

According to us

newsletter

Summer 2015



The important choice of trustee for your SMSF

By Jackie Cook, Financial Strategist

When establishing a SMSF, one of the first decisions that needs to be made is whether your fund will have individual trustees or a corporate trustee. While both options provide you with particular benefits, our preferred approach is via a corporate trustee.

The benefits for each trustee type are highlighted below:

Individual Trustee Benefits:

- Reduced establishment and ongoing costs.
- No ASIC forms to complete to establish the SMSF.
- No ongoing ASIC reporting obligations to comply with.
- Fewer procedural issues to deal with, as there are more flexible requirements for holding trustee meetings and no need to comply with a company constitution.

Corporate Trustee Benefits:

- **Limited liability** – if a corporate trustee suffers any liability, the individual directors will not suffer personal liability (other than in exceptional circumstances). On the other hand, an individual who acts as trustee exposes their personal assets if they incur any liability as trustee of the SMSF.

*Furthermore, due to the new **SMSF Penalty Regime**, if there is a contravention by the SMSF, the penalty will be imposed on each trustee. In the case of a corporate, there is only one trustee, therefore only one penalty. In the case of individuals, there could be up to four trustees, with each person being individually penalised.*

- **Administrative efficiency** – if a new member is introduced to an SMSF, then they must become a trustee of the fund. If the SMSF has a corporate trustee, the member must be appointed as a director of the company and notified to ASIC. However, if the SMSF has individual trustees, a deed of appointment will need to be executed and the trust assets will need to be transferred into the names of all the trustees. This can cause major administrative hassles if the trust assets consist of real estate and shares.

The same procedure would also apply for removing a member of the fund.

- **Simpler succession and control** of a trust on death of an individual – a company continues to function even after the death of one of its directors, therefore, the control of a SMSF can continue even after the death of an individual SMSF director/member.
- **Single member funds** – as a single member SMSF, a corporate trustee avoids the need to include someone else in the management of your retirement savings as a SMSF must have a minimum of two individual trustees, however a corporate trustee can have a single director.
- **Assets are kept separate** – it is easier for a corporate trustee to ensure that trust assets are kept separate from the personal assets of SMSF members.
- **Lender requirements** for limited recourse borrowing arrangements – bank lenders generally insist upon (or at least prefer) the SMSF having a corporate trustee.

We trust the reasons for our preference of a corporate trustee are clear. If you have already established your SMSF with individual trustees and wish to change to a corporate trustee, we can assist you in this process.

Striking A-c-cord

Did you know...

In terms of long term secular trends, highlighted by Bank of America Merrill Lynch, it is estimated, in the UK (with relevance to other developed countries) 1 in 3 jobs will be replaced by computers or robots in the next 20 years.

Seemingly this trend will aid productivity and improve overall economy wide growth. At the least it certainly highlights the challenges such countries face with not only unemployment but also underemployment and policies needed to cater for a 'brave new world'.

The growing fleet of driver-less trucks used by Rio Tinto at its mines in WA is a sign closer to home.



The timely descent of the Australian dollar

By Geoff Greetham, Executive Director

Entering 2014 the Australian economy certainly had a number of challenges to face.

It seemed fair to say, one, was the likelihood of below trend growth in the future, following a once-in-a-lifetime mining boom and doubts/questions as to how that void was to be filled.

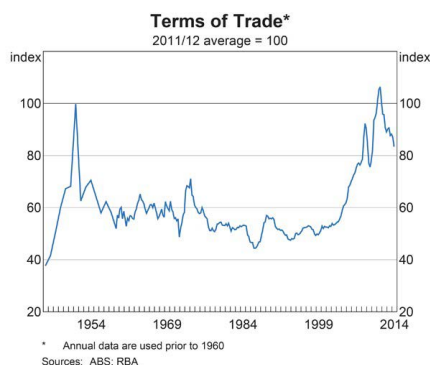
Another was the likely difficulty in achieving a budget surplus in the near future, both as a result of the prevailing economic landscape before us and also the inability of politicians to reach consensus or compromise.

And finally, owing to population ageing, the continuing decline in our workforce participation rate.

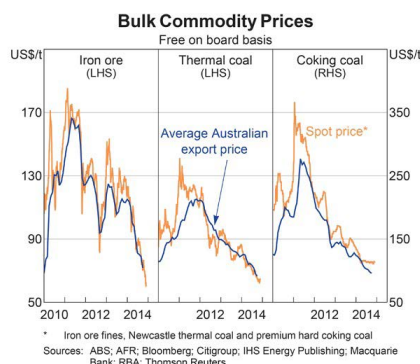
In essence, these 'realities' continue to play out and provide a context for our investment decision making.

One potential hoped-for positive to counter the challenges was the depreciation in the Australian Dollar (AUD) relative to the United States Dollar (USD) – the benchmark for most countries. This has been, and still is, referred to by the Governor of the Reserve Bank of Australia (RBA), Glenn Stevens, in his monthly statement as a necessary requirement for the re-balancing in the economy to take place.

As we approach the end of the calendar year, it is clear this transition has begun, with the AUD finally reacting to the deterioration in our Terms of Trade ie. an indicator of our purchasing power expressed as the relative value of our exports to that of our imports.



This is none more reflected in the price performance of three (3) of our major exports in recent times.



Please note that the information in this publication is for general use only. We would be pleased to talk with you in regard to your particular circumstances should you wish to explore any particular aspect further. Any tax planning matters should be discussed with your accountant before proceeding.

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You may ask why is a lower AUD so important, as surely a strong currency denotes a strong economy. In fact a strong-dollar policy was a US government policy in the mid 1990s based on the assumption that a strong exchange rate of the dollar was both in the US national interest and in the interest of the rest of the world.

A lower AUD does though provide benefits, some of which are:

- it assists our companies to be more competitive, as Australian manufactured goods and services become cheaper relative to those of their international counterparts;
- consumers redirect their spending back to cheaper local options, helping boost in-country consumer spending;
- increased spending domestically translates to an increase in jobs and job prospects;
- it attracts tourists to Australia, with tourism a major contributor to GDP as well as significant employer; and
- profits generated by companies with offshore operations, when translated back into AUD, receive an automatic boost to their earnings.

With regard to the latter we in fact have deliberately positioned our portfolio with a skew towards those companies, who would benefit from the latter. CSL, Computershare, Amcor and Ansell are four (4) companies, whose offshore exposures comprise at least 80% of their overall earnings.

The big question remains – is the AUD depreciation likely to continue? Or perhaps, the question can be re-framed. What will stop the AUD from depreciating?

Whilst a consensus call at present (often a worry when everyone is in furious agreement!), it is hard to find a reason why it won't continue to depreciate.

The looming 'structural' problem with our current account deficit, a transitioning and consequent slowing in China's growth upon whom we have been so reliant, the likelihood of increasing US interest rates improving the USD's attraction, a challenging outlook for our major exports (iron ore and coal) and finally the RBA's desire to see it lower and talk it down at every opportunity all add to the case.

Whilst the trend is clear (and currency pairs, as a rule, tend to display long term trends when they change direction), fair value is much harder to assess though the RBA intimated US75c (currently US82c) would seem more appropriate.

But, a word of warning, the economic variable hardest to forecast is traditionally the exchange rate.

It is never a one-way bet and, whilst comfortable with our call at present, we remain ever vigilant to data undermining the case for ongoing depreciation.