

Borrowing to buy property using superannuation

Changes to superannuation law now allow Self Managed Superannuation Funds (SMSF) to borrow funds to invest, providing certain conditions are met. Using a SMSF you are able to invest in all types of real property including both residential and commercial property. Using a SMSF to purchase a property enables you to take advantages of the benefits of the current tax concessions that are available.

How does it work?

You would like to buy a property using your SMSF but cannot fund the full purchase price. The shortfall is met by borrowing funds using a limited recourse loan and a special trust to hold the property. The rental income from the property along with contributions from the members and the superfunds' other income finance the loan repayments.

Buying property through a SMSF is an effective way of saving for retirement. Before doing so we recommend that you receive specific advice. If the fund and the borrowings are not set up in accordance with the tax office rules the arrangement can be ineffective and severe penalties apply.



Example of borrowing in a SMSF

Michelle and Simon would like to buy a commercial property. They have little cash available in their own names. Michelle has \$100,000 and Simon has \$220,000 in their employer superfund. The purchase price of the property is \$550,000. Michelle and Simon set up a Self Managed Superannuation Fund and transfer their existing super. They would like to use \$200,000 of their money and borrow the remaining \$350,000 to fund the purchase. The bank agrees to the borrowing. Michelle and Simon consider the cash flow requirements of the fund and are comfortable that with the rental income on the property and regular annual super contributions to the fund they will be able to meet the funding requirements.

Talk to us to consider whether borrowing in your SMSF is right for you.

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