legislation?

If you answer Yes to any of these questions, the investment strategy may need to be altered by working through steps 1 to 5 again.

Other key investment rules

The **'sole purpose test'** requires that all your fund's investments are made for the sole purpose of providing benefits for your fund's members upon their retirement or their beneficiaries if a member dies.

Related party transaction rules. The general rule is that an SMSF cannot acquire assets from a member or other related party.

Certain assets are classified as **'in-house assets'** including a loan to a related party such as a member's private company; an investment in a related company or trust; and a lease or lease arrangement to a related party.

The legislation limits the total amount of in-house assets to 5% of the market value of the assets of the fund to ensure investments are made for the sole purpose of providing retirement benefits.

All investments must be made on an **arm's length** (i.e. commercial) basis and reflect the market value for the assets regardless of who buys or sells the assets.

SMSFs cannot provide financial assistance to a member or other related party. Financial assistance is defined broadly and includes aid, help or a benefit.

Source: MLC, July 2025

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