Deciding between Corporate Versus Individual Trustees For an SMSF

If you have a Self Managed Superannuation Fund (SMSF), the Fund is considered to be a trust and must have a trustee. There are two options as to who this trustee can be.

Barring a few exceptions, it can be the members individually, or it alternatively can be a company with the members as the directors and shareholders of the company. The choice, either way, is that the trustee of an SMSF can be either an individual trustee or a company as a trustee.

When choosing the appropriate trustee structure for your SMSF, a closer examination of the advantages and disadvantages will assist you in determining what is right for your needs.

The Cost

When looking specifically at the cost, a company as a trustee could initially cost around $1,000 or more to establish. An annual fee of roughly $50 will also need to be paid to ASIC, and when you are finished with the company, there will be costs associated with deregistering it. Using individual trustees, there is no initial cost associated.

Asset Separation

Most importantly, you have asset separation. The assets are held in the name of a separate entity; if the individuals are ever attacked financially, there is nothing to point toward the super fund. Even though the fund's assets should be protected even with individual trustees, if assets are in the individual names, you will need to spend legal fees to prove they are fund assets.

If the fund members are changed, you will need to change the trustees, and if you change the trustees, you need to change the ownership of all the assets. This will be a major administrative burden, as a lawyer will need to be engaged to do the necessary documentation to change the trustees, and is required to be engaged if real estate is involved. In most instances, simply changing trustees and ownership of the assets will cost far more in the long run than the initial investment costs of setting up a corporate trustee.

Compliance Concerns

People always make mistakes, but with SMSFs, mistakes can create breaches of the law. If you have all of the assets in a special purpose company name, there is less chance that you will make the mistake of thinking that a particular fund asset (such as a bank account) will be your own asset. If you take money from the super fund account by mistake, thinking it is your own money, the auditor may report a breach.

If you deposit money into your SMSF account, which is yours and not the fund's, you may not be able to take that money back if the mistake isn't realised in time. While price-wise, individual trustees may seem advantageous at first glance, companies as trustees possess more benefits over individual trustees.

Do you already own a company, and after reading this article, asking yourself if you can use that to set up a corporate trustee? It is only recommended that you do so if the company is not operating in any other capacity, but yes, doing so can save on the initial set-up costs.

There is no one size fits all advice we can give you, but we can try to determine what would best suit your needs. We may sit down with you and agree that individual trustees may be appropriate, but if our recommendation is for a corporate trustee, it is for sound financial reasoning.