



The ABCs of SMSFs

At Horizon Property Alliance we're passionate about helping people like you, to build wealth and financial security through sound property investment strategies.

With 25 years' experience, we excel at finding the right properties to meet our clients' personal and property goals. We do this while working alongside a team of independent Professional Advisors.

We understand that property investment is not a decision to be taken lightly. It calls for careful consideration and arming yourself with the necessary knowledge to make well-informed decisions.

***Michael Knights***



## Self Managed Super Funds: What are its chief advantages and who does it best?

Australia's tax environment has dramatically changed in recent years creating opportunities borrow funds to buy investment property within a self-managed superannuation fund.

As rules stand today, Self Managed Super Fund (SMSF) property investment can produce tax benefits and buying power unavailable via other means.

However, as has been widely reported in industry media, buying property assets with a SMSF is not a one-size-fits-all investment strategy.

We believe investing in property should be part of your holistic wealth creation strategy.

Individuals considering this pathway to retirement should consult professional finance and taxation experts about their unique circumstances, objectives, costs and responsibilities before making any rushed, risky decisions.

## How does it work?

The introduction of Limited Recourse Borrowing Arrangements (LRBA) boosted the popularity of buying real estate assets in SMSFs.

LRBA allows your SMSF to use borrowed funds to buy a property asset or group of identical assets with identical market value.

SMSF trustees receive the beneficial interest in the asset but the legal ownership of the property asset (the rental property) is held in the holding trust.

Questions to ask before jumping-in include:

- If you decide to use your existing SMSF to buy investment property, what type of property is most suitable?
- What do you need to do if you do not yet have a SMSF? What are the costs, what is the process and what are your ongoing reporting responsibilities?
- Is it worth establishing a SMSF for the express purpose of buying investment property, or is another investment option more suitable?

## What are the headline benefits of buying with a SMSF?

The big one is the potential tax saving. As it is today, your SMSF is taxed at 15%, less than most people's personal tax rates.

If the investment property is sold during the fund's accumulation phase, capital gains tax on the sale may be discounted.

If the investment property is sold after the SMSF has moved to its pension phase, it is CGT-free.

According to the Australian Securities and Investment Commission (ASIC), your SMSF could potentially purchase your business premises, allowing you to pay rent directly to your SMSF at the market rate.

You should always seek independent advice from a Financial Planner and your Accountant prior to considering any type of investment.

## What are the potential downsides of investment with a SMSF?

You cannot buy an investment property inside a SMSF and live in it or rent it yourself, nor can any family member/s.

There can be no evidence of SMSF trustees of their relatives benefiting from the rental asset.

If borrowed funds are needed, this can only occur under very strict LRBA borrowing conditions.

ASIC stresses geared SMSF property carries risks including:

- **Higher costs** because SMSF loans are usually more expensive than other loan products and this must be factored in to investment decisions
- **Cash flow constraints** because loan repayments must come from the fund, which must always have sufficient liquidity and cash reserves
- **No scope for renovations** that change the property's character until the SMSF has paid-off the loan

Finally, it cannot be overstated that using a SMSF to buy property is a decision that requires careful consideration.

Seek expert professional advice before using a SMSF to buy investment property.

## How Horizon Property Alliance can help

Contact us today to tap our extensive understanding of the Australian property investment market.

We can work with you and your chosen financial professionals or can connect you to our network of industry experts.

We start by spending time with you to understand your property goals and personal dreams. We provide you various property options to suit your circumstances and educate you on the whole process.

We will help you choose a highly suitable investment property and share our knowledge through each step of the purchase process.

Our motto is "Your Choice on Your Terms at Your Pace."

## Get in touch

1300 859 278  
0409 018 778  
[michael@horizonpropertyalliance.com.au](mailto:michael@horizonpropertyalliance.com.au)  
[www.horizonpropertyalliance.com.au](http://www.horizonpropertyalliance.com.au)

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