

Property in SMSFs?

Get advice

You can use a self-managed super fund to invest in residential or commercial property – but do seek qualified advice and don't get caught in the hype.

One of the main reasons SMSFs are so popular among Australians is that they provide choice and flexibility to members for investing their retirement savings.

SMSF investment options include shares, bonds, managed funds, and even residential and commercial property. However, before you get too excited with all of the real estate advertising, targeting property ownership through SMSFs, every investment in your SMSF must satisfy stringent rules, in particular the 'sole purpose test'. This means that you can't use the property for personal use, or rent it out to friends or family at reduced rates. It must be a legitimate investment.

Added protection

When you borrow within your SMSF you must take out a limited recourse loan. This arrangement limits any recourse the lender has under the agreement if loan repayments are not met for that particular property. The lender has no recourse over any other assets held by your SMSF.

Tax treatment

A major benefit of putting a property in your SMSF is the associated tax advantages,



particularly if your investment is positively geared.

When you hold an investment property within your SMSF, you will pay 15% tax on rental income earned. Compare this to holding it in your own name and paying tax at your marginal tax rate, which can be up to 46.5%. And once you reach age 60, or 55 if you receive a Transition to Retirement pension, you may not have to pay any tax on income earned from the property.

In addition, if your SMSF holds the property for more than 12 months, capital gains made on the sale of that property are taxed at a maximum rate of just 10%, or nil if you are receiving a pension from the fund.

Gearing into an investment property can provide further tax benefits. You can use a portion of your fund balance to pay the deposit and then make regular loan repayments from salary sacrifice super contributions that reduce your taxable income.

Contact your Fiducian financial planner for more advice on property in SMSFs.