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Investor Guides

Self Managed Super Funds And Property.

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Self Managed Super Funds And Property.

Using a self-managed super fund (SMSF) to buy property is a popular investment strategy. However it is important that your fund supports your overall investment goals and avoids unnecessary risk.

What Is A SMSF?

A self managed super fund (SMSF) is a superannuation trust structure that provides financial remuneration to its members in retirement.

The main difference between SMSFs and other super funds is that SMSF members are also the trustees of the fund.

SMSFs can have up to four members. One of the main advantages is the level of control that trustees have when it comes to tailoring the fund to meet their individual needs.

Purchasing Property With Your SMSF

Today, more and more people are looking at purchasing property with their super fund. In fact, the ATO reports that at least 15% of SMSFs are now invested in direct property (commercial and residential property).

If you wish to invest in property using your SMSF, the property you purchase must

a. Meet the fund's sole purpose of providing retirement benefits and
b. Fit with the funds investment strategy

This means that the family home cannot be bought with a SMSF because, if someone close to you is living in the property, then a benefit would be gained before retirement.

Buying an investment property however, is possible with a SMSF, as long as the tenants are not fund members or relatives. It is also possible to buy commercial property through a SMSF as long as the focus of the purchase is for growth for retirement.

Borrowing To Buy Property

If you intend to buy an investment property using your SMSF, but don't have quite enough super, your fund may be able to borrow the money.

Financial lenders will generally require your SMSF to have a corporate trustee structure and may allow your fund to borrow up to 80% of the value of a property.

However, buying a property through a SMSF should not be the sole reason you choose to set up an SMSF, but rather an option to have more control over your super.

The Advantages

One of the biggest advantages to having a property in an SMSF, is the reduction in tax.

Your super fund's tax is lowered to 15 per cent – a rate which is lower than a person's personal tax.

You may also benefit from capital gains tax being reduced, if you sell the property during the accumulation phase. If you sell the property when your super is in the pension phase, then it's tax free.

Additional Requirements

Managing an SMSF does require expertise, time and money. There are a number of fees that include $2000 to initially set up your SMSF, plus there are also adviser fees, accountant fees and ongoing annual costs to factor into your expenses.

What's more, the ATO puts in place strict auditing and reporting requirements for SMSFs, with harsh penalties for those who do not comply. The best option before proceeding is to always speak to a financial adviser about whether this strategy suits your investment goals.

How To Know If It's Right For You?

There's no doubt that purchasing property through a SMSF can be a lucrative way to build up a super fund.

However, because of the various risks involved, it's important your know your obligations and have what's required to meet them.

To help you make the best decision, you should speak to a qualified, independent third party, who can give you their honest opinion. This should not be anyone with a vested interest in selling the property, so you their opinion remains un-objective.

How Much Money Is Needed?

Generally, a minimum of $200,000 in existing super savings is required for an SMSF to be a cost-effective option.

If you have less than $200,000 in super, then your existing fund fees are generally cheaper, so it doesn't make for a cost effective strategy.