SMSF - HOW TO BUY A PROPERTY

QUANTUM FINANCES

To understand how to buy property in your Superfund you should first understand how super works.

Superfunds are a safe and tax effective way to save for your retirement.

In Australia it is a requirement of employees to pay 9.5% (rising to 12% by 2025) of your pay into your superfund. You can also contribute additional cash and receive tax benefits.

Super is one of the most tax-effective investment vehicles in Australia, with income tax capped at 15% while in accumulation phase (while you're working) and no tax in pension phase at retirement.

Many people remain in an industry fund and are looking at their options within their super account on how to generate a better return over the long-term.

Property is a great long-term investment and can work well within a super fund investment plan.
Picking the right investment option within super is important at any age, whether you are beginning to accumulate funds inside a super account or looking at leaving the work force nearer retirement.

Overall your investment strategy will influence how much money you'll have to retire on and how you live your life during your retirement years. Taking a very conservative approach could mean that you could retire on less funds (i.e. say if you leave your balance in a cash account option verses a growth option over the medium to long-term).

Typically your super plan runs over 2 distinct phases. Firstly, an accumulation of benefits and then a payment of benefits normally called the pension phase during retirement.

ACCUMULATION PHASE

This is generally the longest phase and runs from when you start work (and you and your employer make contributions to your super) until you are in your late 50's or early 60's.

During the accumulating phase you are saving and earn as much as possible to ensure you have sufficient asset at retirement.

PENSION PHASE

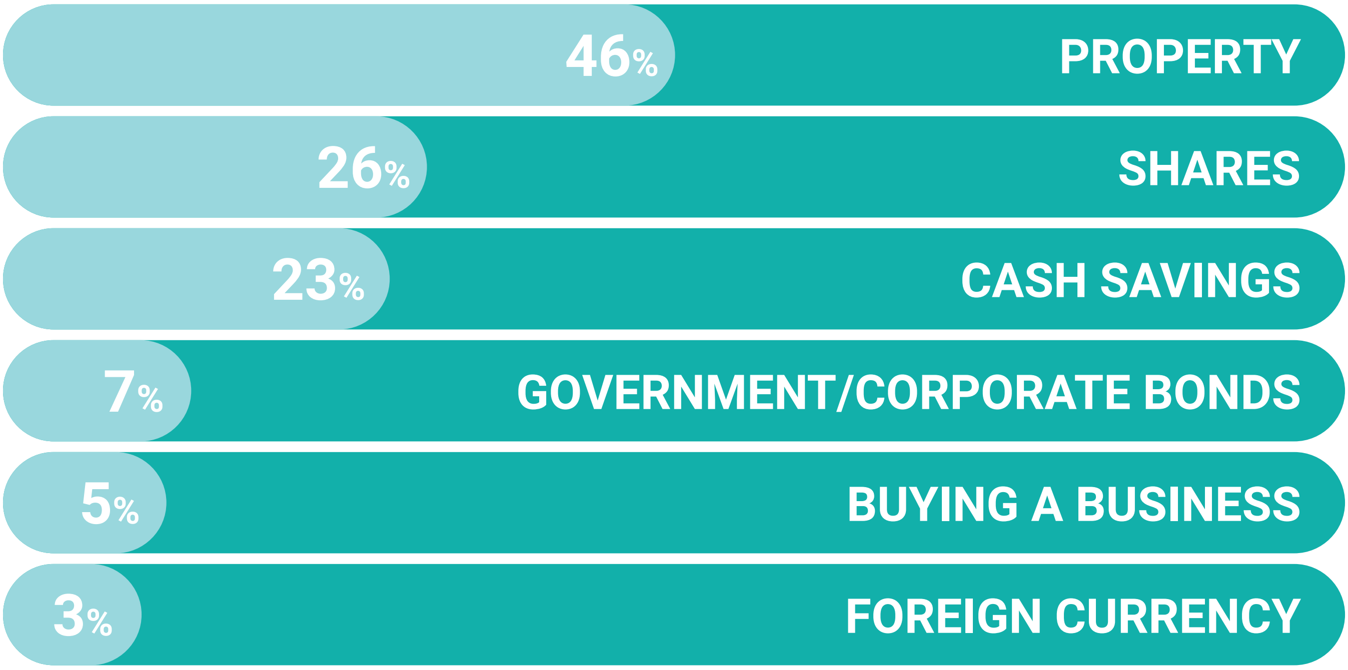
This is generally the phase that runs from when you retire for work (or part retire, we call this a Transitional to Retirement phase) throughout your retirement until death.

Depending upon your structure, your spouse or other nominated beneficiaries can receive either your remaining benefits as a cash lump sum or a pension (various options as per retirement planning are available).

WHY INVESTMENT PROPERTY?

A report recently revealed that most people viewed property as generating the best returns for retirement.

Most people viewed property as generating the best return(s) for retirement



Property typically has strong qualities as an investment asset, generating both income (from rentals) and capital appreciation via the increase in price of well-located property. Using property within a super environment is also attractive from other aspects.

TAX

Reduce your taxable income.

If you are on a high marginal tax rate there may be tax benefits as you are usually allowed a tax deduction for EXTRA contributions to super. Also, the Super Funds also get tax deductions on the interest payments on the loan, depreciation on the propertry. These can be used to offset tax in the Super fund.

DEPOSIT

A step into the property market.

Using a SMSF as a deposit for a property means you can enter the property market without the stress of saving for a deposit. This allows you to use money in super as part of the deposit to purchase an investment property. No you can't live in it (these are the super rules) but you can rent it out and own a capital appreciating asset for the long-term.

SAVE

Grow your superannuation faster.

All income and capital growth accumulated in your Super account, typically this can only be done with a Self-Managed Super Fund (SMSF) which holds the asset, undertakes that loan accelerates growth of your super.

As normal "gearing" for a typical investment property creates capital growth this can occur with a property investment within your superannuation fund.

LOAN TYPES

The loans used by a SMSF to borrowing to purchase an investment property assets must be done under what is known as a 'limited recourse borrowing arrangement (LRBA)'.

An LRBA involves an SMSF trustee taking out a loan from a lender and purchasing a single acquirable with those funds. The asset must be held in a separate trust (bare trust, see below) and any investment returns earned from the asset accrue to the SMSF.

In a case of repayment default on the loan, the lender's rights are limited to the asset held in the separate trust i.e. there is no recourse for the lender to pursue other assets in the SMSF. By typically the lender will ask for a guarantee from the members of the SMSF.

Some available loan providers are:

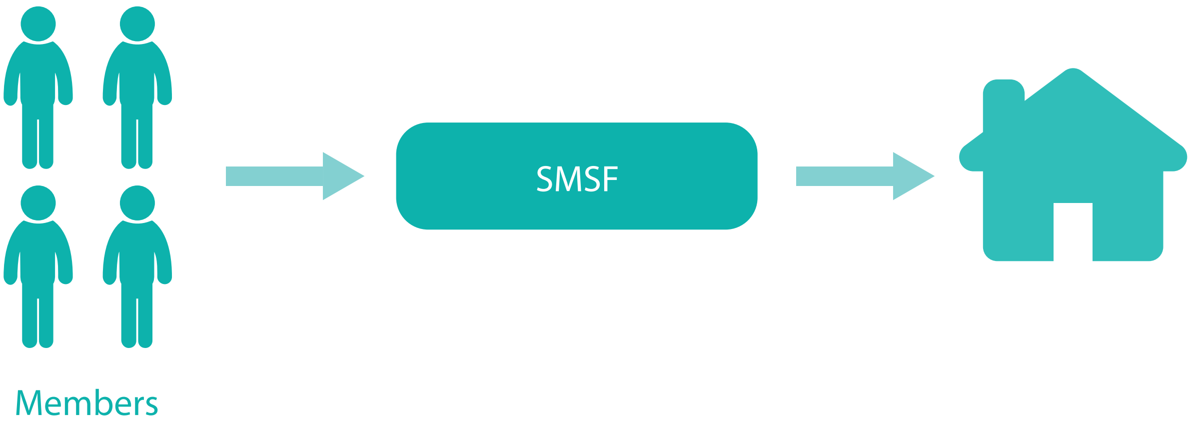
For up-to-date loan providers and current rates visit:
https://www.quantumwealthplan.com.au/finance.php#loan_comparison

OPTIONS

To buy a property and enter the property market you must first find out how much you have in their superannuation and whether this amount will be suitable in purchasing a property. A superannuation of $100,000+ is a healthy "ball park" starting point.

Of course, you can combine funds with other members, including business partners and facility members to purchase a property.

See diagram on next page:



Example of how you can use your super to buy a property

SMSF STRUCTURES

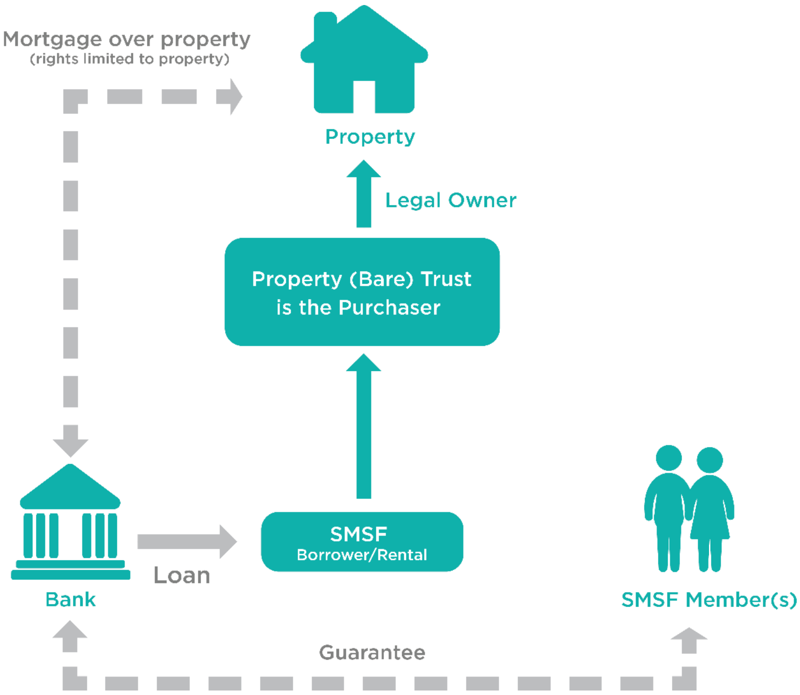
BARE TRUST STRUCTURES

This is typically a Trust established to allow a SMSF to purchase assets that will be "geared".

The bare trust is merely the registered holder of the property until the loan is repaid. The SMSF will receive rental income from the lessee and will pay interest to the lender.

Regulations require that the property acquired with borrowed monies must be held by a bare trust with the SMSF being the beneficiary of the trust.

If and when the loan is repaid the legal ownership of the investment property will revert to the trustee of the SMSF. The trustee of the SMSF cannot be identical (the same) as the trustee of the bare trust, this may in some instances require a corporate trustee for both entities, again dependent on the lenders requirements.



When a SMSF decides to buy the Property, the trustees of the bare trust enter into a contract of sale to purchase a property NOT the trustee of the SMSF, as the trustee of the bare trust is the entity as the registered owner upon completion of the property settlement.

PH: 1300 360 949
Website: www.quantumgroup.com.au/quantum-finance