

SMSF Update

Legislation has passed, taking effect from 1 July 2021, which increases the number of members allowed in a SMSF from 4 to 6.

A common question we are being asked by our clients is whether this change means that they should have up to 4 of their adult children to join them as members of their SMSF?

There are some key benefits to increasing the members in your SMSF. For a start, it means there is a bigger pool of assets to invest.

That can mean:

- ❖ Cost-savings (economies of scale for fixed fees such as administration);
- ❖ Access to investment opportunities that require scale (eg wholesale managed funds or large assets such as property);
- ❖ The opportunity for further diversification;
- ❖ An increased ability to take steps like set up a Limited Recourse Borrowing Arrangement (LBRA).



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Furthermore:

- ❖ It allows trustee structures to continue even if some members move overseas; and
- ❖ It's a great way to engage adult children in investing and wealth creation strategies from a young age.

There are also some potential downsides of increasing the number of members in your SMSF.

Some of the issues to consider include:

- ❖ If different members have different appetite for risk, cash flow and retirement timeframes, they may want different investment strategies. If so, an important consideration is whether this additional complexity undermines the cost-savings associated with having more members in one fund.
- ❖ Having more members has the potential to change the power dynamic in the fund. Remember that all members must be trustees and vice versa. Trustees must act in the best interests of all members, regardless of the size of their balance.
- ❖ Having more members potentially means more opportunities for disagreements.

Want to know more? We are here to help. Contact our team today:

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