

smart smsf strategy #5: reserves



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For those of you, who, like me love the technical side of Self Managed Super Funds (SMSF), this month's strategy is for you!

Back in the day when reasonable benefit limits and other fun things were in play within superannuation, reserves had a very big part to play. It was not uncommon to hear terms like "forfeiture" be banded around and reserves were where these ideas arose. Since that time, reserves have fallen out of favour to a large degree; however for those savvy enough to understand how to benefit from them, they still very much have a place in their fund.

What is a reserve?

A reserve is monies held inside a super fund that is not attributable to any one member. Monies are held quite separately to members' accounts and yet still form a part of the overall fund.

What can you use reserve money for?

Reserve monies can be used for a number of purposes. Examples include:

- an **Investment reserve** which allows for smoothing of returns in

members' accounts regardless of what the actual return was,

- a **general reserve** to pay fees and expenses of the fund rather than pulling them from member's accounts; and
- an **anti-detriment reserve**, where upon the death of a member, an additional lump sum can be made from the fund to a spouse or dependent child (certain conditions apply for children) of the deceased and the fund can claim a tax deduction that can be used in future income years.

There are also pension reserves, contribution reserves etc.

How does money get into a reserve?

If a member makes a contribution into the fund, the amount must be allocated to their account within 28 days. This means that monies allocated to a reserve must come from other sources which can include from the investment earnings of the fund.


What are the benefits of reserves?

One benefit of reserves is that unallocated money accumulates over time which can be used to provide members with certain benefits without affecting their individual account balance. As mentioned there are a range of reasons they can be used and therefore assist in growing the overall value of the fund.

Are there things I need to consider before I use a reserve strategy?

YES! First, your fund's trust deed must allow for reserves - your deed specifies the rules of the fund - so this is definitely the place to start. Secondly, with very rigid contribution caps you need to be aware that in certain circumstances, allocations from a reserve to a member's account can be deemed a contribution. As an example, if the allocation from a reserve to a member's account is not considered "fair and reasonable", when consideration is given to all members of the fund, the amount can be counted towards their concessional contribution cap. Depending on the type of reserve being used there are other things to consider also.

How do I know whether this strategy is right for me?

With all of the strategies that *superannuationmatters* have put forward this year, the key is to seek professional advice from a Self Managed Super Fund Specialist Advisor®. Specialist advisors have gained this accreditation through proving their knowledge and technical expertise in SMSFs. At the end of the day, **make sure you are making the most of your super fund! After all it's your money- just not yet...** 

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