4 common SMSF mistakes to avoid

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Thinking of setting up or already have an SMSF? Make sure you avoid these common compliance mistakes.

Starting and running an SMSF can be a great way to build wealth for the future — but it also comes with some serious responsibilities.

As an SMSF trustee, you're bound by strict rules. Even a minor, accidental breach can cost you time, money and effort in putting things right.

So what are the errors trustees make most often — and how can you avoid them?

The top four SMSF mistakes

ERROR	PERCENTAGE OF ERRORS	PERCENTAGE OF THE VALUE OF ERRORS
Loan to member/financial assistance	21.5%	15.2%
In-house assets	19.4%	28.8%
Administrative-type contraventions	10.2%	1.7%
Separation of assets	12.7%	24.6%

Source: Australian Taxation Office, *Self-Managed Super Funds: A Statistical Overview 2014-2015*

MISTAKE 1 Making loans or giving financial assistance to members

THE RULE. You can't use your fund to lend money or provide financial assistance to a member or relative, either directly or indirectly.

WHY DO MISTAKES HAPPEN? The problem is often simply a lack of awareness. That's because this rule can affect a wide range of transactions with related parties, especially businesses owned by a member or relative. Remember, "financial assistance" can include something as simple as guaranteeing a loan — money doesn't have to change hands.

HOW TO AVOID THEM. Make sure you thoroughly understand the rules, then talk to an adviser before making a transaction you think could be problematic.

MISTAKE 2 In-house assets

THE RULE. Your fund can't invest more than 5% of its holdings in in-house assets, such as a business owned by a fund member or an asset leased back to a related party (business premises are an exception).

WHY DO MISTAKES HAPPEN? Again, trustees are often unaware of the investments that can fall under this rule — residential properties rented to relative, for example. Even if an in-house asset starts as less than 5% of the fund, you can still find yourself in breach as asset values change over time.

HOW TO AVOID THEM. One solution is to avoid in-house assets altogether. If you do decide to hold them, get advice first, then check their value regularly.

MISTAKE 3 Making administrative errors

THE RULE. You need to keep detailed records, often for 10 years or longer.

WHY DO MISTAKES HAPPEN? There's a long list of records you need to keep, so it's not surprising trustees sometimes slip. Common problem areas include keeping detailed minutes of investment decisions and regularly reviewing the fund's investment strategy.

HOW TO AVOID THEM. An SMSF administration service can help you keep your records in order and stay on top of changing regulatory requirements.

MISTAKE 4 Failing to keep personal and super assets separate

THE RULE. You need to manage your fund's investments separately from each member's personal or business investments.

WHY DO MISTAKES HAPPEN? Problems typically arise where trustees have failed to register an asset in the right name — especially where the fund has a corporate trustee that also owns other assets.

HOW TO AVOID THEM. Consider creating a separate, sole purpose company to be your fund's trustee, then make sure all fund assets are held in the right name.

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1300 023 170

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