



**How to use your  
Superannuation  
to buy property**



## Did you know you can use your Superannuation to borrow and invest directly in property?

Using your super to invest in property is one of the ways to increase your wealth.

Changes to the Superannuation Law allow you to borrow to purchase property using a Self Managed Superannuation Fund (SMSF) structure established for this purpose as long as certain conditions are met.

Changes enable you to borrow and invest directly in any kind of property, including residential and commercial, allowing investors to use property as a super wealth-building and income generating tool.



### How it works

You want to invest in the property market using your superannuation [held in an SMSF] but cannot fund the full purchase price. The SMSF does however have enough to fund between 20% and 35% of the purchase price plus the other acquisition costs (range depends on type of property and lender requirements). The SMSF can purchase the property by borrowing the remaining funds to purchase the property.

The property will be used as security for the borrowing under what is termed a 'limited recourse loan'. In the event of default the lender only has recourse to the property and cannot claim any other SMSF assets.

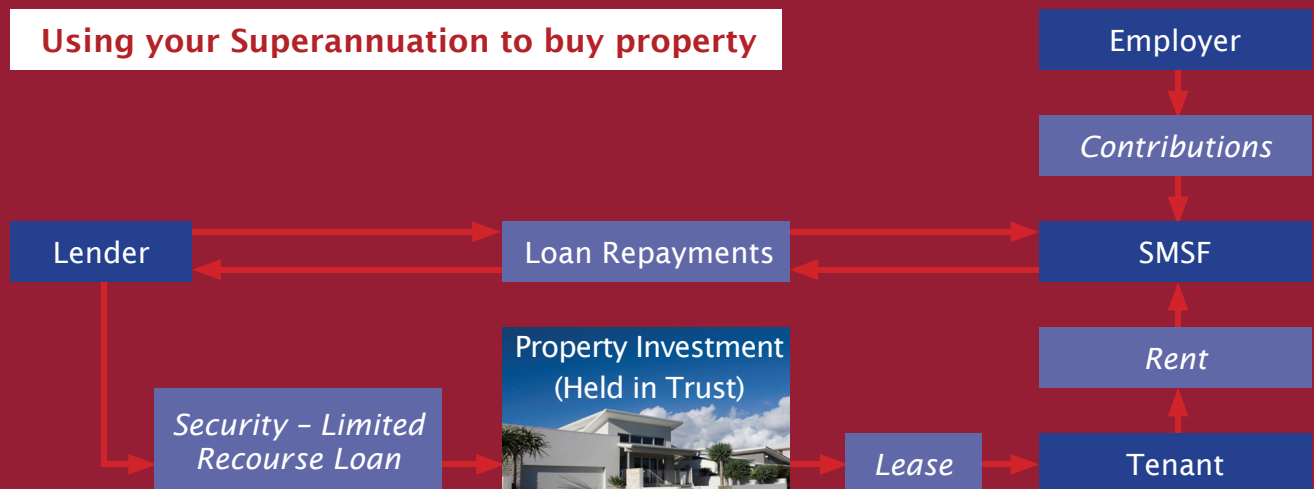
The property is held in trust for the SMSF which is entitled to its income. Your SMSF makes the loan repayments, paying off the loan over the agreed period. After the loan is repaid, the legal ownership of the property can be transferred to the SMSF.

### Don't have a SMSF?

That's OK. We can help you establish a fund to purchase your property. We can explain to you:

- The tax benefits and rules
- How much you need to have in super to be eligible?
- Is the property investment a good idea and is it appropriate for you?
- How to set up and structure the right type of SMSF.

### Using your Superannuation to buy property



## What are the benefits?

There are distinct benefits associated with using your SMSF to buy an investment property. These include:

- Rental Income from property can be used to help repay the loan.
- Employer superannuation contributions can be used to help repay the loan.
- Members of SMSF can gain access to significant tax efficiencies, only available in the superannuation environment; including:
  - No capital gains tax once member(s) retire
  - Loan repayments can effectively become tax deductible (provided members salary sacrifice)
  - Negative gearing benefits inside SMSF environment.
  - Income after expenses and any capital gains on the disposal of property is taxed at a maximum rate of 15%, compared with rates of up to 46.5% that a regular investor would be paying.
- Assets held in a SMSF, will under normal circumstances, be protected against general debt recovery and bankruptcy proceedings.
- SMSF assets are secure as the lender does not have recourse to your SMSF assets in the event of default.

Buying property may be an excellent way to reduce volatility and overall risk on your investment portfolio.

## Some things you should consider

- Professional advice should be sought. A legal or accounting professional should discuss and establish the structure.
- The investment in the property must be in line with the SMSF investment strategy.
- Any loan arrangements may be subject to the provision of personal guarantees, which may expose individual guarantors to potential liability.
- You cannot occupy the property before retirement.

Superannuation law is complex and as such, careful management and sound advice are of paramount importance. Investors should obtain legal and accounting advice when considering investing in property using their super or SMSF to fund the property purchase.

At Pinnacle Tax & Accounting, we can show you how to realise these benefits and how you can control possible disadvantages. We have a service solution that provides exactly that, creating peace of mind for you now and in the future.

*"I spoke to other advisors and it all seemed too complicated. I then spoke to Pinnacle Tax & Accounting who put my mind at ease and made the whole process effortless and uncomplicated."*

Trevor Robinson

## Case Study

Neville and Myrtle, both aged 45 and employed full time in the retail industry, are looking to purchase an investment property valued at \$400,000. Their investment strategy is simply to build wealth for retirement.

Their Financial Advisor suggested that they set up, borrow and buy the property using their own accumulated super through a Self Managed Super Fund.

Both Neville and Myrtle were unaware they could borrow and buy property using their existing Superannuation. They sought professional advice from their accountant on the potential tax savings and the appropriate SMSF structure.

*"...the projected tax savings at age 60 in excess of \$100,000..."*

They were amazed to find out that by buying the investment property using a SMSF, the projected tax savings alone at age 60 would be in excess of \$100,000.

### Assumptions

- Loan amount \$280,000
- Interest rate fixed at 7.8% over the term of the loan
- Property value increases by 4% p.a.
- Rent received \$400 p.w. increasing at 2.5% p.a.
- Members salary sacrifice net negative rental cash flows
- 2011 marginal tax rates used
- Current taxation and SMSF laws remain unchanged.



## When to consider SMSF loan?

- You are wanting to purchase a property as an investment but you have:
  - Lack of equity outside Super; and or
  - Lack of servicing capacity outside Super
- Taxation benefits:
  - Voluntary contributions
  - CGT considerations
- You hold property outside the superannuation environment that is subject to land tax:\*
  - \* SMSF's have separate land tax thresholds in NSW
- You have a long term investment time frame.

## How can I find out more?

For more information or to meet with a Pinnacle Tax & Accounting SMSF specialist, contact us today:

Phone: (02) 4655 7711

Fax: (02) 4655 1174

Email: [admin@ptagroup.com.au](mailto:admin@ptagroup.com.au)

Office: Suite 4, The Exchange  
130 Argyle Street,  
Camden NSW 2570

Postal: PO Box 721, Camden, NSW 2570

Web: [www.ptagroup.com.au](http://www.ptagroup.com.au)



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