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# USE YOUR SUPER

## TO BUY AN INVESTMENT PROPERTY

## Using your Superannuation funds to purchase an investment property

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Superannuation funds can now borrow money to purchase real estate. An investor can have just as much choice and control over investment properties inside as outside a superannuation fund.

Until recently, this has not been possible because of restrictions on superannuation funds borrowing and charging their assets. The Superannuation Industry Supervision Act (SIS ACT) was amended in September 2007 to allow super funds to borrow and charge their assets so long as a special structure is used.

Many Australians have significant money in superannuation, and more and more are establishing their own self managed super funds (SMSFs). Many people would like to be able to include real estate in their super fund's investment portfolio.

SMSFs want to gear their real estate investments in order to diversify risk, increase the yield on the investment, and because many funds do not have sufficient money to purchase real estate outright.

### Features of the structure:

- Choose any kind of property including residential, commercial, retail, and holiday units.
- A super fund can purchase real estate let for business purposes from a member of a related entity. (Subject to rules under the SIS Act).
- The beneficial owner of the real estate will be the SMSF.
- The lender has no recourse to the other assets of the SMSF, providing the SMSF with absolute protection for its other assets.
- The loans may be required to be personally guaranteed by the member/s of the SMSF (subject to credit approval).
- SMSFs can deal with the property however and whenever they like, in the same way as investors can deal with “normal” investment properties (eg: lease, renovate, repair, or sell) (subject to the terms of the relevant loan and mortgage).
- All rents are paid direct to the SMSF. Loan repayments are made in the ordinary way from 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, title to the property can be transferred to the SMSF or the Property Trustee can continue as registered proprietor.

## Frequently asked questions

### How does my SMSF purchase a property?

- The SMSF chooses the property it wishes to invest in, in the ordinary way. Residential property must be purchased from an arm's length vendor. Non-residential property can be purchased for full value from related parties so long as the property is let for business purposes.
- The SMSF obtains a loan approval.
- The SMSF's own lawyer/conveyancer acts on the purchase in the ordinary way.
- The SMSF pays the deposit, the balance purchase money (less the amount borrowed), the legal costs, and stamp duty in the ordinary way.
- On completion of the purchase the Property Trustee mortgages the property to the lender.
- SMSF then manages the asset in the same way as you would with any other real estate investment.

### Can I occupy the property?

No. If a member of the SMSF occupies the property the “in-house asset rule” would be breached. However, the SMSF could buy a property that the investor intends to live in after retirement. This is possible if you transfer the property from your super fund to yourself after you retire.

### I thought super funds could not borrow or charge their assets. Is this correct?

That was correct, until amendments to the Superannuation Industry (Supervision) Act 1993 (SIS Act) made in September 2007. Under the new section 67 of the SIS Act, SMSFs can borrow providing (amongst others) the following conditions are satisfied -

- The borrowed funds are used to purchase an asset (e.g. real estate)
- The asset is held on trust for the SMSF by another entity (ie the Property Trustee).
- The SMSF must have the right to acquire legal ownership of the asset by making payment.
- The lender's recourse against the SMSF must be limited to the underlying asset (ie the purchased property). The lender must not have a right of recourse against other assets of the fund.

### What other restrictions apply?

SMSFs must comply with all regulations applying to superannuation funds. SMSFs may acquire up to 100% of the fund's total assets in the form of real property. SMSFs must ensure that the level of investment in real property is in line with the fund's investment strategy, including diversification of assets, liquidity, and maximisation of member returns in the fund. Where a fund invests 100% of its assets real property, trustees must ensure that the fund continues to meet these requirements, for instance they must ensure the fund has sufficient liquidity to meet its liabilities (such as pension payments). The government has also made it clear that super funds investing in these types of investments must have appropriate risk management measures in place and must understand the risks of investment.

### Who pays what and when?

As the beneficial owner of the property and the borrower of the loan, the SMSF is responsible to pay all the usual amounts that you would expect to if you had bought an investment property and borrowed money on it in your own name rather than your super fund. For example, your SMSF will be required to pay:

Council rates, water rates, and land tax (if any), interest and other loan repayments, lender's fees, repairs, property management costs, and any insurance premiums.

### What about land tax?

As the SMSF is the beneficial owner of the property, land tax is payable by the SMSF. The SMSF will only have to pay land tax if the total land values exceed the proscribed amount.

### How can I transfer the property?

The SMSF can direct the Property Trustee to sell to any third party (subject to paying out the mortgage loan and any other amounts which might be outstanding).

### The finance for a SMSF

Effectively Prowealth Money's new SMFS loans fall within existing credit policies and procedures. The main difference is that the lender requires interest payments quarterly in advance. An important feature of our product is that it allows individuals to find their own properties if they desire. This is an important point as it differentiates Prowealth Money from many others lenders who link up with developers often to sell residual stock (which may be overvalued) using 'warrants'. Thus the decision to invest is entirely that of the SMFS. Like our other loans, all properties are required to be independently valued by 3rd party valuers.

## SMSF Ready Reckoner

This table will help you identify if you have sufficient funds in your SMSF to use as a deposit, purchase costs and running costs to be totally self funding for 5 years or more.

80%LVR	PROPERTY PRICE						
INCOME	\$250,000	\$300,000	\$350,000	\$400,000	\$450,000	\$500,000	\$550,000
Nil	\$124,840	\$150,900	\$176,750	\$200,800	\$225,350	\$250,700	\$284,450
\$50,000	\$102,340	\$128,400	\$154,250	\$178,300	\$202,850	\$228,200	\$261,950
\$60,000	\$97,840	\$123,900	\$149,750	\$173,800	\$198,350	\$223,700	\$257,450
\$70,000	\$93,340	\$119,400	\$145,250	\$169,300	\$193,850	\$219,200	\$252,950
\$80,000	\$88,840	\$114,900	\$140,750	\$164,800	\$189,350	\$214,700	\$248,450
\$90,000	\$84,340	\$110,400	\$136,250	\$160,300	\$184,850	\$210,200	\$243,950
\$100,000	\$79,840	\$105,900	\$131,750	\$155,800	\$180,350	\$205,700	\$239,450
\$110,000	\$75,340	\$101,400	\$127,250	\$151,300	\$175,850	\$201,200	\$234,950
\$120,000	\$70,840	\$96,900	\$122,750	\$146,800	\$171,350	\$196,700	\$230,450
\$130,000	\$68,240	\$92,400	\$118,250	\$142,300	\$166,850	\$192,200	\$225,950
\$140,000	\$68,240	\$87,900	\$113,750	\$137,800	\$162,350	\$187,000	\$221,450
\$150,000	\$68,240	\$83,400	\$109,250	\$133,300	\$157,850	\$183,200	\$216,950
\$160,000	\$68,240	\$78,900	\$104,750	\$128,800	\$153,350	\$178,700	\$212,450
\$170,000	\$68,240	\$76,000	\$100,250	\$124,300	\$148,850	\$174,200	\$207,950
\$180,000	\$68,240	\$76,000	\$95,750	\$119,800	\$144,350	\$169,700	\$203,450
\$190,000	\$68,240	\$76,000	\$91,250	\$115,300	\$139,850	\$165,200	\$198,950
\$200,000	\$68,240	\$76,000	\$88,500	\$110,800	\$135,350	\$160,700	\$194,450

70%LVR	PROPERTY PRICE						
INCOME	\$250,000	\$300,000	\$350,000	\$400,000	\$450,000	\$500,000	\$550,000
Nil	\$137,340	\$165,900	\$194,250	\$220,800	\$247,850	\$275,700	\$311,950
\$50,000	\$114,840	\$143,400	\$171,750	\$198,300	\$225,350	\$253,200	\$289,450
\$60,000	\$110,340	\$138,900	\$167,250	\$193,800	\$220,850	\$248,700	\$284,950
\$70,000	\$105,840	\$134,400	\$162,750	\$189,300	\$216,350	\$244,200	\$280,450
\$80,000	\$101,340	\$129,900	\$158,250	\$184,800	\$211,850	\$239,700	\$275,950
\$90,000	\$96,840	\$125,400	\$153,750	\$180,300	\$207,350	\$235,200	\$271,450
\$100,000	\$93,240	\$120,900	\$149,250	\$175,800	\$202,850	\$230,700	\$266,950
\$110,000	\$93,240	\$116,400	\$144,750	\$171,300	\$198,350	\$226,200	\$262,450
\$120,000	\$93,240	\$111,900	\$140,250	\$166,800	\$193,850	\$221,700	\$257,950
\$130,000	\$93,240	\$107,400	\$135,750	\$162,300	\$189,000	\$217,200	\$253,450
\$140,000	\$93,240	\$106,000	\$131,250	\$157,800	\$184,850	\$212,700	\$248,950
\$150,000	\$93,240	\$106,000	\$126,750	\$153,300	\$180,350	\$208,200	\$244,450
\$160,000	\$93,240	\$106,000	\$123,500	\$148,800	\$175,850	\$203,700	\$239,950
\$170,000	\$93,240	\$106,000	\$123,500	\$144,300	\$171,350	\$199,200	\$235,450
\$180,000	\$93,240	\$106,000	\$123,500	\$140,500	\$166,850	\$194,700	\$230,950
\$190,000	\$93,240	\$106,000	\$123,500	\$140,500	\$162,350	\$190,200	\$226,450
\$200,000	\$93,240	\$106,000	\$123,500	\$140,500	\$158,000	\$185,700	\$221,950

**Please Note.** These tables are a guide only. See Prowealth Money for individual circumstances.

### Assumptions in these models

- Income is an individual or combined total income, assumes no increase
- 100% of income above has 9% super contributions from employer
- Includes Accounting costs at \$1500 per year, no increase, cost covered for 2 years
- Includes buffer for estimated shortfall between income and outgoings for 5 years
- Does not include costs of establishing a SMSF
- Assumes interest rate of 10% interest only, 1% property costs, no increase in either
- Assumes rental return of 4.5% of purchase price, no increase
- Assumes no tax benefits, no contributions tax
- Assumes property turns cash positive or neutral on or before year 5
- Includes Stamp Duty at NSW rates and legals of \$4,000
- For regular purchases only, not valid for house and land packages
- LVR greater than 70% may require personal guarantees

### PLEASE NOTE.

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## How does it work?

