



SMSFs – Investing in property.

Navigating your SMSF.

Secure, Build, Succeed.

SMSFs – Investing in property

In Australia, the three most popular investment classes for SMSFs are direct shares, cash and direct property.*

As at December 2014, these three asset categories represented approximately 76% – with property representing around 16% of all SMSF assets.*

This flyer focuses on some insights into property investing and SMSFs.

Property investing

SMSFs can invest in the following types of real property:

- commercial property, this may include a factory, warehouse, business leased premises, a doctor's surgery; and
- residential property, such as units, semis and houses.

The rules

You can only buy property through your SMSF if you comply with certain rules, including:

- meeting the 'sole purpose test' of solely providing retirement benefits to fund members;

- not acquiring the property from a related party of a member;
- not being lived in by a fund member or any fund members' related parties; and
- not being rented by a fund member or any fund members' related parties.

However, an SMSF can purchase business premises (also known as business real property) from its own members (or related parties of the members), allowing them to pay rent directly to their SMSF at the market rate.

SMSFs are forbidden from investing in the family home or a holiday home for personal use, but they are able to invest in investment properties – as long as the property is only used for investment purposes.

This means fund members can't stay in the property or rent it out to family members.

The property should generally be managed by a real estate agent to satisfy the sole purpose test regulations, unless you can show evidence that you are managing it professionally yourself.

Get on a clear path to navigating your own super.

Borrowing for property

Borrowing or gearing your super into property must be done under very strict conditions called a 'limited recourse borrowing arrangement'.

If gearing is involved in the purchase of a property, a 'holding trust' (or custodial trust) must be set up to hold the new asset until it's no longer required as security. This arrangement requires a holding trust to be set up for each asset purchased, for example a residential or commercial property.

Before committing to a geared property investment you should assess whether the investment is consistent with the investment strategy and risk profile of the fund.

Additional risks for consideration with a geared property investment in your SMSF include:

- Higher costs – SMSF property loans tend to be more costly than other property loans.
- Cash flow – loan repayments must be made from your SMSF which means your fund must have sufficient liquidity or cash flow to meet them.
 - Hard to cancel – if your property loan documentation and contract is not set up correctly, you may not be allowed to 'unwind' the arrangement without needing to sell the property, potentially with substantial losses.
- Possible tax losses – any tax losses made by the SMSF from the property cannot be offset against your taxable income outside the fund.
- Cannot borrow to improve the property – borrowed funds can be used to maintain a property but not for improving it e.g. renovating the kitchen or bathroom beyond the need for normal repairs to enhance the value of the property is prohibited.

We are ready to help

There is a lot of media commentary regarding buying property in a self-managed super fund. However, SMSF property investments can be complicated and certain considerations should be best addressed with SMSF-specialist advice.

We are equipped with the knowledge and expertise to help you get the most out of your SMSF, by showing you how to set up and develop a sound investment strategy that reflects your needs. We can work with other professional services to create and manage a super fund that puts you on a clear path.

* Self-managed super funds: A statistical overview 2012-13, Australian Taxation Office.



Talk to your SMSF financial adviser for specific information related to your SMSF needs.

Wealth Planning Partners

T (07) 5593 0855

E amanda@wealthplanningpartners.com.au

www.wealthplanningpartners.com.au

Wealth Planning Partners ABN 80 114 978 442 Corporate Authorised Representative WPP Licensee Services Pty Ltd AFSL No. 530393 ABN 76 649 079 998 .
Amanda Cassar is an Authorised Representative WPP Licensee Services Pty Ltd AFSL No. 530393 ABN 76 649 079 998

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