WHAT YOUR LENDER DOESN'T TELL YOU...

You could grow your property portfolio without using personal finances! This seems like an outlandish statement, yet it is true.

Buying a property with your own personal savings has its advantages. You can select whatever property suits your budget, goals and your preferred tenant.

On the other hand, buying a property with your superannuation is possible without outlaying your own money, but it does come with rules and regulations to follow.

The only way to buy an investment property with your superannuation is through a self-managed super fund (SMSF).

SMSFs are a way of saving for your retirement and are an alternative to industry and retail superannuation funds.

The number of self-managed super funds has continued to rise in recent years. There are nearly 600,000 SMSFs in Australia accounting for about 25% of the $2.7 trillion invested in superannuation[1].

While SMSFs have become popular, it is important to know the costs, time and responsibilities involved in their running. SMSF funds can have up to four members, all of whom are responsible for decisions made about the fund and must comply with all government and ASIC requirements.

To buy an investment property in an SMSF, the property must:

- meet the sole purpose test of solely providing retirement benefits to fund members
- not be acquired from a related party of a member unless it is business real property
- not be lived in or rented by a fund member or any fund members' related parties
- meet the restrictions on the manner and type of modifications that can be made while borrowing is in place, and…

You must:

- borrow to buy a single asset
- not borrow to improve an asset

The purchase of the investment property must be consistent with the SMSF's investment strategy and risk profile of the fund.

The costs of buying a property in an SMSF are much the same as purchasing outside of superannuation, but there are other fees and costs to consider when setting up an SMSF. Most SMSFs can expect to pay annual ongoing fees and costs of up to $5,000[2].

It takes time and money to set up an SMSF, but there are benefits of buying an investment property through your SMSF:

- The ability to add a property to your portfolio that you may not have been able to buy without using your superannuation to finance it!
- Income from your SMSF is generally taxed at a concessional rate of 15% (compared to a personal tax rate of up to 45%).
- Superannuation tax rates apply to any capital gains as a result of an increase in the property's value. If the property is sold in the 'accumulation' phase of the fund, CGT of 10% will generally apply and if it is held for more than 12 months. If sold in the 'pension' phase, capital gains will be exempt.

Buying property is one of the biggest decisions you will make in your lifetime. Protecting and leveraging your nest egg is equally important.

Still not sure whether to buy your investment property directly or through an SMSF?

We can help you make your property finance decisions with confidence.

Source: 1 SuperGuide, SMSF statistics: 1.1 million members with $676bn in super: superguide.com.au/smsfs/smsf-statistics

2 SuperGuide, How much does a DIY super fund cost: superguide.com.au/smsfs/how-much-does-a-diy-super-fund-cost#Set-up_costs

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