



## SMSFs – What you can and can't invest in.

Navigating your SMSF.

Secure, Build, Succeed.

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SMSFs have become very popular, with more than one million members now representing the fastest growing segment of Australia's superannuation market.\*

The main reason for the popularity of SMSFs is the unrivalled investment flexibility and control they offer members. However, there are various compliance requirements to running an SMSF and some common pitfalls to avoid, especially when it comes to what you can and can't invest in.

As with all superannuation members, SMSF trustees should regularly review their asset allocations to ensure their portfolio remains appropriately diversified in line with the fund's investment strategy.

Trustees should also consider how much is held in cash (or other liquid assets) so the fund can meet its liquidity obligations, e.g. fees and pension payments.

### The investment basics

SMSF investments must be for the 'sole purpose' of providing retirement benefits for the members of the fund.

This means that members, relatives or associates of the trustees must not gain any immediate benefit from the fund's assets or activities.

For example, any property owned by the fund cannot be used by the members or their families, even if rented out at market rates, unless the property is less than 5% of the total fund assets.

Other rules dictate that SMSFs:

- can only borrow money where the loan is on a limited recourse basis;
- must limit investments in, or loans to, 'related parties' to 5% of the market value of the fund; and
- generally cannot buy assets from a member, or a relative or associate of a member, except for business real property, listed securities and managed funds.

### What can SMSFs invest in?

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 ~76% of all SMSF assets.\*

At this point in time, SMSFs held around 32% of fund assets in direct Australian shares, 28% in cash and term deposits, and 16% in direct property.\*

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

# Get on a clear path to navigating your own super.

Here's a quick overview of some of the assets SMSFs can invest in:

- Cash management accounts
- Term deposits
- Managed funds (Australian and international)
- Listed Australian shares
- Listed unit trusts
- Listed investment companies
- Overseas listed shares
- Residential property
- Commercial property
- Industrial property
- Property purchased with borrowed funds (limited recourse borrowing)
- Property partnerships with non-related parties
- Shares in unrelated private companies
- Artwork and collectables.

## What can't SMSFs invest in?

Although SMSFs offer more investment flexibility than any other superannuation fund structure, there are investments that are considered 'out of bounds'. If you are considering anything out of the ordinary for your self-managed super fund, please speak to your SMSF financial adviser first.

## About property investing

SMSFs can invest in the following types of property:

- Commercial property (known as 'business real property'), this may include a factory, warehouse, business leased premises, a doctor's surgery; and
- Residential property or real estate, such as units, semis and houses
- Real Estate Investment Trusts (REITs), provide access to various commercial and residential investments through a managed fund.

You can only buy property through your SMSF if you comply with some rules.

So the property must:

- meet the 'sole purpose test' of solely providing retirement benefits to fund members;
- not be acquired from a related party of a member (unless it is a business real property);
- not be lived in by a fund member or any fund members' related parties; and
- not be rented by a fund member or any fund members' related parties, unless it is business real property or residential property valued at less than 5% of the total fund assets.

For instance, as a business owner your SMSF could potentially purchase your own business premises (also known as business real property), allowing you to pay rent directly to your SMSF at the market rate.

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

For more information on property investing in an SMSF, see our 'SMSFs – Investing in property' flyer.

## We are ready to help

There are lots of advantages to managing your super and retirement savings via a self-managed super fund, but there can be complicated areas and considerations that are 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.



**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](mailto:amanda@wealthplanningpartners.com.au)**

**[www.wealthplanningpartners.com.au](http://www.wealthplanningpartners.com.au)**

Wealth Planning Partners ABN 80 114 978 442 Corporate Authorised Representative Financial Services Partners Pty Ltd, ABN 15 089 512 587, AFSL 237 590.

Amanda Cassar is an Authorised Representative Financial Services Partners Pty Ltd, ABN 15 089 512 587, AFSL 237 590.

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