



FACTS SHEET – August 2002

DIY Super – The Facts

A growing number of people are setting up and running their own superannuation fund. Is it worthwhile for them to do so? Is it something for you to consider? For the purposes of ensuring that you know what the costs and benefits are we have detailed the essential facts of Self Managed Superannuation Funds, commonly known as DIY Super.

Ownership

All the members of the DIY Fund must also be trustees and there is a maximum of 5 members allowable under the legislation. The trustee/member has control over the fund's investments and administration, plus responsibility for its operations. The idea of the member being also the trustee revolves around the premise that the members are responsible for the control of their own money and will have no one else to blame but themselves if something goes haywire.

Ease of Operations

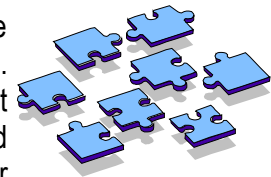
Effectively, you have a bank account and you use it to invest in the assets that fit in with your investment strategy.

Investment Strategy

The strategies employed are typically broad and allows the trustee/member the freedom to choose their investments. DIY Funds are able to invest in assets which a larger fund may not permit or may not wish to invest in, like the premises of a small business.

Costs

A DIY Fund may sound expensive, but typically the cost of setting up a DIY Fund is half that of setting up a company. Furthermore, the ongoing costs are usually again much less than having your super managed by someone else. Some investment experts have declared that investors should have at least \$100,000 before considering setting up a DIY Fund. However, we have found that in some instances, some clients have been better off when their superannuation investments total much less than this.



Tax Concessions

A DIY Fund is able to use the full benefit of tax concessions and credits. The tax rate is 15% on income and employer contributions and 10% on capital gains tax. However, the DIY Fund can utilise the imputation credits from direct share investments to bring about in some instances a \$nil tax position, or even a refund. Further, these concessions and credits are able to be directly applied to the member's accounts, something that a regular public super fund cannot do.

Retirement

DIY Funds are useful for providing pensions, including allocated pensions, to members on retirement or disability and to dependents on the member's death.

What the DIY Fund Cannot Do

- Buy assets from fund members or those related to fund members.
- Invest in entities owned by the fund members or those related to the fund members.
- Provide loans to fund members or those related to fund members.
- Borrow to invest.
- Carry on a business.
- Use the Fund's assets as security for borrowings carried out by the fund members.

What the DIY Fund Can Do

- The Fund has to act in accordance with its documented investment strategy.
- The Fund also has to operate with the sole purpose of providing its members with retirement benefits.
- The Fund has to conduct every transaction at arm's length.
- So long as the above criteria are met, then investments from vintage cars (or boats), to rare stamps, to holiday rental properties in Hawaii, to direct shares, to simple bank accounts, can be acquired.

Can Investments be Leveraged

As discussed above, the DIY Fund can neither borrow or lend money, nor can the Fund's assets be used as security for borrowings by others. Accordingly, most geared investments are out of the question. However, some financial derivatives, such as instalment warrants can be acquired by a DIY Fund without breaching any of the legislative rules.

Instalment Warrants

An instalment warrant is effectively a loan from the warrant issuer for the eventual purchase of shares on the stock market. An initial up front payment is made, usually for half of the shares, with the balance at some later date.

Even though the shares haven't been paid for in full, the DIY Fund still receives all the dividends, including any franking credits. Further, the interest cost on the instalment warrant is tax deductible to the DIY Fund.

But, be warned. As the purchase is an effective 50% leveraged investment, any gains, or losses, in the share price will be magnified by twice as much as those on the underlying stocks.

Important: *The information contained in this Facts Sheet is not advice. Many of the comments in this Facts Sheet are general in nature and anyone intending to apply the information to practical circumstances should seek professional advice to independently verify their interpretation and the information's applicability to their particular circumstances. Also please note that changes to legislation may occur quickly.*

For more information, or if you would like assistance, please contact Farmilo & Co.

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