



## why borrow in an smsf to buy investment properties?

Australians have a love affair of property. We all would love to support our families future and own a portfolio of investment properties.

But how many of us know we can actually leverage off our own family super balances and pool funds into a family wealth creation structure; called a Self Managed Super Fund? We often think of our super as being something we can't control. Usually your super is invested in the share market which as we know goes up and down in an often frustrating manner.

However, the average Australian can take control of their super by setting up an SMSF, your very own super fund. With this type of super fund; you have the cheque book and with the help of your accountant or advisor run the fund and make decisions on suitable investments, such as your property of choice.

We often feel more confident investing in real estate, but until recently the rules had restricted us using our

super to buy property, unless we had enough dollars in super that we could afford the full purchase price of a property. Now, under the new rules, Superannuation funds can invest in direct property without the need to have accumulated the full purchase price.

This rule change represents an exciting opportunity for well advised individuals to leverage into property through their existing superannuation. So you don't actually need to have the cash in super to afford the purchase. Your SMSF can borrow directly up to 70% from the lender to buy your choice of property. A competitive advantage may exist when purchasing through an SMSF. It's called super gearing rather than traditional negative gearing.

## advantages in super

Super gearing has it all over negative gearing, you can actually buy a property at a lower cost in a SMSF than in your own name.

- The cost of property purchased is lower in super.
- No CGT on sale (when you are 55+ and sell an asset).

- Tax free income from rent after age 55 to the fund and paid to you as an income stream from your SMSF.
- Pay the loan off quicker without a cent of your own money or cashflow; using your SGL and the rent from the property.
- You may never pay tax on the sale if you follow some simple advice.
- Ability to dilute the 15% super contribution tax rate by making a paper loss on property.

## case study

James is 45 years old and earns \$70K p/a and his Industry Super Fund balance is currently \$50K. Jill, James' wife, is also 45 and earns \$30K p/a. Her Industry Super Fund balance is also at approximately \$50K. They wish to purchase an Investment Property (\$350k)

### Property Options

1 (Negative Gearing) or 2 (Limited Recourse).

### Scenario

Property is sold in 10 years for \$700,000

### The Facts

Negative Gearing Effect: Tax Payable on Sale: \$100,000

LR Effect: Tax Payable on Sale: Nil

## the results

\$100K better off by choosing Option 2 if property is sold after age 55. When it comes to setting up yourself for retirement, it's very important to choose the right strategic entity to purchase your wealth creation assets in.

An SMSF can make all of the same investment choices and has all of the same flexibility that we enjoy as natural individuals.

## smsf property loans enjoy

The lender has no recourse to the other assets of the SMSF, providing the SMSF with absolute protection from its other assets.

Your SMSF can deal with the property however and whenever they like, in the same way as investors can deal with 'normal' investment properties. (e.g. lease, renovate, repair, or sell) (subject to terms of relevant loan and mortgage).

All rents are paid direct to the SMSF.

Loan repayments are made as per usual by the SMSF. The SMSF can pay out or reduce the mortgage at any time (subject to the terms of the relevant loan).

When the mortgage is paid out in full, the property title can be transferred to the SMSF or the bare trustee can continue as registered proprietor.

No CGT will trigger on the transfer of the property to your SMSF, this means CGT has been quarantined at a nil rate of tax if the property assets are held until after the age of 55. No stamp duty will be triggered on transfer.

## how do i get started?

### Setup an SMSF and trustee Company.

Or, if you have an existing SMSF you need to have its Trust Deed and Investment Strategy reviewed to allow the fund to borrow.

### Find a property that meets the necessary criteria.

It may be residential or commercial. Consider the ability of the fund to borrow and purchase the property and associated costs based on an appropriate LVR.

**Negotiate through 2020 for the right loan** from the most suitable panel of Limited Recourse lenders for your property and your situation. This is a complimentary free service provided by our in-house mortgage broking team.

You may also choose to self fund the property's purchase through using your own equity and lending to your SMSF or borrowing using non super assets as security and on lending to the SMSF in this way.

**Have the Bare Trust and trustee company setup by our 2020 corporate affairs and legal team.**

Have the Limited Recourse agreement between the SMSF and bare trustee drafted and put into place through our legal team.

**Have the loan documents vetted by our legal team.**

You have the services of an SMSF Specialist Advisor and a fully qualified Solicitor of the fund to borrow and purchase the property and associated costs based on an appropriate LVR.

**2020 and its affiliates can help you to find a property or you can choose one yourself.**

Our legal team will then handle the conveyancing and settlement of your property. Have our 2020 strategic team handle your SMSF and trustee compliance needs and annual work. We take an active role with clients and maintain regular wealth creation and tax planning reviews as part of the process.

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