



SELF-MANAGED SUPER BORROWING FOR PROPERTY

BORROWING THROUGH YOUR SELF-MANAGED SUPER FUND TO ACQUIRE PROPERTY

Changes to superannuation law allows for a self-managed superannuation fund (SMSF) to borrow money to acquire residential and commercial property as part of the fund's investment strategy. If you are a business owner or property investor, you can use these arrangements to buy residential and/or commercial property through your SMSF.

HOW IT WORKS

Your SMSF borrows funds to acquire residential or commercial property. The legal ownership of the acquired property is held in the custodial trust (bare trust) on behalf of the SMSF. The SMSF takes out the loan and contributes cash to pay the deposit and meet legal costs and stamp duty. The SMSF then manages the property in the same way as you would any other real estate investment.

The loan is a limited recourse loan and the property is used as security. In the event of loan default, the lender's and any other person's rights are limited to the residential or commercial property. No claim can be made on any other asset of the SMSF.

The property is leased from the SMSF on commercial terms.

Rental payments, superannuation contributions (eg. SGC and salary sacrifice) and other income enables the SMSF to meet loan repayments and expenses associated with the property.

All income and expenses are received and paid by the fund (not the Custodian). For a commercial property, the tenant can be a related party such as your family business; or an unrelated party under lease. For a residential property, the tenant must be an unrelated party.

When the loan is repaid, legal ownership of the property is transferred from the Custodian Trust to your SMSF.

ARRANGING THE FINANCE

Superannuation law allows for the lender to be anyone who can ordinarily lend money. Many financial institutions now have SMSF loan products available. You can also lend money to your SMSF on an arms-length basis.

The Peak Partnership can arrange finance on behalf of your SMSF at competitive interest rates, through our Lending Solutions area. As part of our normal lending process, we'll review the loan options from a number of potential lenders and present you with the most suitable options for your situation.

continued over

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07 **3360 9888**

17 Mt Gravatt-Capalaba Road, Upper Mt Gravatt Qld 4122

Learn more at www.peakpartnership.com.au



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IMPORTANT CONSIDERATIONS

The following issues need to be considered when borrowing funds to acquire property within an SMSF:

- The law allows for the acquisition of a single asset or collection of identical assets only. Certain properties such as an apartment may have a car park on separate title which may require more than one custodian arrangement.
- As the rights of the lender are limited to the property, financial institutions will typically request for a personal guarantee by the member (to protect against default on the loan).
- You do have the ability to refinance loan arrangements and can include associated expenses within the borrowing (ie. stamp duty, loan costs, brokerage, etc.)
- You are unable to develop or subdivide a property held within a custodian trust that was acquired using a limited recourse borrowing.

OPPORTUNITIES

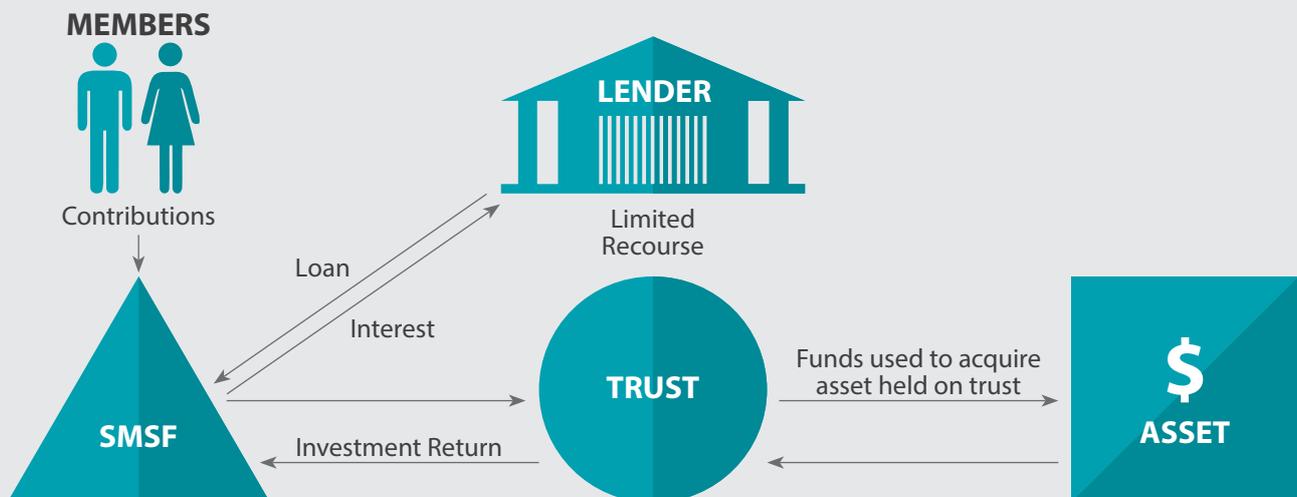
There are a range of strategies available to use when borrowing inside a SMSF. Consider some of the following arrangements where this strategy might be beneficial:

- A business no longer wants to rent or wishes to upgrade their existing premises.
- Commercial property held outside of super - you can transfer the property into a SMSF, however stamp duty and Capital Gains Tax (CGT) may apply to these transactions).
- Residential or commercial property investors.

THE BENEFITS

The ability to borrow within a SMSF allows members to accelerate their wealth accumulation through making loan repayments with pre-tax contributions. Rental income is concessional tax and there is no CGT if the asset is sold in retirement.

For more information about the options to borrow for property through your SMSF, contact **The Peak Partnership Superannuation Solutions** on telephone (07) 3360 9888.



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