EXPANDING SMSFs FOR THE EXPANDING FAMILY?

It has finally happened. Recommended by the Cooper Super System review in 2010, put forward in the Federal Budget two years ago by then Treasurer Scott Morrison and finally passed on 17 June 2021, the maximum amount of members allowed in a Self-Managed Super fund has expanded from four to six.

Despite the previous maximum of four members, the vast majority of SMSFs had only one or two members therefore this increase did not exactly stop the press. Yet the question remains, why would an SMSF want six members and what are the disadvantages?

The most logical reason for a fund to grow to six members is to gather a larger pool of assets to invest. A larger amount to invest could open up residential and commercial property investment, or other nonstandard assets that require a large capital outlay, such as fishing licenses or marina berths.

Greater diversification for what many would consider standard-assets, such as shares and managed funds, could be better achieved with six members.

Additionally, if the SMSF is paying fixed accounting and administration costs, having six members would also result in a lower cost per member.

If a large family is running two funds currently due to the previous four member limit, the funds can now be consolidated. However, it would be a capital gains tax event for the fund that is being closed down. Therefore consideration should be given to the unrealised tax position for each fund when deciding which to keep, and which to close.

The main disadvantage of a six member fund is just that, the six members. The larger the fund, the greater number of people who are involved in the decision making process and the greater number of people who have to agree. With a greater number of members there is also the greater likelihood that there will be a falling out or there will be a marriage breakdown that could result in the division of superannuation. This would be particularly detrimental if the six member fund was established to invest in one large illiquid asset.

The chances of one of these unfortunate events occurring magnifies with each additional member, so it goes without saying that six member funds and the accountants and advisers that assist them will see their fair share of grief and the financial consequences that result.

For current SMSF trustees who are considering taking advantage of this legislation change, a review of the trust deed should be completed and a corporate trustee should be appointed if one is not already in place.

The SMSF member limit increase to six is good. It provides more choice in a superannuation environment which is known for restrictions and adverse government legislation changes. Opening up self-managed superannuation funds to six members does increase additional investment opportunities, however serious consideration should be given to potential ramifications prior to proceeding down this path.

If you would like to discuss establishing an SMSF with six members, or adding members to an existing SMSF, please contact your Bell Potter adviser.

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