

Making your **SUPER** work for you



Self managed super funds (SMSFs)

Changes to superannuation legislation have made it possible for your SMSF to borrow to invest in real estate. There are a number of potential benefits when using a SMSF to invest in property:

1. The SMSF portfolio can be diversified to include real estate with a direct residential property investment not solely through a managed fund.
2. You may be able to reduce the loan faster by salary sacrificing additional funds to make repayments².
3. The trust can offset the loan's interest and other expenses against rental income from the property. This could result in potential tax deductions depending on the particular circumstances of the SMSF.
4. Lender's recourse is limited to the property itself. Other assets within the SMSF are not put at risk.

Purchasing a property by a SMSF is slightly different to purchasing a property directly. The steps that you will follow are:

Step 1: The trustee of your SMSF selects a residential investment property to purchase.

Step 2: The trustee of your SMSF appoints a custodian to purchase the residential investment property on its behalf.

Step 3: The trustee of your SMSF applies for a super fund home loan and provides documentation to the lender.

Step 4: The custodian pays the deposit and exchanges contracts on the purchase of the residential investment property.

Step 5: Your custodian mortgages the property to the lender to complete the purchase.

Step 6: The trustee of your SMSF pays the legal costs and stamp duty on the purchase.

Step 7: Once the loan is advanced, the trustee of your SMSF collects rent, pays the usual outgoings on the property and makes the loan repayments. The property is managed in the same way as any other real estate investment.

Step 8: The property is held in trust. Once the loan is repaid, the legal title may be transferred from the custodian to the SMSF or the property may be sold.

A number of lenders offer specialist loan products specifically for super

funds. Each lender will have slightly different features, such as interest offset facilities, to allow you to accumulate additional funds while also reducing the interest on the loan.

We can help you locate a lender that is suitable for your particular situation.

There are some considerations in setting up a SMSF.

- SMSFs are strictly regulated by the ATO.
- Operating a fund is a complex task and obtaining specialist advice is recommended before proceeding.
- If you do set up a super fund you must carry out the role of the trustee. This involves significant time, expertise and money.
- One major concern when purchasing a property through a SMSF is that should the property be vacant with no rental income, the mortgage repayments must be funded through other investments held by the SMSF³.

Property investment is a proven road to personal wealth regardless of the route taken. If you would like to discuss SMSFs or other options to purchase an investment property for your personal situation, please call the office today.

References

1 <http://www.realestateview.com.au/> 2 Limitations apply to how much you can contribute to your super fund 3 <http://tiny.cc/56zjdjdw>

*Disclaimer: This article is generic in nature. All investment decisions should be considered wisely and based on your personal and financial circumstances. Seek proper advice before committing to any course of investment action. This is not deemed as advice.