

7 Benefits Of SMSF Property

“Learn, Setup, Buy”

The Most Comprehensive eBook on Property in a SMSF



VERSION 3

Contents

INTRODUCTION	4
ABOUT ME	5
INVITATION	5
WHO ARE WE?.....	5
MY SMSF / MY SMSF PROPERTY	6
BUYING PROPERTY IN A SMSF	6
EXAMPLE 1: PROPERTY PURCHASED FOR \$400,000 SOLD FOR \$800,000 15 YEARS LATER .	
EXAMPLE 2: RENTAL RETURNS IN A SMSF VS OUTSIDE.....	9
THE CASE STUDY BELOW DEMONSTRATES MY POINT	9
SUMMARY	10
WHAT ARE SOME OF THE RELATED COSTS FOR BUYING A SMSF PROPERTY?	13
HOW TO FINANCE A SMSF PROPERTY	15
OPTION 1 – SMSF LOAN	15
OPTION 2 – LINE OF CREDIT LOAN (RELATED PARTY LOAN)	16
SUMMARY	16
HOW TO PAY OFF AN SMSF PROPERTY LOAN IN HALF THE TIME	18
SMSF LOAN REPAYMENT CHART 1.....	19
RESULT	19
INVESTING IN PROPERTY PERSONALLY V SMSF.....	20
DO SMSF’S QUALIFY FOR THE LAND TAX FREE THRESHOLD	21
WHO NEEDS TO PAY?	21
HOW IS LAND TAX CALCULATED AND WHAT DOES IT COST?.....	21
STAMP DUTY ON SMSF PROPERTY	21
SMSF FOREIGN PROPERTY	22
SUMMARY	23
COSTS REQUIRED TO BUY A PROPERTY IN A SMSF	24
THIS IS A MINIMUM REQUIREMENT FOR THIS STRATEGY	24
STEP 1: SETUP A SMSF WITH A CORPORATE TRUSTEE COMPANY	24
STEP 2: OBTAIN A SMSF LENDING PRE-APPROVAL	24

STEP 3: SETUP YOUR PROPERTY TRUST 25

STEP 4: PURCHASE YOUR PROPERTY AND ENGAGE AN EXPERIENCED SMSF CONVEYANCE SOLICITOR . 25

RISKS OF INVESTING IN PROPERTY IN A SMSF 26

SUMMARY27

DO I NEED ADVICE ON SETTING UP AND RUNNING MY SMSF? 28

SOME SMSF MEMBER RESPONSIBILITIES 28

IF YOU DON'T FOLLOW THE RULES, YOU RISK ONE OR MORE OF THE FOLLOWING..... 29

SETTING UP A SELF MANAGED SUPER FUND (S.M.S.F)..... 30

BEFORE YOU SETUP A SMSF THE FOLLOWING ARE IMPORTANT CONSIDERATIONS 30

SOME THINGS THAT YOU SHOULD CONSIDER ARE 30

SPECIAL OFFER..... 31

CONTACT US..... 32

EMAIL US OR WRITE TO US..... 33

“I have read a few of these SMSF property publications, but what impressed me most with My SMSF Property’s eBook, was the detail and clear illustration of the benefits and risks. Very informative and easy to understand “

G Bennett - Newcastle NSW

Introduction

Buying property in a SMSF is a great strategy that many property investors and retirees are pursuing, to help diversify their investment returns and reduce performance volatility. By reading my eBook you will understand the benefits, risks and costs involved with super property investing.

Self-managed super funds are arguably the best tax structure to invest for retirement and wealth creation purposes and it is the only way of purchasing direct property in super. My aim is to help you understand the key benefits of SMSF property by comparing it to buying property outside super.

The 3 most common issues with buying an investment property?

1. Having savings to pay for purchase costs.
2. Servicing investment property.
3. The impact on lifestyle.

You will find answers to these questions and more by reading this eBook.

About Me

My name is Rob Joseph, and I am a SMSF property specialist. Over the last twelve (17) years I have advised many property in super transactions, helping many individuals and business clients purchase property in their SMSF's.

I have always been a passionate advocate of property investment for wealth creation purposes. Given the low taxation and exemptions from paying capital gains tax in pension phase. Buying property in a SMSF comes with many benefits. I believe that if done correctly and for the right objectives, it can be one of the most beneficial strategies for purchasing property to create retirement wealth and income.

My objective with this eBook is to present without prejudice the reasons for my views, supported by facts, charts and the statistical data to illustrate the benefits, while also highlighting some of the risks, the costs and who this strategy is most suitable to.

I will show you how to purchase a property in a SMSF so you can enjoy some of these benefits:

1. No impact to your personal income or lifestyle.
2. Pay 24% less tax* on income, no capital gains tax 0% and pay less land tax.
3. Pay off your loan in half the time of property outside of super.

*assumes an average tax rate of 37%



SMSF Property and lending has grown to around \$23 billion dollars over the last 7 years with around 15% of SMSF's holding direct property, with 80% of this in commercial property and the rest residential, according to the Australian Tax Office.

Invitation:

I hope you find this eBook informative and I welcome you to contact us, should any of our services interest you.

Who are we?

We are licensed advisers, finance brokers and administrators with over 15 years of collective experience. Our services include free resources, SMSF administration, SMSF Lending and SMSF advice services.

SMSF Property Specialist

My SMSF / My SMSF Property

The infographic is set against a grey background. At the top left, a circular icon shows a hand holding a house key, with a red 'X' over it. Below this is the text 'NO C.G.T.' with 'No tax*' in smaller text underneath. To the right, a house icon has '15 YRS' written on its side, with the text 'PAY OFF PROPERTY IN 15 YRS.*' below it. A small footnote at the bottom of this section reads '*conditions apply. Always seek professional tax, financial and legal advice'. In the center, there is an equals sign. Below the equals sign, a hand is shown putting a coin into a slot, with a red 'X' over it. Below this is the text 'NO MONEY FROM POCKET*'. The entire infographic is enclosed in a thin white border.

Buying property in a SMSF

Let me start by saying that SMSF property is a very rewarding strategy that will suit most people who are comfortable with direct property investment and with borrowing to invest. I believe that by following my strategy, you can achieve the following three (3) , key benefits.

1. Pay less tax on rental income (15% or 0%) and 0% capital gains tax from age 55 in pension phase*.
2. Use your Super contributions to pay off a loan in half the time.
3. Avoid any impact to your income or lifestyle.

How do you achieve these benefits. By using the super savings and super contributions of one to four (1-4) family members, most Australians will be able to purchase property to create wealth and income for their retirement. Now, provided that you receive or make super contributions (SG 9.75%) then these contributions and the rental income from the property; which are both taxed concessionaly at 15%; will often provide enough servicing income to allow you to borrow to purchase property within an SMSF.

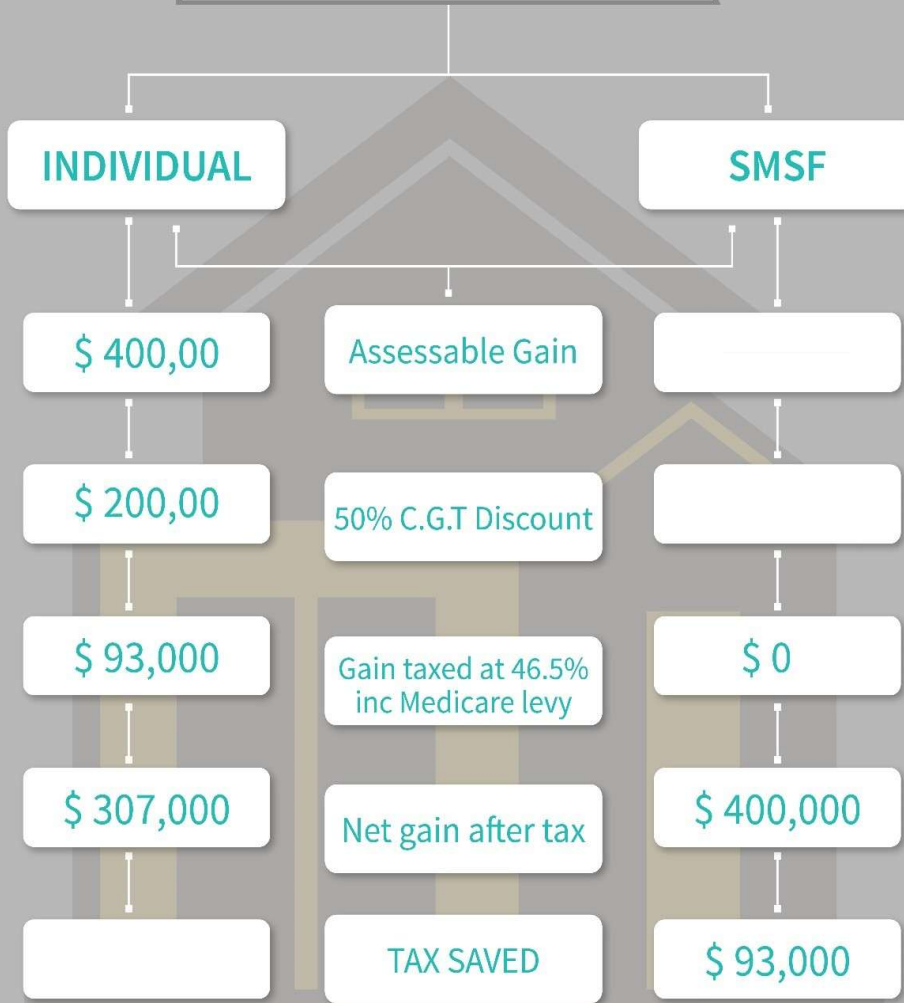
Buying property typically requires savings to pay for purchase costs and sufficient income is needed to fund the shortfall between the borrowing cost(interest on the loan) and the rental income on the property. This makes property investment harder to attain without significant sacrifices for most Australian families. On top of this you have the ongoing maintenance costs for a property.

As super contributions are mandatory and are in addition to a person's salary or wage, these contributions and the properties rental income will often result in a SMSF property being cash flow positive, which means that you will not need to fund any shortfall in loan or interest costs by using any personal income as is typically a requirement when purchasing a property outside an SMSF.

When a property in a super fund is sold in pension phase; after age 55 - 57; there is no capital gains tax to pay as demonstrated in example 1. Another benefit is that the rental income on the property is tax free (0%) in pension phase and if left in super or accumulation phase, it is concessionaly taxed at 15% as evident in example 2 below.

**Property purchased for \$ 400,000
sold for \$ 800,000 15 years later**

SELLING PROPERTY AFTER 15 YRS



ASSUMPTIONS

Couple earns \$ 120,000 and owns their own home and are aged 55
 The husband is the sole owner of property
 CGT Calculation method - 50% discount method
 We have assumed that the property has doubled in value for illustration purposes only

The property is in pension phase

Assumptions: Couple earns \$120,000 and owns their own home and are aged 55 y/o

- The husband is the sole owner of property.
- CGT Calculation method - 50% C.G.T discount method.
- We have assumed that the property has doubled in value for illustration purposes only.
- The SMSF is in pension phase as the couple is over 55, therefore no capital gains tax is payable.

EXAMPLE 2: Rental Returns in a SMSF vs Outside

	INDIVIDUAL	SMSF
Gross rental return	\$20,000	\$20,000
Net Rental Return (after tax)	\$12,200 (39% MTR)	\$17,000 (15%) super MTR
Tax Saved (over 15 years)		\$72,000

Note: Excludes Medicare levy of 1.5%, Husband earns \$90,000 and wife \$30,000, MTR - Marginal Tax Rate

The Case Study below demonstrates my point:

Case Study: This couple is 42 and have saved \$150,000 in their super funds, they earn \$150,000 in combined income and receive super contributions up to 9.75% on their salary and they want to buy a property valued at \$400,000 in NSW.

FUNDING A PROPERTY	Outside Super*	In a SMSF
SMSF Starting balance	Need Savings	\$150,000
Deposit*	\$40,000 (10%)	\$120,000 (30%)
Loan Amount	\$360,000	\$280,000
Stamp Duty (nsw)	\$13,788.50	\$13,788.50
Super contributions (SG 9.75%)		\$14,625

Super contributions (after tax)		\$12,431.25
Rental returns	\$20,000 before tax	\$20,000 (15%)
Tax	\$7,800 (39% rate)	\$3,000
Rental Returns (after tax)	\$12,200	\$17,000
Net Servicing Income	\$12,200	\$29,431.25
Loan Interest Cost	\$23,191 (5.00 %)	\$19,608 (5.75%)
Shortfall	\$10,991 (deficit)	\$9,823.25 (Surplus)

*tenants in common *includes 3% rate loading @ \$2,202.76 p/m

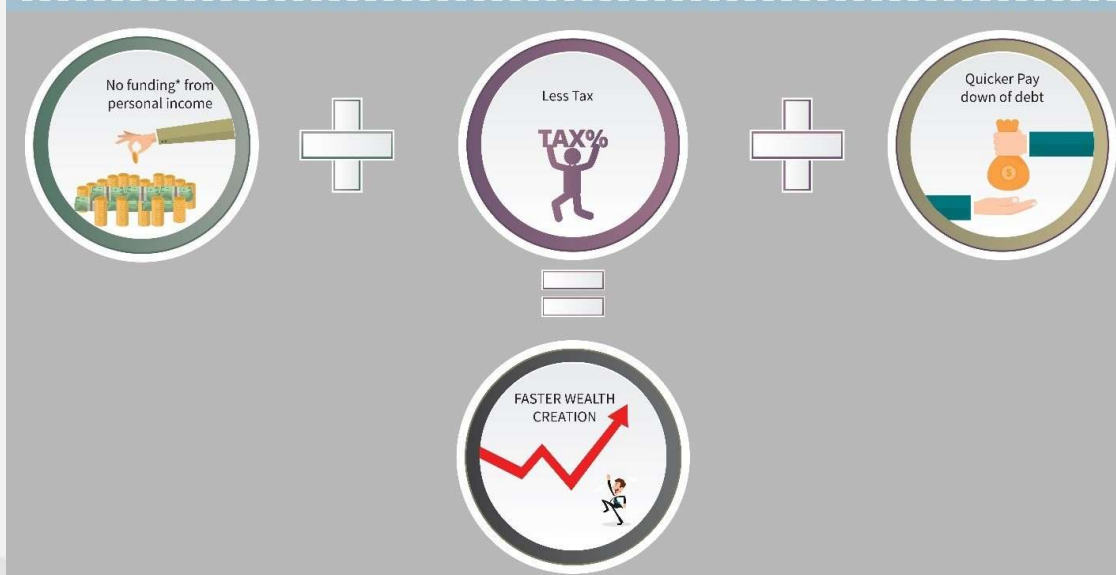
Summary:

The results above illustrate and highlight my point, which is that:

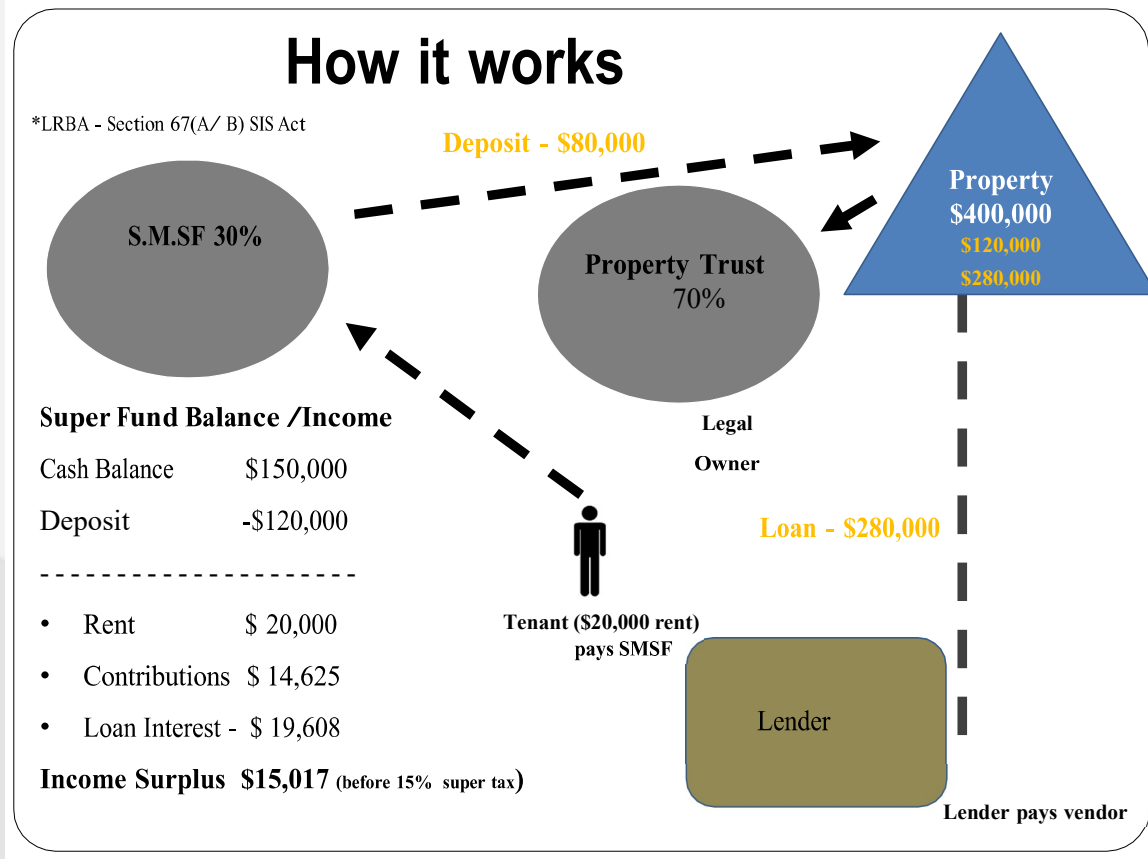
1. Due to lower taxation in super (15%).
2. Together with employer super contributions (SG 9.75%).

You can pay off a property in half the time of a property outside super, with no impact to your personal income or lifestyle. The deficit of \$10,991 we see in the outside super column of this comparison would ordinarily require this couple to save more and spend less on lifestyle activities in order to fund the deficit to pay the loan interest costs.

Therefore, in order for anyone to benefit from these 'super property benefits', the rental income on the property will need to be around the 3%-5% level, and you will need to receive super contributions or make contributions. Provided that these conditions are met, then buying a property within a SMSF has no impact to this couple's personal income or lifestyle, compared to buying the same property outside a SMSF.



#Always seek professional tax, financial and legal advice



(a) SMSF borrows \$280,000 from the lender.

(b) Loan repayments of \$1643 p/m or \$19,608 p/a

**When the loan is paid off, the ownership of the property must be transferred to the S.M.S.F*

What are some of the related costs for buying a SMSF Property?

Costs for setting up a SMSF to purchase property can vary depending on the provider and I have tabled the costs associated with these services below:

SMSF setup - \$799

SMSF Advice Fee - \$1,550

Property Trust - \$1,550 - \$2,200

Lenders Fees - \$2,000 - \$3,500 (depending on the lender)

Conveyance solicitors Fees - \$1100 - \$2,550

Deposit - 30% (funded from super savings) & Stamp Duty Cost - \$13,789

The fee table above is an example of the costs involved with the strategy.

Some people will be wondering why they should buy property in a SMSF given the higher setup costs compared to buying property outside of an SMSF. Well, my argument is that these costs are mostly deductible, but the benefits of this strategy far outweigh the initial costs. If you look at the table below, you can see the amazing savings generated by purchasing a property in a SMSF.

This property was purchased for \$400,000 in 2000, in 2016 this property is worth \$800,000 and the tax savings tabled below:

	Self-owned	SMSF	Savings
Starting balance in SMSF		\$120,000	\$0
Property Purchase price	\$400,000	\$400,000	\$0
Property value (15yrs later)	\$800,000	\$800,000	\$0
Deposit	\$40,000	\$80,000	\$40,000
Loan	\$360,000*	\$320,000*	\$0
Gross Capital Gain	\$200,000 x 47%	\$266,666 x 15%	
Tax on sale proceeds (CGT)	\$94,000	*\$0	\$94,000
Stamp Duty* (NSW)	\$13,788.50	\$13,788.50	\$0
Net Capital Gain	\$306,000	\$400,000	
Loan interest saving (Yrs.)	30	17.10	\$110,258.28
Rental returns	38.5%-\$13,300	15%-\$18,500	\$78,000**
Net Capital Gain	\$307,000	\$400,000	
Total Savings with Strategy			\$322,258.28

*0% tax payable in pension phase



Homes that recorded a gross profit of more than 100% of the previous purchase price were owned for an average of 16.5 years – according to Rp Data's Pain & Gain report November 2014



A good way to start your SMSF property journey is to obtain a lending pre – approval before you set up your SMSF. This will give you an idea of how much you can borrow to purchase a property before you commit to the costs of setting up a SMSF.

#Always seek professional tax, financial and legal advice

HOW TO FINANCE A SMSF PROPERTY

Financing an SMSF property is a very important part of the strategy. So what do I mean by choosing the best finance structure. Well, simply put, there are two types of funding structures that you can employ when you look to finance a SMSF property.

Option 1 – SMSF loan

Advantages:

- Lender recourse limited to just the property being purchased.
- Less emphasis placed on your personal financial position.
- No LMI (Lenders mortgage insurance).

Disadvantages:

- Higher interest charges (5% -6%).
- Higher setup fees
- Larger deposits – typically 20% - 30%.
- Liquidity test (10% of property value or SMSF assets).

Assessment Criteria:

- Super contributions.
- Property rental income.
- Savings in super to fund purchase costs
- Ability to service debt with a 2%-3% stress test

Option 2 – Line of Credit Loan (Related Party Loan)

Advantages:

- No LMI Costs
- Lower setup fees
- Interest deduction to the highest taxpayer

Disadvantages:

- You will need personal security in the form of a home or other financial assets to borrow against.
- More emphasis should be placed on your personal financial position.
- Can only lend 70% of less of value of property.
- Risks of greater leverage and falling property values on potentially two properties

Assessment criteria:

- Last two years' tax returns.
- Pay slips.
- Security or savings.

Related party lending is suitable for some people, and it can be dangerous for people approaching retirement (50 – 60 years of age) with no assets other than their home. A huge risk associated with related party lending is double gearing, so I suggest that you seek advice before choosing this lending option.

SUMMARY :

As you can see, funding is one of the most important parts of a Property in SMSF strategy, because it can add significant value by using leverage to create wealth and by doing so, savings you

thousands of dollars in interest costs. It can also allow you to invest in a property without the personal savings and credit checks required, compared to the requirements for purchasing a property outside super. So, it goes without saying that if you are restricted by a bank or advice provider to the most used SMSF loan, then you might not be getting the best available option. There are several providers who offer loans in this market segment, so it's well worth doing your research or getting advice.

How to pay off an SMSF property loan in half the time

Well as you saw with the previous example, the tax savings can be significant in an SMSF, which leaves more capital to pay off a loan.

So, let's look at what it takes to pay less interest and pay off a loan on an SMSF property:

The loan repayment illustration below shows you the following

- Loan amount - \$280,000
- Interest rate - 5.75 % principal and interest 30-year loan
- Net rental Income - \$20,000 - 5% rental return
- Super contributions (9.75%) - \$14,625 - 15% tax = \$12,431.25 net
- Interest costs - \$19,608

The couple in our example use their super saving, to fund their deposit and stamp duty costs and then utilise their combined employer 9.5% super contributions, and their property rental income to pay down their property. Here is a breakdown of the numbers, so that you can see where this money comes from:

	SMSF Net income	SMSF loan Repayments (P&I)*
Property Rent (p/a)	\$20,000 (gross)	\$19,608
Super Contributions(p/a)	\$14,625 (gross)	
Super Income (p/m)	\$2,885.42	\$1,634
Super Surplus	\$1,251.42	

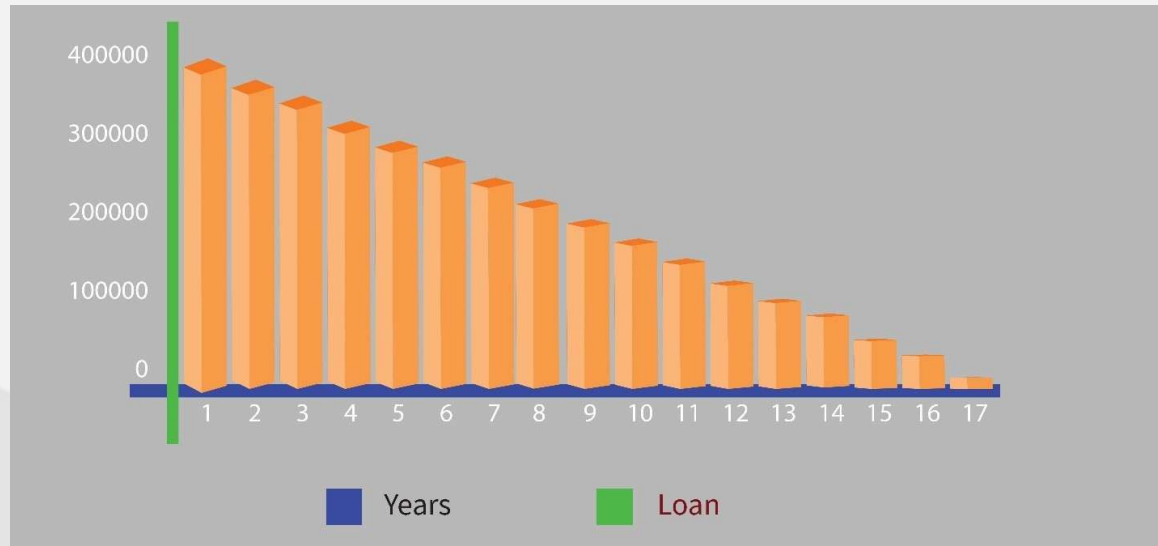
*note: this loan is structured principal and interest, the repayments would be lower on an interest only basis

This couple receives a (9.75 %) super contribution each year which is \$14,625 - \$2,193.75 (15% super tax rate) = \$1,243.13 net super contribution

In a SMSF you don't need to pay tax on any income till you lodge a return, so using the gross Rent + Super contributions, minus interest costs which = \$1,251.42 per month, this couple has paid off

their SMSF property loan in **11 years**, proving my point that you can pay off a loan in less than half the time of a property loan held outside super.

SMSF LOAN REPAYMENT CHART 1



Result:

1. You will pay off your loan in **11 years**.
2. You will pay **\$97,966.71** in interest charges over the term of the loan

WARNING: Salary sacrifice might not be viable for some people, so always consult your financial adviser or accountant to confirm the amount that you can afford to contribute.

#Always seek professional tax, financial and legal advice

INVESTING IN PROPERTY PERSONALLY V SMSF

TAX RATE	
PERSONALLY	SMSF
30% -45 %	15% - 0%
DEPOSIT/ STAMP DUTY	
PERSONALLY	SMSF
personal savings	use funds in super
CGT	
PERSONALLY	SMSF
30% -47%	10% -0% after 55
LOAN REPAYMENT	
PERSONALLY	SMSF
30 years	*15 years
RENTAL INCOME	
PERSONALLY	SMSF
30% - 39%	15% -0%
LAND TAX	
PERSONALLY	SMSF
In NSW - \$100 + 1.6% on value of land up to \$2,641,000	Land tax thresholds are available in most states for SMSF's In NSW it is \$432,000 * 2015

Warning: *This is general information only and legal advice and tax advice must be sought before acting on this information.

Do SMSF's qualify for the land tax FREE Threshold

Property investors, purchasing property as tenants in common, in most trusts and companies cannot benefit from land tax exemptions, however the good news is complying SMSF's are entitled to land tax threshold exemptions in most states. SMSF's and their members and trustees all fall under the category of owners and where freehold property is purchased within a SMSF, then the fund may be liable to pay land tax on land owned directly by the fund. The only exclusion on land tax is for a principal place of residence.

Who needs to pay?

Land tax is a tax levied on the owners of land in all states and territories except NT. In general, your principal place of residence (your home) or land used for primary production (a farm) is exempt from land tax. Land tax is a state-based tax and is payable on all houses and land, irrespective of income earned, calculated from midnight on the 31st of December of each year. Land tax rates vary in each state and territory.

How is land tax calculated and what does it cost?

Land tax is payable by owners of land on the value of all taxable land they own as at midnight on 31 December of each year. In NSW the rate for the 2016 tax year is \$100 plus 1.6 per cent of the land value between the threshold (\$482,000) and the premium rate threshold (\$2,947,000) and 2% per cent of the land value above the premium rate threshold is payable. No land tax is payable on the combined value of land below the lower \$482,000 threshold.

STAMP DUTY ON SMSF PROPERTY

This section on stamp duty is important as there are many people that believe that there are significant stamp duty exemptions for property via an SMSF. Stamp duty is a state-based tax which applies to all SMSF property purchases for commercial and residential property.

There are some exemptions for commercial property depending on how the commercial property is owned before it is sold to an SMSF. I recommend that you seek specialist legal advice on transfers of commercial property to a SMSF.

SMSF Foreign Property

Australians love affair with property is often not restricted to domestic property. Many SMSF's are targeting foreign property for a variety of reasons, such as cheaper purchase costs and higher rental yields to name but a few. If you have heard of the amazing 13%-22% returns on foreign property and property values around the \$40k - \$150k mark, then on the surface, compared with Australian properties, it would appear that US properties are far more affordable to most Australians and their super funds.

These are some of the important considerations with foreign property purchases:

1. Demonstrate that the property is legally owned by the SMSF Trustee and not a related party (section 71 SIS Act). In the US an LLC, is used with the SMSF Trustee controlling a majority of the shares in the US LLC
2. A lot of property arrangements in foreign countries require a local individual or entity to hold the ownership of the property. This may result in it being considered an in-house asset of which the SMSF is allowed to invest 5% of total assets. The problem though is that, if the asset appreciates you will need to sell the asset, so you don't breach these provisions.
3. Ensure you are investing in an asset that satisfies the sole purpose test (section 62 SIS Act)
 - You need to make sure that you invest in assets with the intention of providing retirement income or death benefits to you and your next of kin. It cannot involve any activity to gain a present-day benefit to any member of the SMSF personally or to a related party such as a family member, trust or company which is controlled by any SMSF member.
4. Make sure that all arrangements are at arm's length. (Section 109 SIS Act/ section 66 SIS Act)
 - You must make sure rent is commercial rates, neither above market nor below and the tenant must not be related to you.

5. Accounting/ Auditing requirements

- Open a bank account with an ADI(Authorised Deposit Institution) and not all foreign banks are ADI's
- Convert all foreign currency holdings into Australian dollars when completing an Australian Tax return. Be mindful that currency fluctuations can reduce your returns.
- Obtain a valuation on the property. This is hard in some countries.
- You might be required to complete a tax return in the country of purchase, although double tax agreements (DTA) may apply. The foreign tax offset (FITO) might not cover the tax paid on all of the rental income you receive on your property

ATO : <https://www.ato.gov.au/Forms/Guide-to-foreign-income-tax-offset-rules-2016/>

Australian auditors would need proof, that the super fund owns the property and that this ownership is recognized in the country of purchase. That rental income is paid to the SMSF. This is a really important point to consider when purchasing international property within a super fund. Other points to consider are collecting rent and obtaining finance for property, which can be problematic in foreign countries.

SUMMARY

Whilst foreign property may be cheaper, with higher rental returns, it is not as easy to setup or borrow funds or manage. The time, costs, non-compliance risks and the reporting requirements are also far greater, so the key question to ask yourself is,if you will achieve higher returns compared to purchasing Australian property given what occurred in the US during the GFC. Ultimately, it is up to you to determine whether the lower cost of entry is worth the risks to obtain potentially better returns in foreign property markets.

*Speak to us about individual legal advice on foreign property purchases

Costs Required to buy a property in a SMSF

This is a minimum requirement for this strategy:

- \$150,000 - \$200,000 in combined super savings (1- 6 people)
- \$150,000 in combined income
- Employer super contributions (9.5%) or personal contributions

In order for anyone to purchase direct property in super, they will first need to setup a Self-Managed Super Fund, referred to as an S.M.S.F. So what is involved I hear you ask? You will first need to complete the steps below and refer to the strategy diagram which details how this strategy works.

Step 1: Setup a SMSF with a corporate Trustee Company.

This option provides protection from creditors and stamp duty and C.G.T charges if you add or remove members from the SMSF, to name but a few of the benefits.

Warning: When moving your existing super to your new SMSF account, you will lose all of your insurance cover. It is very important to seek advice on replacing this cover and determining if the current cover in your retail or industry fund is sufficient and if it will pay you a benefit when you make a claim.

Step 2: Obtain a SMSF lending pre-approval.

This will let you know how much you can borrow so you can search for suitable property.

The most you can borrow is 70% - 80% of the property's value, so you will need to have 20% - 30% in savings to fund the deposit and other costs within your SMSF. Contributions into your SMSF and rental income on your property will determine if you can service the loan.

Note: most lenders will seek a liquidity buffer of 10% -20% or require you to have at least 20% of your SMSF invested in other assets. This varies with lenders, so it is best to seek advice which can help you identify the most suitable lender for your needs.



Start searching for property as it can take a while to identify a suitable investment!

Step 3: Setup your property Trust.

If you borrow money to purchase a property you will need a Property Trust (also referred to as a Bare, Custodian or Security Trust).

Step 4: Purchase your property and engage an experienced SMSF conveyance solicitor to assist you complete the transaction.

This is a critical step, and most solicitors and conveyancers do not tend to get SMSF conveyance right. You need to allow at least 120 days from signing a contract for your property to settle.



We suggest that all SMSF's desiring to purchase property, set up a corporate trustee SMSF for the following reasons. A simple change of members due to, death, divorce or adding an adult child in an individual SMSF fund can trigger, stamp duty, capital gains. tax and it there are limitations on pension payments and tax rebates on top of limiting your borrowing with some lenders.

Note:

There are many things you need to understand when setting up a SMSF, such as the options for structuring the SMSF and the property trust and the sequence in which you purchase the property, which differs in each state, and double stamp duty implications that can arise if this strategy is not completed properly on top of ATO penalties. It is very important that you seek advice at every stage of the journey.

RISKS OF INVESTING IN PROPERTY IN A SMSF

While I have presented some of the compelling benefits of purchasing property within a SMSF, it could be argued that we have not presented a balanced view of this strategy. So, in an effort to be very objective while not sounding negative, we would like to highlight the following pitfalls of buying property in a SMSF.

1. Property values falling – All investing entails risk and a very real risk is that of a property market pullback (correction or fall) which could result in the value of your property falling.
2. Vacancy – If your property sits vacant without a renter for a long period, you will need to fund any shortfall by making additional contributions into your super fund or by allowing for a shortfall buffer within the fund.
3. Rental returns are lower than the interest you pay – this shortfall will need to be met by additional contributions, if you are not receiving sufficient employer (SG 9.75%) contributions.
4. No access to your capital – You cannot access any money from your SMSF till age 55.
5. Bank foreclosing on your property – the bank has recourse to your property only but not to the other assets held in your SMSF in the event you default on loan repayments.

A contingency plan is critical when investing in property. This should involve preparing for increasing interest costs and a common solution is often to fix the loan for a period or to refinance to lock in better rates. However, in super, lenders are required to consider risks and therefore they apply a 2% - 3% interest loading, which ensures that SMSF property is cash flow positive before they approve a loan. SMSF lenders calculate super contributions and rental income to determine a SMSF's serviceability and some consider other income such as salary sacrifice, and income generated from the cash and other investments held in your SMSF. These measures which should give investors a lot of comfort when entering into SMSF (LRBA) loan arrangements, which are generally more protected than lending outside of super.

Another common risk management strategy is to leave one to two (1-2) years interest costs as a buffer in a SMSF, to protect against the risk of untenanted property, or an unemployed partner for a period of time. With discipline, good preparation, advice and by investing over a longer period (10-20 years) most of the risks we have discussed can be managed and overcome.

SUMMARY :

It is worth remembering that your super is not an ATM, to make loans to bail out members of your family or to buy property in order to provide family members with free accommodation. It is however the most tax effective vehicle to maximise retirement wealth creation and income, which requires compliance with the complex super regulations in order to enjoy the benefits of property in super transactions.

What is appealing about investing in property is the lower volatility compared to shares, typically steady rental incomes, more consistent capital growth and the ease of understanding property, compared to managed funds, shares and structured products. Whilst the average household debt to income ratio in Australia is high compared to the rest of the world, the factors that make property appealing are the supply to demand equation, and the current cost of borrowing, amongst other short-term factors such as foreign investment. It goes without saying that thorough research needs to be undertaken on the location of the property that is selected. All investing is risky. There is the risk of capital losses from a falling property market, the risk of legislative changes and breaches which can render your fund non-compliant and finally the very large risk of over borrowing and purchasing too many properties in your super fund. Remember, discipline, planning, diversity, and good advice are the keys to successful property investment. While I believe that property in super is a very beneficial strategy for most, it is however not suitable for some people. Over gearing in property is a risk that can jeopardise your retirement savings. Just like driving on the road, buying property in super comes with strict rules, to help protect and preserve your retirement savings.

I hope that you have found this eBook both informative and simple to understand as I have taken out all the references to the SIS Act legislation to make this eBook and the SMSF property strategy easier to understand. You should always seek tax, legal, financial and property advice from a licensed buyer's advocate before embarking on your property in super journey.

DO I NEED ADVICE ON SETTING UP AND RUNNING MY SMSF?

For most people, the answer is YES. In fact, it is now law that anyone setting up a SMSF must receive a financial plan outlining the benefits gained and the benefits lost the risks and costs associated with the new SMSF setup. SMSF's are suited to people with Time, Experience and Knowledge and the inclination to do the following:

- Keep up with all of the changes in the SMSF sector.
- Administration: tax returns and audits are not all that are required to be maintained on a SMSF.
- Investments: Selecting the right investments and ensuring that they are properly structured so that you are not paying double stamp duty or capital gains tax or breaching the SISA regulations that can render your fund noncomplying which can result in you losing the concessional tax status of your fund and being taxed at 45% for existing holdings.
- Research: to determine the best products and services for your SMSF.
- Legislation watch changes to tax and superannuation laws are constant.

SOME SMSF MEMBER RESPONSIBILITIES

- ✓ Make sure the SMSF complies with the sole purpose test (section 62) at all times, while the fund is in existence.
- ✓ Make sure you develop an investment strategy that you regularly review and update.
- ✓ Ensure your investment strategy considers the retirement goals, death benefits, estate planning needs of your members.
- ✓ Take into consideration the risks involved in certain investments.
- ✓ Consider the operating expenses for your SMSF, ensure you have sufficient cash to meet these expenses.
- ✓ Consider diversifying your SMSF's investments.

- ✓ Have a separate bank account for your SMSF and pay the expenses of your fund from this bank account.
- ✓ Don't mix your SMSF money with other money.
- ✓ Don't have the assets of your SMSF in another entity's name.
- ✓ Don't provide financial assistance to members or relatives of members.

If you don't follow the rules, you risk one or more of the following:

- Your SMSF being deemed non-compliant and losing its tax concessions and the income taxed at 45%
- Getting disqualified as a trustee
- ATO Prosecution / Penalties

Setting up a Self Managed Super Fund (S.M.S.F)

Before you setup a SMSF the following are important considerations:

The benefits gained from a corporate or industry superannuation fund, such as low account fees and subsidized insurance, are benefits well worth maintaining for most people, so if you are considering setting up a SMSF, you should be mindful of the following benefits lost and in some cases gained.

- **Complete a Trustee Education Course:**
- Sign your ATO Declaration with confidence once you complete the above course. Its Free and takes 30 minutes to 2 hours depending on your time and knowledge.

Some things that you should consider are:

- Life Insurance - Will I lose Insurance cover when I change funds? Can I obtain new insurance?
- Management Costs - How do the fees and charges of each provider compare?
- Break costs – Some super funds may charge you an exit or transfer fee upon transferring your super.
- Investment Choice - Does the fund provide investment choice and a style that is suited to my needs?
- Investment Performance - How does your provider compare for performance?
- Consumer Friendly - Is information clearly explained and easily accessible?

SUPER FUND CHECKLIST:		
FEES	Do you pay for your fees and can you deduct your fees?	YES / NO
BENEFITS	What additional benefits do you receive? Is your insurance paid using your 9.5% employer contribution and is it sufficient cover?	YES / NO
	Do you currently receive Health fund and gym membership benefits?	YES / NO
RETURNS	Are you happy with the returns in your current superannuation fund?	YES / NO
SERVICE	Do you receive financial advice, or assistance with your account	YES / NO

Q - Who will oversee the fund's investments, accounting, auditing and general Administration

Q - Will the costs and benefits exceed your current fees and benefits?

Before you make a decision, take some time to consider your financial position and needs. A financial adviser, who is licensed to provide financial product advice, may help you to do this. If you answered NO to most of these questions, then you could potentially benefit from Investing your Super in a Self-managed super fund service.

SPECIAL OFFER:

Did you know that there are government rebates and incentives for property investors not just First home buyers? To request this information pack, please contact us:

Email: info@mysmsfproperty.com.au

Subject line: SMSF EBook Special offer

- Name:
- Phone number:
- State:
- SMSF starting balance:
- Combined income of all SMSF members:

Contact Us:

Would you like to know more about property in super?

(1) My SMSF / My SMSF Property refers lending work to a mortgage or finance manager.

More SMSF Information:

- ATO SMSF Videos - [Click Here](#)
- Money Smart Site - [Click Here](#)

General Advice Warning

This eBook provides general information only. Before making any financial or investment decisions, we recommend you consult a financial adviser or licensed advisory accountant to consider your investment objectives, financial situation and individual needs. My SMSF does not accept any liability for any errors or omissions of information supplied in this eBook, which are subject to change.

Copy Write Warning

Permission is given for personal use only and any unauthorized reproduction, modification, distribution, transmission, or republication of this eBook content, in part or in full, is prohibited. This document is for informational purposes only and is not intended to provide any tax, legal or financial advice.

www.mysmsfproperty.com.au

Email us or write to us:

My SMSF

SYDNEY NSW 2000

P: 1300 545 516 - 9am - 6pm Monday to Friday

E: info@mysmsfproperty.com.au

W: www.mysmsfproperty.com.au

© My SMSF / My SMSF Property A.B.N 67 145 282 908