

# iLEARN SUPERANNUATION PROPERTY

Retire with Property



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# WELCOME

Investors Choice Group & Superannuation Property are industry leaders in end-to-end solutions for the purchase of direct property inside your superannuation fund.

We know that you are an active individual and you are results-oriented.

This e-book is created to give you all the answers without wasting your time. The information is structured and straightforward so that you can get the most out of it.

The Australian Superannuation scheme has been a core focus of our government and finance sectors for generations, now the benefits of having a safe retirement through tax-free income is available with direct property.

A self-managed superannuation fund (SMSF) is one of the options that gives you the biggest amount of independence. Naturally, the option comes with some risks and you need to understand the pros, the cons and the little details that will make all the difference.

Superannuation Property decided to share some of the biggest SMSF secrets and tips that will let you achieve success on your own. The detailed, step-by-step guide we have developed for you will take confusion out of the equation.

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*“The starting point of all achievement is desire. Keep this constantly in mind.  
Weak desire brings weak results, just as small fire makes a small amount of heat”*

*- Napoleon Hill*

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# SMSF

Having somebody else manage a super fund for you gives you freedom but it is also connected to responsibilities you need to understand.

SMSFs have gained popularity lately, becoming the single biggest asset class in Australia. 2013 statistics show that the number of self-managed super funds in Australia registered each week is over 1000 per week.

A self-managed super fund is defined as a fund established by one to four people for the sole purpose of providing retirement benefits. The members are also trustees of the fund, which means that they exercise full control over the investment and they are responsible for investment decisions. Members have a lot of freedom but they will also have to accept regulatory responsibility that would otherwise be the duty of the existing noted super fund.

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# IMPORTANT NOTE

Even if they have tons of experience, financial institutions will fail to offer a personalised approach.

Taking control and being in charge will let you access a wider range of opportunities, even the ones that financial institutions fail to mention.

**A SMSF in Australia needs to address a number of ATO requirements. The conditions are strictly defined as follows:**

- The SMSF should have at least one and no more than four members.
- Each trustee or director also has to be a fund member.
- Each member of the SMSF should also be a trustee or a director.
- Members of the fund cannot be employees of each other.
- The members are fully responsible for the SMSF and the manner in which it meets strict requirements and regulations.

**The self-managed fund brings various advantages that a fund managed by a financial institution will be incapable of providing. Some of the most important benefits include:**

- Financial independence and 100 percent control over investment.
- Participation of more than one family member in the fund.
- Income security during retirement or permanent work inability.
- Flexibility and freedom to make your own decisions.
- Low taxation rates.





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# STEPS TO SMSF

You will need to follow a number of important steps in order to do it the right way.

Once again - remember that a SMSF will require both time and effort on your behalf.

Talk to a financial consultant to have all of the details figured out in advance.

Setting up the SMSF involves the following steps:

1. Establishing the SMSF trust.
2. Obtaining your tax file number and your Australian business number.
3. Working on your investment strategy.
4. Opening your fund's bank account.

\* The steps are included as described by the Australian Taxation Office.

In more practical terms, you will have to do the following:

- Make sure that you understand all of your obligations and responsibilities. This preparatory step is very important when it comes to ensuring the smooth functioning of the SMSF in the future.
- Choose the members. There can be up to three other people involved in a SMSF. Typically, most people choose members of their family but you have lots of freedom and flexibility.
- Select a trust deed. The trust deed should be chosen with the intention of maximising the SMSF potential.
- Put your documentation in order. This is important in legal and regulatory terms.
- Get insurances that will be owned by the SMSF.
- Let your current employer know that you have set up a SMSF. Typically, you will have to provide your employer with a letter of compliance and a letter that lists the manners in which contributions can be made to the SMSF.
- Work on your investment strategy and begin implementing it.





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## **FREQUENTLY ASKED QUESTIONS:**

Superannuation

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### **Can I buy property using my superannuation?**

Yes. You are able to purchase residential investment and commercial property (such as shops, business premises, offices and factories) within a Self Managed Super Fund (SMSF).

### **How much superannuation do I need to get started?**

This is dependent on the cost of the investment property being purchased. Establishment costs, a minimum deposit of 20%, purchase costs and a reserve of 1 years negative cash flow is needed. Take into consideration you are able to combine up to 4 individual member's superannuation into an SMSF to increase the capital available.

### **What is an SMSF?**

SMSF's allow people to have greater control over the investment of their Funds for retirement. This kind of flexibility has seen over 450,000 established and over \$15 billion invested in direct property.

### **Can I use a property manager to manage the property?**

Yes. All expenses including property management fees, remember the idea of a SMSF

to make as much money as possible, so looking for savings with property managers is important.

### **Why use an SMSF to purchase property?**

SMSF's give you the ability to access a lump sum of money to use as a deposit for a property purchase. Superannuation Guarantee contributions of 9% can be used to cover any negative cash flow effects with the fund meaning that properties can usually be purchased and held without any effect on personal cash flow. It can be more tax advantageous to purchase property within the Superannuation environment.

### **Why set-up a SMSF?**

The investment flexibility gained from the SMSF structure for member's retirement funds is the number one reason for its rapidly growing popularity. Greater control over investments is also very important to Trustees.

### **Why do I need an Investment strategy when establishing my SMSF?**

An investment strategy is required by law when establishing an SMSF. The investment Strategy outlines the member's tolerance for investment risk and investment objectives. The fund must

remain within the investment objectives outlined within the investment strategy to ensure that it remains compliant. The investment strategy can be updated over time to encompass a member's changing investment needs.

### **Can my superannuation fund pay for personal insurances?**

Yes. You are able to house Life, Total and Permanent Disability and Income Protection insurance easily within an SMSF ensuring the trust deed allows for it. The premiums can be paid from the fund balance and members are able to make pre tax contributions to the fund to offset the effect of these premiums. Thus making Superannuation an excellent way to house personal insurances.

[Link to SPF for further advice.](#)

### **What are the benefits of owning property inside super for my retirement?**

During pension phase, trustees have the opportunity to benefit from tax-free income from property rental income. No capital gains tax on the sale of a property asset during pension phase, which can help investors save hundreds of thousands of dollars.

### **What are my out of pocket**



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### **expenses to get started?**

When establishing a SMSF, all costs are incurred by the new SMSF, which means that there are no out of pocket expenses to the members of the fund.

### **How big is this SMSF industry? What are other Australians doing?**

The SMSF industry is now the biggest asset class in Australia. Australians have currently invested over \$450 Billion into SMSF's.

Source: ATO

### **Can I contribute money from my personal income to my SMSF?**

Yes. A member can contribute money from their personal income to grow the SMSF or cover expenses. Typical the ATO provides guidelines as to how much money a member can contribute to an SMSF

### **Should I buy shares with my superannuation or property?**

Under superannuation law, members don't have to invest in any one asset. This means you can invest in shares, property or a combination of both. Superannuation Law allows members to diversify the portfolio into multiple asset classes, not just shares and property. It would be prudent to consider having a diverse portfolio across multiple asset

classes.

### **What other assets can my superannuation purchase?**

- Shares (Australian and International)
- Listed Property Trusts
- Direct Property
- Fixed Interest
- Cash and Deposits
- Managed Funds
- Art/Collectibles

### **What legislation do I need to be aware of?**

SMSF are governed by the Australian Tax Office and are regulated by the SIS Act.

### **Should I buy a property in my personal name or within an SMSF?**

If you would like to understand the difference between these structures, consult a Superannuation Property expert today. .

### **What is Pension Phase?**

When a member attains preservation age (currently between 55-57 dependent on age) they are able to amend the trust deed to change their benefit to Pension Phase.

Pension Phase means a few changes for the member and their Superannuation. They must now draw an income from their SMSF and the tax rates within their fund change. Investment Income within

the fund is now taxed at 0% and Capital Gains Tax (CGT) is also decreased to 0%. This means that you are able to sell properties in Pension Phase and pay NO CGT. This can save hundreds of thousands of dollars tax for a member which all goes towards a more comfortable retirement.





SODA



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# THE LINK BETWEEN PROPERTY & SMSF

Since 2007, the year when taxation changes were made to allow SMSF property purchases, SMSF investing in property has seen tremendous growth. Various factors led to this development.

Self managed super fund property investment can involve both residential and commercial real estate. Several important rules affect the property purchase:

- The property cannot be the residence of a fund member.
- The property cannot be used as a vacation house.
- The property should be purchased solely for investment purposes.

Establishing a connection between SMSF and property can be great for beginners in the niche. Most people own at least one house or apartment and they have better understanding of the real estate sector than of the financial and the investment world.

Why is residential property so great for a SMSF?

Here is a list of the most important reasons to consider a Superannuation Property:

- No out of pocket expenses
- Build a retirement income through direct property.
- Secure a safe-long term investment.



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Investment in property is one of the most attractive and viable options for investors. Still, you need to understand the strategy and the steps involved in making it happen.

We are ready to share our experience and the insider's information that we have collected through our professional operations. The right property investment strategy will provide you with taxation benefits, the security of your investment and with long-term money making opportunities.

Remember that buying property through a SMSF can be more profitable than purchasing it as an individual. The market has different regulations for individuals and for funds. The latter will benefit from such disparities.

Follow these steps when investing in residential property through a SMSF:

1. Seek professional assistance. We can help you come up with the right property investment strategy.
2. Set up a Security Trust on behalf of your SMSF. You will need it to provide loan guarantee and to buy/hold the property.
3. Talk to your broker about qualifying for a loan.
4. Buy and hold your property through the Security Trust.
5. Repay your loan and once you are done, transfer the property from the Security Trust to the SMSF.

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## **FREQUENTLY ASKED QUESTIONS:**

Property





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### **Can I buy property using my superannuation?**

Yes. You are able to purchase residential investment and commercial property (such as shops, business premises, offices and factories) within a Self Managed Super Fund (SMSF).

### **What are the potential tax benefits of owning property inside my superannuation?**

Within the Superannuation environment rental income from investment properties is taxed at 15%. This rate also applies for Capital Gains tax in the first year of ownership, after which it drops to 10% and no capital gains tax is payable on the sale of a property in pension phase.

### **Can I borrow to purchase property with my superannuation?**

Yes. Most banks provide loans to SMSF's to purchase investment properties of up to 80% of the property value.

### **Who pays the mortgage? And other expenses of the property?**

The SMSF covers interest, maintenance, insurance, rates, body corporate fees, property management and any other associated property expenses. These expenses will usually be deductible to the fund.

### **What happens if I can't pay the loan for my superannuation property?**

Loans for Superannuation Property are non-recourse, this means that the lender is only able to take the property and has no right to the remaining assets or funds in your SMSF.

### **How does borrowing to buy a property inside superannuation affect my personal portfolio?**

Buying property inside superannuation could have an impact on your personal portfolio if you are required to contribute more money into the SMSF to cover expenses. It's extremely important that members choose the right property to match your SMSF capacity (income and expenses). Members can avoid this by simply buying an investment property that doesn't cost the members more than what the SMSF is earning.

### **What is a bare trust?**

A Bare trust is a trust where the beneficiaries are absolutely entitled to the assets within. For example, a bare trust holds an investment property on behalf of the SMSF Trustee's; the bare trust can only transfer ownership of the investment property when the debt (mortgage) is paid off.

### **Who should I ask for advice when buying property with my superannuation?**

There are multiple advisors an investor should consult when buying property, they include:

- Finance Broker
- Financial Planner
- Accountant
- Property Advisor
- Solicitor (Property)

Or you could talk to Superannuation Property who provides all of these services.

### **Can I use a property manager to manage the property?**

Yes. All expenses including property management fees, remember the idea of a SMSF to make as much money as possible, so looking for savings with property managers is important.

### **Why do I need a corporate trustee when buying property?**

You don't necessarily need a corporate trustee when buying property, however using a corporate trustee is more often then not favored by the lenders, plus a corporate trustee provides members with added asset protection. Risk avoidance strategy should be a number one priority when buying property with your superannuation.

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**Can I buy a property before my SMSF is set-up?**

No. You can not purchase a property before you have all the correct SMSF documents in place. Superannuation Property can provide you all the compliant documentation to ensure you set-up a SMSF correctly in 24 hours.

**Who pays the deposit when buying my next investment property?**

The SMSF pays all deposits on investment property. No out of pocket expense are required.

**Who can rent my superannuation property?**

The only rule when renting an investment property owned buy an SMSF is you cannot rent the property to a related party. This means a member's relative, or spouse.

**How much will the bank lend me to buy a property with my SMSF?**

Generally, banks will lend between 70% and 80% of the property value. Each loan is assessed on a case-by-case basis and you should consult a Superannuation Property finance specialist for more information on your borrowing capacity. .

**Can I claim depreciation inside a SMSF?**

Yes. Standard deductions such as depreciation are allowable inside an SMSF. Consult Superannuation Property expert for a property depreciation schedule.

**What are the asset protection advantages of owning property in a SMSF?**

Assets held in a super fund are legally inaccessible to trustees in bankruptcy provided contributions or asset transfers were not made with the "main purpose" of avoiding creditors. That makes super a prized method of asset protection, particularly as there is no dollar limit on the protection.

Many small-medium business owners for instance place their business premises in a SMSF partly as an asset-protection strategy.

Take the example of husband-and-wife business partners who own business premises in their own names. Depending on the circumstances (including any professional advice received) the couple may decide to sell the property to their SMSF at market value or make an in-specie contribution of the property to the fund. (See the next point.)

**Are there any disadvantages to owning a property through a SMSF?**

The answer will depend on the circumstances of the fund and the members.

With certain exceptions preserved superannuation benefits must remain in the super system until members permanently retire after reaching their "preservation age" (currently 55) or turn 65.

The locking of benefits into superannuation could be seen as an advantage or disadvantage by some fund members.

A factor to consider is that many high-income earners gain valuable tax benefits by negatively gearing properties in their own names.

That is because the shortfall between rent and deductible costs (mainly interest) is deductible against other personal income.

**What are the advantages of gearing property through a SMSF?**

First, a SMSF can buy an asset which may otherwise be unobtainable given the fund's total asset value and its level of contributions.

Second, capital gains are multiplied if a geared property





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risers in value.

Third, borrowing to invest may enable a SMSF to hold a more widely diversified portfolio than would have been possible if all or most of its savings were spent buying a single property. Fourth, the capital gains are concessional-tax or tax-free (if the fund disposes of the property when its assets are backing the payment of a superannuation pension).

### **What are the disadvantages of gearing property through a SMSF?**

Gearing magnifies any gains but it magnifies any losses. Gearing is detrimental for a fund unless the property's value increases. Further, a geared SMSF faces the challenge of trying to ensure there is enough cash flow from earnings and member contributions to service the property loan.

Superannuation and financial planning specialists warn that the halving of the standard concessional contributions for members over 50 to an indexed \$25,000 a year from 2012 - 13 will inhibit the ability for some SMSFs to meet loan obligations.

### **What happens if my SMSF defaults on an investment loan?**

The fund can lose capital and

interest payments to the date of the default. As well the lender can deduct its costs of selling the geared property and discharging the loan before paying whatever is left to the fund.

That means a fund which spends all or most of its assets to pay initial loan installments could be wiped out in a worst case scenario.

Astute SMSF trustees would not borrow to invest in property or any other assets without understanding the risks.

A danger is that fund trustees may gain a false sense of security because a super fund is barred from providing any of its other assets as security for a loan.

This provision will not necessarily protect a heavily geared fund from losing much of its members' retirement savings if a property investment turns bad and loan repayments are not met.

### **Why should SMSF members be cautious about giving personal guarantees for property loans?**

Although SMSFs are prohibited from providing other fund assets as security for an investment loan there is

nothing in the legislation to stop a lender seeking to enforce personal guarantees in the event of a default.

### **Is my SMSF allowed to spend its entire savings on a single investment property?**

Superannuation law does not prohibit a fund from owning just one asset. Some fund trustees specifically decide to have SMSF portfolios dominated by a single property asset, perhaps after considering the diversification of their other super and non-super investments. SMSFs are required to have written investment strategies

Despite the requirement that fund trustees must consider diversification when preparing an investment strategy they are not required by law to diversify.

Financial planners and superannuation specialists typically urge fund trustees to recognise the possible consequences if their retirement savings are overly dependent on the profitability of a single high-cost asset.

### **What are the advantages of my SMSF owning my business premises?**

Small-medium business owners commonly arrange for their SMSFs to hold their business premises for a

range of reasons including tax effectiveness, asset protection and succession planning for family businesses.

A family business, for instance, would have to pay a commercial, arms’ length rent to the family’s SMSF. In turn the fund would pay concessional tax on the rent and typically benefit from many of the usual tax breaks available to landlords – including tax deductions for interest on a property loan.

Some fund trustees would gain a feeling of security because their family business, not some other unrelated, perhaps little known business, is the tenant.

Founders of a family business – such as married or de facto couples – sometimes hold the premises of the family business in a two-person SMSF initially for retirement saving, tax and asset protection reasons. As the founders approach retirement they may decide to allow their adult children to become fund members.

Thanks in part to the adult children’s super contributions such a fund might eventually be in a financial position to retain ownership of the business premises for future generations while paying the founders’ retirement benefits.

Depending on the circumstances that could provide valuable security for the family business.

**What are the disadvantages of my SMSF owning my business premises?**

Conflicting loyalties and pressures may arise if your business strikes financial problems and fails to pay its rent.

On one side the family business may require the premises to keep operating in the expectation that profits will return.

On the other side the fund’s trustees – who are the same people as the business owners in these circumstances – are legally obliged to maintain the fund with the sole purpose of providing member retirement benefits.

Under superannuation law fund members must be trustees of the fund or directors of its corporate trustee.

Much of the fund’s financial wellbeing may depend on regular payment of rent – particularly if a heavily geared property is the fund’s sole or dominant asset.

If your business is unable to pay rent your fund may

struggle to meet loan installments on a geared property and that could lead to a forced sale.

Another consideration is how the tax office – in its role as regulator of self-managed super – may react to a fund’s failure to collect overdue rent from the fund members’ business.

One of the toughest actions that the regulator can enforce under the Superannuation Industry (Supervision) Act is to remove a fund’s complying status.

**How much tax do I need to pay on property inside superannuation?**

Tax Payable on	Property Owner			
	Individual	Company	Superfund	Super Pension
Rental Income	Up to 45% <sup>1</sup>	30%	Up to 15%	Nil
Capital Gains <sup>2</sup>	Up to 22.5% <sup>1</sup>	30%	Up to 15%	Nil

<sup>1</sup>. Ignores the Medicare levy  
<sup>2</sup>. Assumes the asset has been held for 12 months or more

**Can I transfer my existing investment properties into my superannuation fund?**

Only if they are business real or commercial properties. No residential investment properties currently owned by a member or related party may be transferred into an SMSF. Residential investment properties may not be rented to a member or related party either.

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# FINAL SMSF CHECKLIST

We hope that we have managed to address your biggest concerns and the most ambiguous issues.

Before you get started, you can use the following checklist to determine your level of readiness and confidence with a self-managed investment option.

Can you give a positive answer to all of these questions? If you can, you are definitely ready to begin investing and take control of your own self-managed

1. Are you 100 percent certain that the SMSF is the right option for your retirement?
2. Have you done enough research?
3. Are you ready to name the other members of the SMSF?
4. Are you familiar with the laws and the regulations in the sector?
5. Do you know the steps that you will have to undertake in order to set up SMSF?
6. Do you know how to work on your investment strategy and where to seek advice?
7. Are you ready to deal with paperwork and all the obligations of a trustee?
8. Have you researched property investment opportunities?
9. Are you aware of the risks and possible shortcomings of SMSF?
10. Do you have an emergency plan for situations that may be out of your control?
11. Do you understand the SMSF, its functioning and processes?

We hope that you have answered with 11 yes's! If you have some uncertainties and fears, please do give us a call! We can help you create your investment strategy and we will work together to discover the option that will work best for you and your family.

Expert assistance and our experience in the niche can be key to determining the success of your super fund. We are ready to offer assistance!



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