



# Self Managed Superannuation Fund Reserve Accounts

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Self Managed Superannuation Funds (SMSFs) reserves may in certain instances enable the trustee of an SMSF to better administer the SMSF and in turn, to provide better benefits to members and their dependants.

What follows is an overview of appropriate types of reserves that may be found in an SMSF.

## Overview

A SMSF trustee may maintain fund reserves as long as the SMSF's governing rules do not prohibit maintaining reserves. Before creating any reserve, the trustee of an SMSF must review the SMSF's governing instrument in order to review whether the deed prohibits maintaining reserves.

The ili SMSF deed provides that the trustee may:

- establish or maintain any account for, or reserve of, the SMSF that the trustee thinks necessary or desirable or that is required or permitted by superannuation law;
- reserve for any purpose permitted by superannuation law; and
- credit or debit amounts from reserve accounts as the trustee sees fit.

To confer maximum discretion in relation to this issue, the ili SMSF deed does not prescribe which types of reserves can or cannot be established. Consequently, the trustee may

determine what is appropriate for the particular SMSF.

## Calculation of reserves

The amount held in a reserve account constitutes the net market value of the SMSF's assets less than the total of members' account balances.

## Constitution of a Member's Benefits and Fund reserves

The amounts held in a reserve account are not credited to a particular member's account in the SMSF, until distributed from the reserve account to a Member.

Funds held in a reserve account may be sourced from different areas of an SMSF - including, undistributed investment earnings, unallocated employer contributions and forgone or forfeited benefits.

## Treatment of Allocations from reserves

In general, an allocation from a reserve will be treated as a concessional contribution for a particular member, unless the amount:

- is allocated in a fair and reasonable manner to every member; and
- the amount allocated is less than 5 per cent of a member's account balance before the reserve amount is allocated.

Concessional contributions are generally made to an SMSF for, or by, a member in a financial year and are included in the SMSF's assessable income.



### **Managing reserve accounts**

If an SMSF maintains reserves, then its governing deed must include a covenant by the trustee to formulate, and to give effect to, a strategy for their prudential management, consistent with:

- the SMSF's investment strategy; and
- its capacity to discharge its liabilities (whether actual or contingent) as and when they fall due.

The investment strategy may be applied to all reserves or alternatively the trustee may have a separate investment strategy for each type of reserve.

### **Documentation of Reserve Structure**

Trustee minutes should cover:

- the investment strategy;
- the establishment of any types of reserves; and
- the processes and rules by which the trustee will maintain those reserves.

The trustee should hold these minutes with any other original documents relating to the SMSF.

### **Types of reserves**

There are a number of established types of reserves which the trustee can create to accommodate the SMSF's requirements. Common types of reserves include:

#### **➤ General reserve account**

A general reserve account enables the trustee to exercise its discretion to source specific funds (see above Constitution of Member Benefits and Fund reserves). The trustee can then distribute such funds for a number of purposes including increasing rates of return in a particular year to a particular member's account.

#### **➤ Expense reserve**

This reserve allows the trustee to exercise discretion to set aside amounts and use the reserve account to pay the SMSF's general and specific expenses.

#### **➤ Contributions reserve**

A contributions reserve entitles the trustee to delay a direct payment to a member's account for up to 28 days after the end of the month in which the contribution was made.

As such a trustee may be able to use or contribute to the reserve to defer and reduce the impact of superannuation contributions surcharge tax. The liability to surcharge does not occur until the contribution is allocated to the member's account.

The Commissioner of Taxation refers to the use of contribution reserves, in the ruling SCR 1999/1. This ruling sets out the circumstances in which surcharge will apply to contributions and when it will arise.

The 28 day period in which to allocate the money in the contribution reserve also allows for:

- deferring a surcharge; and
- managing a market's contributions caps year to year.

#### **➤ Investment reserve**

An investment reserve is used to hold undistributed investment earnings and is often used to smooth investment returns. The trustee may wish to use an investment reserve to ensure that members of the SMSF receive consistent returns over a period of time.

Full investment returns to member accounts on a year by year basis do not need to be allocated. Hence in a



particular year a trustee may choose to maintain an investment reserve for investment returns in excess of a particular rate of return. The trustee then has the flexibility to apply funds from the investment reserve to increase a member's account if an investment falls below the anticipated return in a particular year.

➤ **Anti-detriment reserve**

Anti-detriment reserves are also known as 's.279D reserves'.

An anti-detriment reserve is used to accommodate an additional payment from the SMSF to a dependant of a deceased member or the deceased member's legal estate. A trustee designed to compensate the recipient for any contributions tax paid by the deceased member.

Note that the trust deed must allow for the funding of an anti-detriment reserve. An anti-detriment reserve is payable to dependants on the death of a member. The amount paid is equivalent to 15% tax paid on the deceased member's contributions. This amount must be paid in addition to the member's balance on death.

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