

Self-Managed Super Fund: how it works

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Running your own self-managed super fund (SMSF) is a major financial decision. It requires a considerable amount of financial literacy as you are personally responsible for ensuring the fund complies with regulations.

What is a self-managed super fund (SMSF)?

An SMSF is a private super fund that you manage yourself.

As a member of an SMSF, you must also act as a trustee who is ultimately responsible for the operation of the fund. You control all aspects of the fund including ongoing administration, making investment decisions, and executing those decisions. The SMSF can also purchase insurance policies to protect members in the event of death or incapacity.

An SMSF must be run for the sole purpose of providing retirement benefits for the members or their dependants. Any decisions you make as trustee of your SMSF must be in the best financial interests of members.

You cannot set up an SMSF to try to get early access to your super, buy a holiday home, or artworks to decorate your home or office with, as these are not permitted under superannuation law.

As a trustee, you are personally liable to pay administrative penalties issued by the Australian Taxation Office (ATO) if you contravene certain provisions of superannuation law. Penalties cannot be paid or reimbursed from the assets of your SMSF.

Consider speaking to a licensed financial adviser who can help determine whether an SMSF is appropriate. They can also recommend other options for your super if an SMSF is not appropriate or cost effective for your personal circumstances.

How it works

An SMSF is run similarly to other super funds – super contributions from members of the fund including yourself, are invested with the sole purpose of generating retirement savings. When members retire, they can access their retirement savings as an income stream, lump sum or a combination of both.

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Administrative and accounting tasks are completed on a regular basis to ensure member records are correct, taxes are paid, and the fund remains compliant with all relevant laws and regulations to receive tax concessions.

While there is no minimum starting balance to establish an SMSF, starting a fund with a low balance may not be cost effective considering the time, effort and ongoing expenses required to administer your fund.

Based on ATO's SMSF quarter statistical report September 2024[1], 57.1% of new SMSFs established in the September 2024 quarter are from members aged between 35 to 49, and the median assets per SMSF for the 2022-23 financial year is $877,498.

For more information on other aspects of running an SMSF, refer to **'Self managed super fund – is it right for you'** fact sheet.

What are the steps to starting an SMSF?

There are numerous steps to starting an SMSF, including:

- Choosing a trustee structure,
- Establishing a trust,
- Obtaining a trust deed,
- Signing the trustee declaration,
- Developing an investment strategy,
- Registering with the Australian Taxation Office (ATO), and
- Preparing an exit strategy.

To ensure your SMSF is compliant and eligible to receive tax concessions, consider seeking professional advice from a licensed financial adviser, tax agent or accountant able to step you through the process of establishing an SMSF.

For more information on setting up an SMSF, visit the Australian Tax Office website at www.ato.gov.au and search 'setting up an SMSF'.

Operation of an SMSF



1. Australian Taxation Office, SMSF quarterly statistical report December 2024, available at https://data.gov.au/data/dataset/self-managed-superannuation-funds viewed 28 February 2025

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What trustee structure should I use?

For your fund to be an SMSF, several requirements under super and tax law must be met. As a member of the fund, you must also act as a trustee or director of the corporate trustee. This means all members are involved in managing the SMSF. Depending on the type of trustee arrangement you decide to use, your fund is an SMSF if all of the following apply:

If your fund uses individual trustees	If your fund uses a corporate trustee
Has six or fewer members	Has six or fewer members
Each member is a trustee	Each member is also a director of the trustee company
Each trustee is a member	Each director of the trustee company is a member
Unless related, no member can be an employee of another member	Unless related, no member can be an employee of another member
Trustees do not receive payment for performing their duties	The corporate trustee is not paid for fund related duties
	No director is paid for performing fund related duties

For more information on choosing a trustee structure, refer to **'Self Managed Super Fund: trustee duties and obligations'** fact sheet.

Can I structure an SMSF with a single member?

Additional rules apply if you decide to structure your SMSF as a single member fund, i.e., you are the only member of your fund. You are still required to choose between an individual or corporate trustee arrangement and your fund is an SMSF if all the following apply:

If your fund uses individual trustees	If your fund uses a corporate trustee
You must have at least two individual trustees: • One trustee is a member • Second trustee is not a member, is related to the member, or is neither employed by the other member nor related to any other person who is employed by the member. • Trustees do not receive payment for performing their duties	**The member must be one of the following:** • Sole director of the trustee company • One of only two directors who are either related to each other, or the second director is neither employed by the other director nor related to any other person who is employed by the other director. • No director is paid for performing fund related duties

Who can join your SMSF?

Anyone 18 years old or over can be a trustee of a SMSF if they are not under a legal disability (such as mental incapacity) or a disqualified person. A disqualified personal is someone who has been convicted of a dishonest offence, in any state, territory or a foreign country; have been previously issued with a civil penalty order or is currently bankrupt or insolvent under administration.

Members of the fund can include relatives such as a spouse, children and/or parents. Anyone who is an employee of another member cannot be in the same SMSF unless they are related.

You can add members after the fund is set up; however, it can only have a maximum of six members. Having multiple members can be cost effective as fixed costs are shared by all members of the fund.

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Ongoing compliance

Where an SMSF is a compliant fund, i.e., it complies with relevant laws and regulations, earnings generated by the fund are taxed at 15%. This is generally tax effective in comparison to assets held directly in your own name, where earnings are taxed at your marginal tax rate.

Where an SMSF fails to maintain compliant status, the tax concession will be removed and all income and capital gains will be taxed at 45%. There are also a range of other measures that can be undertaken by the Australian Taxation Office (ATO) including:

- Administrative penalties payable by trustees which cannot be paid using assets of the fund
- Civil and criminal penalties
- Freezing SMSF assets

For more information on non-compliance and other penalties that could apply, refer to **'Self-Managed Super Fund: trustee duties and obligations'** fact sheet.

Assets of an SMSF

An SMSF can invest in a range of assets as outlined in the fund's investment strategy and can include:

- managed funds
- shares (listed and unlisted)
- cash, term deposits, bonds and debentures
- cryptocurrency or digital assets
- real property (residential and commercial)
- collectables and personal use assets such as artwork, jewellery, vehicles, boats, or wine

Depending on the asset type, there may be strict rules around how it is acquired, used and stored.

Can I maintain my SMSF if I move overseas?

To receive tax concessions, your fund must also be a resident regulated super fund at all times during the financial year.

Broadly, this means:

- Your SMSF was established in Australia, or at least one of the SMSF's assets is in Australia,
- The central management and control of the SMSF is ordinarily undertaken in Australia; and
- At least 50% of the SMSF members must be in Australia, measured by market value

Depending on the structure of your SMSF, extended travel times or overseas working arrangements could fail this requirement and your SMSF may no longer be compliant.

For more information, refer to the Australian Taxation Office website at www.ato.gov.au/smsf and search for 'Residency of self-managed super funds'.

What happens if I pass away?

Similar to other super funds, in the event you pass away, your super interest is payable as a death benefit, which can be paid either as a lump sum or pension (if beneficiary is the deceased's spouse or minor children). Depending on how your SMSF is structured, the fund may continue if there are other existing members willing to administer it.

Alternately, if remaining members prefer not to administer the fund, they can choose to close or 'wind up' the SMSF in future.

For more information on winding up an SMSF, refer to **'Self Managed Super fund: winding up'** fact sheet.

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Is it difficult to close an SMSF?

In the event you decide your SMSF is no longer appropriate for your circumstances, you can close it at any time. Or, in the event you pass away, other members of your fund may choose to close it at any time. This is commonly referred to as 'winding up' an SMSF. To wind up an SMSF, refer to the trust deed of the fund and follow the steps described.

Winding up an SMSF generally involves paying out or rolling over all super interests, completing a final audit, lodging a final tax return, paying outstanding tax and closing the fund's bank account after debts and liabilities are settled.

There may be alternatives to winding up your SMSF, speak to a licensed financial adviser who can help determine whether it is an appropriate and cost-effective solution.

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