

*The Inquiry seeks further information on the following areas:*

- To what extent should the Inquiry be concerned about the high operating expenses of many SMSFs?
- Should there be any limitations on the establishment of SMSFs?

**In regard to the first dot point** we submit the Inquiry should be concerned about the high operating expenses of many SMSFs.

We submit SMSF regulations are more excessive, unnecessarily onerous, and expensive than applies to similar size businesses in other fields.

SMSF regulations ought to be no more than applies to other similar size, community risk, and value businesses.

It is our experience that most small businesses claim many times more income and GST tax deductions than most SMSFs. Again, small business has many more and different stakeholders at risk than SMSFs. Yet small business achieves appropriate levels of regulatory compliance without onerous SMSF style compliance costs.

SMSFs individually have only owner stakeholders at risk and obtain far less tax benefit. Yet SMSFs and not small business has onerous regulatory scrutiny and compulsory audit.

When bureaucracies, such as ASIC, (“Not Just self-managed but well managed” and “Self-Super is costly for some says ASIC study”, Australian Financial Review September 17 2013), suggest a self-managed super fund, with less than \$1/2m of capital is of insufficient size to be profitable enough to cover the cost of regulation, it’s time to wind back regulation. Not outlaw the businesses, as the representatives of competing branded superannuation fund competitors often suggest.

There are few problems with SMSFs. The problems do not justify the level of regulation.

*A Statistical Summary of Self-Managed Superannuation Funds, Australian Government Dec 2009, at page 33 list the number of serious SMSF law transgressors.*

Out of 772,000 members, all of whom must be trustees, an insignificantly irrelevant minority have been sanctioned for significant compliance breaches. For example 15 out of 772,000 trustees were disqualified, 0.0000194 of that total for 2007, 6 or 0.00000777 for 2008, and for 2009, 29 or 0.00003756.

It is false to claim excessive tax revenue risk justifies this excessive level of scrutiny.

Our small business received many millions of dollars in tax deductions and had many different stakeholders at risk (employees, creditors, state and federal tax departments etc). Our SMSF has only ourselves as stakeholders and is tax exempt, yet faces a far greater regulatory burden, unnecessarily costing us thousands annually.

Our SMSF in its lifetime has never received the tax deductions our small business did in a single year – yet our SMSF is subjected to significantly more regulatory impedimenta.

Yes, our business received tax deductions for contributing to our super fund – but that was our business, not the fund.

It is clear interests other than a desire to discourage malefactors are motivating excessive SMSF administration costs.

These interests are those of branded fund competitors, seeking to expensively lard up the costs of running an SMSF, so as to impede competition, and those “professionals” charging retirees huge amounts to pilot SMSFs through ever changing regulations. Their interests should not be placed ahead of the savings of retirees.

The Grattan Institute, ( Minifie, J., Cameron, T., and Savage, J. 2014, Super Sting: how to stop Australians paying too much for superannuation, Grattan Institute ISBN: 978-1-925015-55-3) advise non-smsfs are paying around \$20bn in management fees, on balances similar to SMSF fund balances.

They advise branded fund superannuation managers fees equalled a staggering 70% of the amount netted by members, during the 10 years to 2013. They say these are the highest in the world.

Such rapaciousness needs expensive SMSF regulation in order to limit a lower cost competitor.

If big end of town branded funds were able to distribute to superannuants the benefits of superior performance for lower cost, then home brew SMSFs such as ours would disappear. Home brew has disappeared in most other industries.

We urge the following:

- Abolish compulsory expensive but boilerplate professionally prepared, continually changing lawyer prepared SMSF trust deeds. Such deeds are optional for partnerships, why not SMSFs.
- Abolish the requirement for SMSFs to have expensive professionally prepared boilerplate minutes of meetings. They are optional for partnerships, why not SMSFs?
- Abolish compulsory audits for small SMSFs if all members agree. They are optional for all other private entities such as sole traders, small companies, partnerships, trusts and deceased estates, with far more stakeholders and far more community risk, why not SMSFs?
- Abolish tax returns for SMSFs where all members and the SMSF have no taxable income. If superannuants are receiving tax free pensions and no longer contributing, there is no tax to pay by either the SMSF or the pensioner. It's all been prepaid. Therefore no tax can be avoided. Other entities and individuals with no taxable income can apply to the Australian Taxation Office for a lodgement exemption, and still obtain their franking credits – why not SMSFs? Such elimination would free Tax Office resources enabling redirection toward those liable for tax.
- Abolish the requirement for a compulsory professionally prepared, but meaningless boilerplate investment strategy. No other entity, irrespective of size, even listed public companies, must have one.

- Abolish the requirement for SMSFs to pay the Tax Department a fee when they lodge their tax return – no other entity in Australia must pay to lodge a tax return, irrespective of their size.

These simple changes would save retirees thousands annually which currently each of the more than 500,000 SMSFs in Australia, must pay –*billion dollar savings each and every year* for retirees; and place much needed downward pressure on branded fund manager's rapaciousness.

Only branded funds and the audit trade benefits from our tax exempt superannuation fund lodging tax returns and being expensively audited? Superannuants such as us receive no benefit, yet must pay expensively for the privilege.

We are the only stakeholders at risk and we are able to spend the whole of our fund on anything we like any time. The existing regulations are expensive, of no benefit, and an unfair imposition.

**In regard to the second dot point** we submit there should be no limitations on the establishment of SMSFs, other than those on any other comparable small business.

Firstly, there is a direct correlation between the success of economies of various nations and the ease with which a business can be established in that economy.

Competition provides immense benefits to consumers in both reducing incumbent's margins and increasing incumbent's efficiency. There is a tendency for risks to be overstated by incumbents and their sycophants so as to provide a barrier to competition from new entrants.

Australia ought to remain one of the easiest nations in the world to set up any new business.

Secondly, no one is more motivated to protect a superannuant's superannuation than that superannuant.

Any suggestion which has the effect of enhancing the involvement of paid external controllers and reducing the fee free involvement of the superannuant ought to be viewed sceptically.

Self-managed funds currently retain to themselves over \$20 billion annually which might otherwise go in management fees to big end of town branded fund managers. (see Grattan Institute reference earlier)