

THE MORE THE MERRIER, OR IS SIX A CROWD?

Following a recommendation by the Cooper Super System Review in 2010, the maximum number of members allowed in a self-managed super fund (SMSF) increased from four to six, a change that took effect on 17 June 2021.

Even when the member limit was four, most SMSFs had only one or two members. Therefore, it is unsurprising that SMSF accountants have not been overwhelmed with requests to add more members over the past three years. However, this raises an interesting question: why would an SMSF want six members, and what are the potential disadvantages?

The most logical reason for a fund to grow to six members is to gather a larger pool of assets for investment. With more capital, there is potential to invest in residential and commercial property investment or other non-standard assets that require a large capital outlay, such as fishing licenses or marina berths.

Similarly, having more members allows for greater diversification in standard assets, such as shares and managed funds. Additionally, if the SMSF is paying fixed accounting and administration costs, having six members would result in a lower cost per member.

On the other hand, the main disadvantage of a six-member fund is just that, the six members. More members in a fund often mean more opinions to reconcile, which can slow down and add complexities to decision-making. Also, the risk of disputes or a marriage breakdown can increase, resulting in a complication of the division of superannuation – particularly if the fund is invested in a large, illiquid asset.

Unfortunately, the likelihood of these events occurring increases with each additional member. As a result, six-member funds, along with the accountants and advisers assisting them, will see their fair share of grief and the financial consequences.

Current SMSF trustees looking to take advantage of this legislation change should review the trust deed and appoint a corporate trustee if one is not already in place.

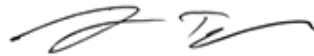
Importantly, a large family running two funds due to the previous four-member limit can now consolidate them. However, closing one fund could trigger a capital gains tax event, so it is essential to assess the unrealised tax position for each fund when deciding which to keep and which to close.

Overall, increasing the SMSF member limit to six is a positive change. It provides more choice in a superannuation environment often known for its restrictions and adverse

government legislation changes. While expanding to six members opens up more investment opportunities, serious consideration should be given to the potential long term consequences before making this decision, especially after the initial honeymoon period ends.

Next steps

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.



Jeremy Tyzack

Head of Technical Financial Advice
Bell Potter Securities

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