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Family Trust vs. SMSF

Over the past few years there has been a significant growth in self managed super funds ("SMSF") in Australia and for good reason. Depending on your particular (family) circumstances there are considerable advantages of a SMSF. However, many of the benefits of a SMSF relate only to the current concessional income tax regime.

When embarking on a wealth creation or asset protection strategy it is important to also consider the benefits of a family trust.

Family trusts have a number of advantages over SMSFs that shouldn't be ignored and in fact they can be used in conjunction with SMSFs.

Family trusts have fewer restrictions and rules than SMSFs and therefore may be simpler to operate and therefore may be cheaper to operate.

Other benefits of family trusts include:

- Asset protection,
- Easy intergenerational wealth transfer,
- Capital Gains Tax discount rate for Trusts is 50% for SMSFs it is only 33 1/3%,
- No limit to the $amount of contributions made to the trust,
- No age limits to access funds,
- No minimum annual $amounts that need to be withdrawn (unlike an account based pension),
- Income splitting to all family members, not just the SMSF members, giving potentially greater tax benefits, particularly where there are low, or no, income earners in the family,
- Ability to hold personal use assets, for example a holiday house,
- Ability to run a business through the trust,
- Potential input tax credits, if registered for GST, and
- More flexible estate planning.

Many people believe they have insufficient assets/money to warrant a family trust or the benefits no longer exist or it's just for the rich. None of these reasons are necessarily true.

Some of the benefits of SMSFs are in the tax benefits that (the current) superannuation regime offers as well as the flexibility they give in managing retirement savings, but the benefits of family trusts can be significant.

Example: A SMSF with 4 members in accumulation mode earns taxable income of $72,000., with no tax offsets. The fund would pay tax at 15% being $10,800. If the same people earned this income in a family trust, depending on their other income, this income could be tax free. Over several years this saving could be significant.

Also, through a family trust, ownership of assets such as a share portfolio can simply continue even if a member dies. This is because the trust owns the asset, not the members. Therefore, the assets don't form part of the individual member's estate. Please note, this scenario can be managed if the SMSF has a corporate trustee.

Family trusts can provide for ongoing intergenerational wealth transfer whereas SMSFs must be wound up on the death of the last member, which could create income tax issues.

If the SMSF must be wound up the assets held by an SMSF must be sold, but if the family wishes to keep an asset, they may be liable for stamp duty and conveyancing costs on the transfer.

Still need help?
If you need help with any of these matters please feel free to contact us.

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