

Adding a member

TO YOUR SMSF



Introduction

An SMSF can have up to 6 members. For some families or other group arrangements, there are valid reasons to add a member. Whilst we are not discouraging you from adding a new member, we would like you to fully consider all the potential outcomes which may detract from the amazing possibilities you see in front of you. If you have a corporate Trustee already, it will make life easier for you. If you have individual Trustees we would encourage you to move to a corporate Trustee as soon as possible. This summary is designed to give you the advantage of our experience to make informed decisions, leading to better outcomes. It is not intended as advice or encouragement to add a member.

Who can join your SMSF, Qualified?

1. You can't be a disqualified person- If the person you are adding says "yes" to the following questions, they will not be able to join.

A. Have you ever been convicted of a dishonest offence, in any state, territory or a foreign country?

B. Offences of a dishonest conduct are things such as fraud, theft, illegal activity or dealings. These convictions are for offences that occurred at any time, including convictions that have been 'spent' and those that the court has not recorded due to age or first offender.

C. Have you ever been issued with a civil penalty order?

D. Civil penalty orders are imposed when an individual contravenes a civil penalty provision. This can be an order to pay a fine or serve jail time.

E. Are you currently bankrupt or insolvent under administration?

F. You cannot be a trustee of an SMSF while you are an undischarged bankrupt. You cannot remain a trustee if you become bankrupt or insolvent after you are appointed.

G. Have you been previously disqualified by the ATO or APRA?



H. The commissioner of taxation as regulator can disqualify a trustee. This disqualification is permanent and is not just specific to the SMSF you were a trustee of at the time. The Federal Court can make an order to disqualify a trustee of an APRA fund. This is permanent and this disqualification does not allow you to operate an SMSF.

What to Consider before admitting a new member?

Full Disclosure

Depending on who is joining your SMSF, it is important to understand that new members **will have full access** to the financial information of the other members. This is because they act as Directors of the Corporate Trustee as well as being members of the SMSF. They make decisions about the investments of the SMSF for members so they need to sign off on members statements each year as Directors. It is their responsibility to oversee the running of the SMSF, so in turn they must have full access to its information. If you are admitting children or non family members to your SMSF, all your information will be fully disclosed to the other members.

Access to Investment Accounts

Share Trading and Bank Accounts need to be accessed in order for the SMSF to function. If you are admitting members to your SMSF, you will need to consider who has access to these accounts and what protocols they will need to conform to in order for transactions to be completed. For example, if three members have access to the same share trading account or bank account, what transactions are they allowed to complete without discussion with the other members. What transactions require discussion and agreement.

You can set up rules for banking that will stop any payments being made unless two members authorise them. These practical hurdles are not fatal, but due care and consideration needs to be made prior to admitting people into your SMSF.

Investment Strategy Divergence

Adding more members to your SMSF, increases the chance that investment philosophies between the members will be different. Because SMSF's are usually one pool of assets enjoyed by all members, having different opinions on investing can be problematic. What happens if one member wants to invest the SMSF's money into higher risk investments, and the other members are too conservative to agree? How can the Trustees break the stalemate and how can the Trustees invest in the best interests of all the members?

Cash Flow Positive

Admitting younger members can have a very positive impact on the SMSF's cashflow. Most younger members are working and actively contributing to Superannuation. This cash can be used to fund the older members pension requirements. Over time, the existing assets that the older members previously purchased, "pass" to the younger members in exchange for the cash they provide in the form of contributions.

An example is an SMSF with a large illiquid asset (like property that will be gain value over a longer time period). The asset may not be providing enough cash income to satisfy 100% of current pension requirements, but it is expected to provide large capital growth as the new member reach pension phase. The shortfall of cash required to satisfy the pension can be sourced from contributions.

Taking advantage of Long Term Growth Strategies

It is rare for real wealth to be created in one generation. Substantial family wealth (life changing wealth) can take two or three generations to produce. Many wealthy families have accumulated wealth by acquiring assets that appreciate over long time horizons like land, real estate and blue chip shares. Time and compound interest will build substantial wealth for future generations whilst being able to meet the current retirees needs. It is not intended for Superannuation be passed in perpetuity, but assets can be if the right cashflows are in place.



What are you trying to Achieve?

If you want to add a new member because it will save money or it sounds like a great idea, then please think again. Because you can, does not make it right for you.

Adding members to an SMSF must be fully considered as per the above information. It may be easy to add a member, but removing a member is more difficult and costly. If you admit the wrong type of person to your SMSF, it will make your SMSF difficult to maintain and remain compliant. We can guarantee that removing a member will not be as easy as adding a member and much higher costs will be involved.

We urge you to create a well-considered strategy which justifies your decision and puts some guidelines around it. Creating a new Investment Strategy that considers the impact of your decision and future requirements needs to be documented.

What's Next?

If you have decided to go ahead to add another member, please follow the process below:

1. Complete the application form on our website "Add a member"
 - a. If you need to add more than two (2) members, please complete a second form
2. Once completed you will be sent an email confirmation
3. Supervision will invoice you \$550/member to be added to the SMSF.
 - a. The amount will be deducted via direct debit
 - b. Supervision will update the ABN & ASIC registrations to show the new members
 - c. Supervision will add any minutes or resolutions to be signed by new members
4. You have the choice to sign documents in person or have them posted to you documents need wet signatures (hand written) to be valid
5. If you need to update your SMSF investment strategy (recommended) please set aside 40 minutes to complete a new investment strategy builder (\$110).
 - a. Go to the builder online here: <https://supervision.com.au/investment-strategy-builder/>
 - b. Supervision can assist (\$220).

No Corporate Trustee?

Please make an appointment with Supervision today to discuss creating a corporate Trustee. This is the best way to future proof your SMSF when adding and removing members.

DISCLAIMER

All information provided in this document does not consider any of your investment objectives, financial situation or particular needs and should not be in any way considered as financial advice. SUPERVISION does not provide financial product advice or recommend any financial products or whether you should establish an SMSF. This applies equally to those financial products which are established for any entity or when you become a client of SUPERVISION. We also recommend that you seek professional advice from a financial adviser before making any decision to establish an SMSF or purchase any financial product referred to on this document. While the sources for the materials are considered reliable, responsibility is not accepted for any inaccuracies, errors or omission. Supervision SMSF Solutions (ACN 134 666 596) AFSL 435751. Contact us 08 9367 9655 or info@supervision.com.au.