Winding up your SMSF the right way

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Section 1.

Introduction

A spate of changes over the past several years has impacted self managed super funds (SMSFs) with increasingly onerous responsibilities. And, with a federal election looming, the Australian Labor Party (ALP) has raised the possibility of more changes in 2019 (such as the proposed changes to franking credits). As a result, investors seem to be taking a closer look at the possibility of transitioning from their existing SMSF to a retail public offer fund.

However, to successfully transition from an SMSF to a public offer fund, there are several important considerations.

This guide has been designed to help individuals who have chosen to make this change, map the journey and develop a plan to aid in this process.

This guide does not consider your personal circumstances or needs, it does not contain personal advice. Before deciding to wind up your SMSF, we recommend that you seek financial advice.

Case study: Why one member made the move to a retail super fund

Tony, a 74-year-old retiree, made the choice to wind up his SMSF and transition to Netwealth's retail fund in April 2018.

Tony was previously managing his SMSF using Netwealth's Wealth Accelerator investment account.

Tony's reasons for looking to move to a retail fund were largely to reduce the administration burden necessitated by end of year reporting.

Tony was also concerned with the additional fees he was paying for auditing.

Investors seem to be taking a closer look at the possibility of transitioning from their existing SMSF to a retail public offer fund.

"As the years rolled by, I was finding the process becoming a hassle. I was getting a little frustrated at all the record keeping, as I was still having to supply my accountant a lot for my SMSF end of year reports," Tony says.

He admits that health problems served as an added motivation to proceed with his decision.

"I wanted to make it as simple as possible for the family when I am not around," Tony says.

"I had a look at the super products offered by Netwealth and I thought well I've got the same investment freedom as I had with SMSF, and that was sort of the main thing for me," Tony says.

"I can invest overseas, I can invest in local shares, I can invest in fixed interest and

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in managed funds. So, I decided to make the switch."

Today, members of Tony's family each have their superannuation accounts in the Netwealth fund and they benefit from reduced administration fees utilising Netwealth's family fee linking.

He adds: "Netwealth has been a great partner during the entire transition process. They've helped me with the paperwork and provided me a dedicated contact person for help and support."

Why are people leaving their SMSFs?

SMSFs can be highly advantageous for many people. However, there are several reasons that have prompted people to consider leaving their SMSF behind.

Some SMSF owners, like Tony, feel that managing a super fund is a strain on their time, while others find the frequent regulatory changes overwhelming.

On 1 July 2017, we saw the introduction of the biggest changes to superannuation rules in a decade, and all at once.

These changes have had a big impact on retirement planning, reporting requirements and record keeping, particularly for SMSFs.

According to Netwealth's Technical Manager Keat Chew, "managing an SMSF has become significantly more complicated as there are numerous issues SMSFs have to deal with that previously didn't exist".

Keat also noted that the underlying tax and reporting issues which were created as at 1 July have particularly affected members in the accumulation and pension phase, which could create difficulties for the remaining spouse.

Something else making SMSF members nervous is the possible changes to franking credits.

In 2017 we saw the introduction of the biggest changes to superannuation rules in a decade, and all at once. These changes have had a big impact on retirement planning, reporting requirements and record keeping, particularly for SMSFs.

Keat points out that Labor's proposal to make franking credits non-refundable will predominantly impact SMSFs with 100 per cent of their fund in pension phase, because they are already exempt from tax.

"If they have no tax liability, the franking credits can't be used, and under the proposed Labor policy, they aren't refundable, the excess credit amount will be lost," he says.

"The fund will still receive the actual dividend with the attached franking credit, but this credit is no longer recoverable and refundable as cash."

While these are only some of the reasons, others may include a desire to move overseas or the concern that a remaining spouse may not be in the best position to continue managing the SMSF.

Section 2.

Winding up your SMSF

Let's say you do decide to wind up your SMSF. There are several things you'll need to consider or map out, which a financial adviser may be able to assist you with.

- Key features and differences between public offer super funds and SMSFs
- Selecting the right type of account for your stage of life
- How to wind up and transfer your SMSF

Key features and differences between public offer super funds and SMSFs

Not all super funds are created equal. We look at some of the main features of public offer super funds and SMSFs. We also highlight some of the key things to consider when picking the right public offer fund.

What are the differences?

- Compliance and regulation

When investing in a public offer super fund, your super account is one of many under the one tax entity and is professionally managed by trustees in compliance with super and tax law.

In an SMSF, you are the trustee responsible for all aspects of how the fund works. It's up to you to ensure that proper records are kept, that your fund is compliant with the relevant regulations and that you have a suitable investment strategy. You must also be capable of dealing with all legal and tax issues.

- Time obligations

As public offer funds are responsible for looking after your funds, you don't have to prepare tax returns, audits, investment valuations, and you don't need to stay up to date with legislation. Instead you can focus your time on managing your investment portfolio knowing the professional super fund trustee is required to meet all paperwork and legal requirements.

As an SMSF owner, these responsibilities fall under your care.

- Protection

Members of public offer funds have important protections when something goes wrong, which are not available to SMSFs.

This includes no compensation for SMSF members who sustain losses due to fraud or theft. If there are any complaints or disputes, SMSF members/trustees must resolve their own issues, which may incur high legal costs with no access to the Australian Financial Complaints Authority.

Not all super funds are created equal

Choosing between public offer super funds

- Investment control and flexibility

Each super fund will offer a different level of investment choice and it's up to you to make sure you're comfortable with the level of control available.

Commonly, super funds will provide a menu of investment options from which you're able to make and place a percentage of your portfolio. Some funds may provide a limited choice of standard portfolios with differing risk/return profiles.

Other funds provide an extensive choice of individual assets that enable you to construct your own portfolios to suit your needs.

Key features and differences between public offer super funds and SMSFs

These may include choices of direct ASX-listed shares, overseas shares, term deposits and many types of managed funds.

If you want to invest in a certain ETF, stock or managed fund, you'll need to check its availability within the trustees' range of investment options and any limit that the trustee sets for particular investments.

- Online functionality

Being able to manage and analyse your portfolio is important and you'll find that each super fund offers different levels of online control and versatility in management tools.

Before making a choice, we suggest that you ask for a demonstration to make sure you're comfortable with managing your online account. This will give you an insight into how you can perform transactions such as buying and selling investments, making withdrawals, updating your pension payments, and analysing transactions and performance reports.

- Fees and costs

Small differences in investment performance and fees and costs can have a substantial impact on your long-term returns. For example, total annual fees and costs of 2 per cent of your account balance rather than 1 per cent could reduce your final return by up to 20 per cent over a 30-year period (for example, reduce it from $100,000 to $80,000).

Each super fund is required to disclose all fees and costs in their product disclosure statement, and you should consider whether investment performance or the provision of better member services justify higher fees and costs.

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Selecting the right type of account for your stage of life

In the process of closing your SMSF, you'll need to open an account with your chosen public offer super fund ready for your SMSF rollover. Depending on your life stage, there are several types of accounts you can open.

Note that each member of your super fund will have a separate account.

There are two main account types – accumulation and income streams (pensions).

Pensions can be either transition to retirement pensions or a standard income stream. Depending on the account type you choose, there are different characteristics and taxation rules with restrictions on your ability to make additional contributions and receive an income stream.

<table>
<tr><th>Type of account</th><th>Accumulation</th><th>Transition to retirement</th><th>Standard income stream</th></tr>
<tr><td>What's it designed for?</td><td>Accumulation accounts are used to build wealth for retirement.</td><td>A transition to retirement pension allows you to draw down some income from your super if you've reached your preservation age and still working, to supplement your income from work.</td><td>A retirement income stream, which you can commence once you've met a necessary condition of release. You can use the proceeds from your super balance up to the transfer balance cap (currently $1.6 million) to generate an income.</td></tr>
<tr><td>How tax on income and capital gains is treated</td><td colspan="2">Any investment income and capital gains generated on the sale of assets within the fund is taxed at the concessional rate of 15 per cent. A one-third tax discount is received for capital gains generated from assets that have been held for longer than 12 months. This means that the effective tax rate is 10 per cent.</td><td>There's no tax payable on investment earnings or capital gains and any franking credits earned are passed back to the member.</td></tr>
<tr><td>Can I make ongoing or additional contributions?</td><td>Yes, subject to the contribution rules you can make ongoing contributions including eligible employer contributions and additional super rollovers.</td><td colspan="2">No, a pension account cannot accept additional contributions or subsequent rollovers once established. A pension is usually commenced by transferring a lump sum up to the transfer balance cap from an accumulation account and, once established as a pension, can't accept further contributions. A pension account can be transferred back to an accumulation account at any stage should you wish to start a new retirement account with additional funds. In saying this, you can have a transition to retirement account or a standard income stream at the same time as an accumulation account.</td></tr>
<tr><td>Can I receive a regular income stream?</td><td>No, accumulation accounts are used to build wealth and you can't take an income stream but you can access lump sums if you have met the necessary condition of release.</td><td>Yes, a transition to retirement account allows you to receive an income between 4 per cent and 10 per cent of your account balance each financial year. You can nominate your amount and payment frequency.</td><td>Yes, in an account-based pension you can receive a regular ongoing pension payment. There is an annual minimum amount you need to withdraw based on your age and there are no maximum restrictions.</td></tr>
</table>

How to wind up and transfer your SMSF

Whether you've decided to wind up your SMSF because you lack time to properly manage your fund or you're no longer happy with the SMSF running costs, here are some steps you should consider that a financial adviser can help you with.

1. Check the trust deed of the SMSF – The trust deed may include wind-up instructions, so this should be your first step.
2. Written agreement – All trustees or directors will need to agree about the wind-up and you need to document their decision. This is vital to avoid unnecessary complications.
3. Pay existing member benefits – You need to payout or rollover the balance of members' super to another fund, this may involve selling assets or transferring them without selling the underlying investment (in-specie transfer). Each member must notify how and where they want their benefits paid.
   - In the case of pension members, trustees must ensure that at least the minimum pension (pro rata) has been paid.
4. Prepare draft financial statements – Draft financial statements are important as they determine the value of each member's benefits.
   - This may take some time to finalise and delay the fund wind up. If it's crucial for the members funds to be in a retail fund as soon as possible, it's common to rollover the bulk of the balances immediately and only leave a sufficient amount to wind up the SMSF and pay the expenses. Any smaller amount remaining after finalising the wind up can be rolled over to the retail fund.

A financial adviser can help you wind up your SMSF

5. Sale or transfer of assets – Trustees must arrange the sale of assets or arrange for them to be transferred in-specie either to the member, if exiting super altogether, or to the receiving fund directly if rolling over. Things to consider:
   - Some retail funds will require you to sell your SMSF investments and transfer the proceeds in cash. You should check with the fund whether they can accept the asset and any maximum holding limit.
   - A rollover needs to be initiated for each member and each rollover needs to be accompanied by a rollover benefit statement.
   - A rollover benefit statement allows retail funds to correctly record your tax components and other member details.

How to wind up and transfer your SMSF

- It's important to ensure your SMSF pays its minimum pension liabilities where applicable, outstanding tax bills and accounting fees (or has arranged to do so) before it is completely wound up. Some SMSF owners choose to roll over their fund in stages, especially when transferring assets.

6. Final accounts and audit – A final set of accounts and an audit must be completed before you lodge your last SMSF annual return, making sure to indicate your fund is being wound up.

7. Tax and compliance – You need to pay any outstanding tax and other debts (or arrange to) before closing your fund's bank account.

8. Notify the ATO – Notify the ATO in writing within 28 days of the fund being wound up. You will need to provide the name and ABN of your SMSF, the date your fund was wound up and a person of contact.

9. For corporate trustees – If you're a corporate trustee, the steps may be slightly different and you may want to apply to ASIC for a voluntary deregistration of the company. To do this, you must first make sure all members agree to deregister, the company isn't party to any legal proceedings and all fees and penalties payable under the *Corporations Act 2001* have been paid.

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Tax implications when closing an SMSF

It's important to get specialist tax advice when winding up an SMSF so you don't accidentally trigger unnecessary tax liabilities. Many people close their SMSF while in pension phase because they believe there are no tax consequences in pension phase, but that may not necessarily be the case.

For anybody that's still in the accumulation phase, there's usually CGT on any accumulated capital gains when rolling out the assets to another fund as well as the usual tax liabilities and obligations at the time of wind up. CGT will be at the superannuation tax rate of 15 per cent. Where you have held the assets for over 12 months the CGT will only apply to two-thirds of any gains, so the effective tax rate is 10 per cent of the gain.

The same applies if you're selling or transferring assets through an in-specie transfer.

If you have property in your fund you may need to sell it, as public offer funds don't normally allow you to hold the property in the fund. The same CGT rules apply and you may have other selling costs on the property when winding up the SMSF.

The table to the right sums up ATO information on effective CGT rates (after CGT discounts where applicable).

Note: It's always best to close a fund well before the end of the financial year, because if you enter a new financial year you'll be responsible for undertaking another tax return.

This is a complex subject, so it's important to seek tax advice that reviews your specific circumstances and makes appropriate recommendations for you.

ATO information on effective CGT rates

Length of time asset was held prior to sale	Accumulation phase	Pension phase
<12 months	15%	0%
>12 months	10%	0%

Source: ATO

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Netwealth's super retail fund

If you're transferring from your SMSF to a public offer super fund, then Netwealth's Super Accelerator could be an option for you. This information has been provided to give you information about Netwealth's product offering.

Super Accelerator provides a range of investment options and enables you or your financial adviser to buy, hold and sell investments within your super account.

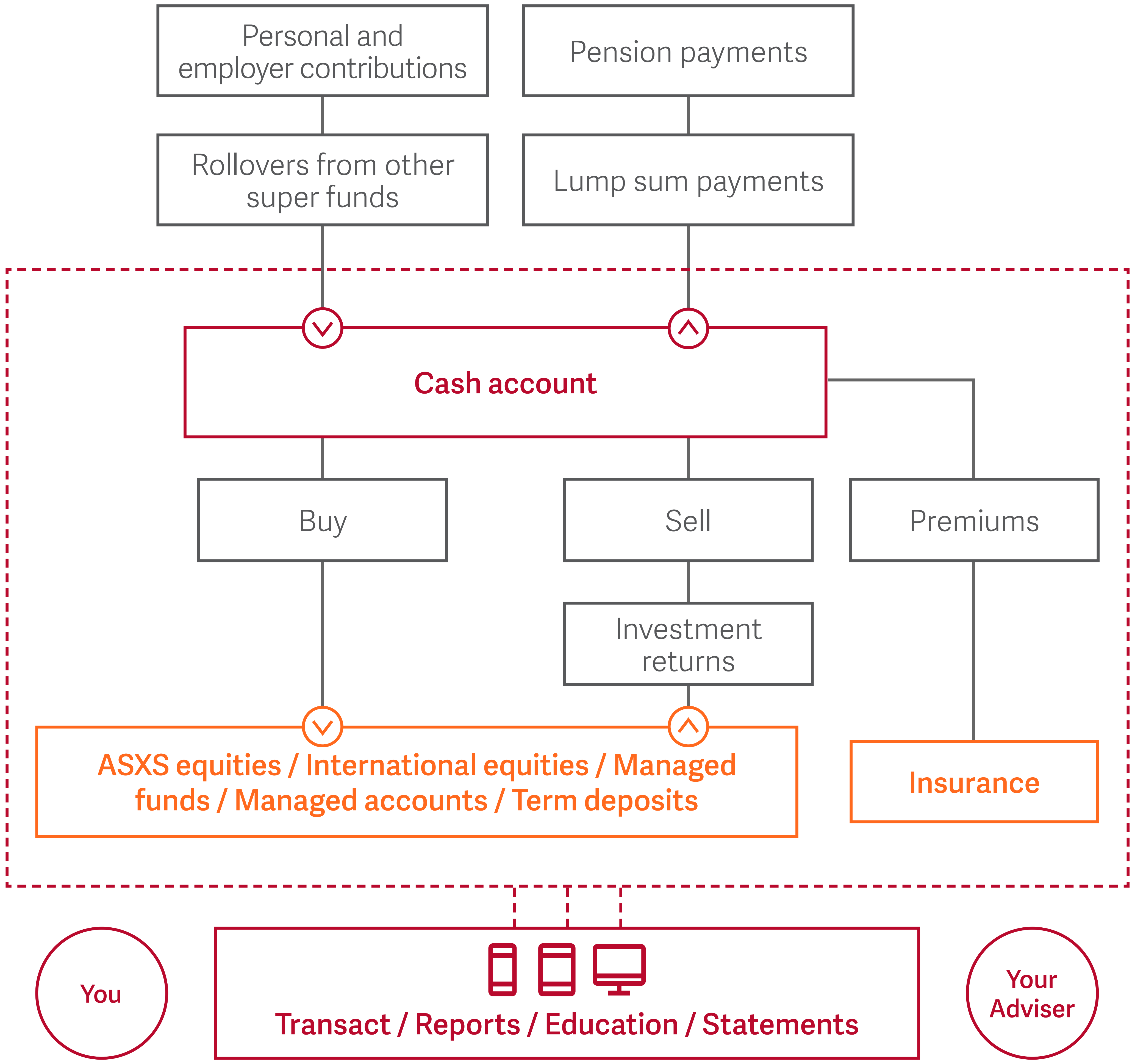
You can choose between Super Accelerator Core and Super Accelerator Plus depending on your requirements.

And, you can monitor your portfolio online and obtain consolidated reporting for all investments in your portfolio.

Super Accelerator Core is a simple, cost effective and easy-to-manage super service, offering some of the best-known investment managers and best-in-class online tools around.

Super Accelerator Plus is an all-in-one solution, providing the investment flexibility and control you would expect from an SMSF as well as sophisticated portfolio management tools without you having to act as trustee and personally meet the ongoing regulatory requirements.

Your Netwealth super account



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Get to know Netwealth's super fund

Investment options

Available options	Super Accelerator Core	Super Accelerator Plus
Cash	✓	✓
Term deposits – Choose term deposits of differing maturity lengths from a range of leading Australian banks.	✓	✓
Netwealth Global Specialist Funds and GSS Managed Models – Construction of diversified investment portfolios with cost-effective investment options.	✓	✓
400+ managed funds – Multiple investment categories, asset classes and managers, many at wholesale prices.		✓
ASX securities – Invest online in ASX listed securities – including all company shares, ETFs, AREITs, LICs, income securities and certain warrants, and IPOs.		✓
International securities – Choose from a range of securities listed on multiple international exchanges, including NYSE, NASDAQ and the LSE.		✓
Managed account models – Invest online in professionally managed multi-sector, diversified and international investment portfolios.		✓

Online and mobile portfolio management tools

Manage multiple accounts	You can control multiple accounts with one login. For example, you manage the super accounts for a husband and wife.
Holdings summary	Keep track of your portfolio. With detailed holding reports, see the latest values and exposure by asset class.
Investing	Buy and sell managed funds, shares, and term deposits in a few clicks. You can also establish reinvestment plans to manage income earned.
Performance reporting and charts	Analyse your portfolio with clarity and transparency. Review all elements of your portfolio, including income, capital movement, taxes and fees, and gain new insights and opportunities via our comprehensive range of performance reports and charts.
Investment research	Access to some of the best available research data and tools on local and international markets like ASX live data and managed fund research.
Mobile app	Control your super and investments on the go with a mobile app for Android and iOS.
Add and withdraw funds	Manage your cash flow with an inbuilt cash management account. Contribute directly to your account at any time via EFT and BPAY. Request online withdrawals to any Australian bank and update your regular pension payments.

Wealth creation, protection and insurance

Available options	Super Accelerator Core	Super Accelerator Plus
Group insurance cover – Insurance cover provided under our group policy.	✓	✓
Individual insurance cover – Choose a personalised policy from one of three insurers.	✓	✓
Tax optimisation – Choose between FIFO, LIFO and parcel selection when selling assets.	✓	✓

Get to know Netwealth's super fund

Fee saving initiatives

Netwealth offers its clients several cost-saving initiatives, such as family fee grouping.

Family fee linking may enable immediate family members to link their Netwealth accounts, so when administration fees are calculated, the combined account balance is used rather than the smaller individual account balances. Access to family linking and the number of accounts depends on which Netwealth products you use.

Example: Jane and Bill are married, and both have Super Accelerator Plus Personal Super accounts with balances of $100,000 and $600,000, respectively. By linking their accounts, annual administration costs are charged at the combined $700,000 balance. Jane and Bill can save $340 on administration costs, or nearly 10 per cent of their combined administration costs.

For non-super monies, you can open a Netwealth Wealth Accelerator account and combine with Super Accelerator accounts for fee calculation. A Wealth Accelerator account is an online, feature-rich service that provides comprehensive reporting and a transactional and administrative service that allows you to buy, hold and sell investments from an extensive menu of investment options, via a single account. Refer to the relevant PDS for more information about which accounts can be linked and how it works.

Life-stage options

No matter where you are in your wealth journey, you can take advantage of the range of life-stage options in Super Accelerator (Core and Plus). We recommend you seek financial advice about which product may best suit your individual needs and circumstances.

Personal Super

A Personal Super account is designed for working Australians and allows you to receive contributions made by your employer, any other eligible contributions and rollovers from other funds.

Transition to Retirement Income Stream

For people who have reached 'preservation age', i.e. the age you can access your super, a Transition to Retirement (TTR) Income Stream may be of interest as it allows you to supplement your income while still working.

Standard Income Stream

For people in or near retirement, our Standard Income Stream account provides a tax-advantaged solution for generating a regular income from your super.

Any questions?

If you have any questions about our Super Accelerator product, call or email us.

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