



USING YOUR SUPERANNUATION TO PURCHASE PROPERTY

How a Simple Property Investment Strategy could
double your returns



FREEDOM
Strategy Management



Index

1. **Is a Self Managed Superannuation fund (SMSF) right for you?**
2. **What is an SMSF?**
3. **Pros & Cons of an SMSF**
4. **Considerations for an SMSF**
5. **Property vs Retail Fund Comparison Case Study**

WARNING

This information may not be suitable to you because it contains general advice that has not been tailored to your personal circumstances. Please seek personal financial, tax and/or legal advice prior to acting on this information



Is an **SMSF** right for you?

To really answer that question legally and properly, you need to obtain some personal financial advice, which considers your personal circumstances before recommending such a strategy. **HOWEVER**, the main questions to consider first are:

- Are you happy with the returns your Super is currently achieving?
- Do you feel like there could be better options out there for you?



OPTION 1

OPTION 2

OPTION 3

OPTION 4

What kind of options ARE available to you?

The reality is that many Australians are now choosing to invest their Super in Property, as banks will now lend money to Super Funds to do exactly that.

There are different rules which govern this whole process but Super Funds can now invest in a very similar way to everyday Property Investors. This is the investment of choice for most Self-Managed Super Funds investors.



What do you need to do to set one up?

In order to do this, you really need to meet with a Financial Planner to get professional advice and to then consider if this strategy is appropriate for you.

They will then prepare all the required paperwork necessary to setup an SMSF and to also setup all the Bare Trusts, ABN, Tax File numbers etc that are required.



How do you manage such a strategy, Year by Year?

There are ongoing fees for tax returns and the like that are associated with managing an SMSF year by year. These fees should pale into insignificance when compared with the returns generated by the investments of the funds. Those investments are specifically chosen by you based on your own selection of value and growth.

The next section discusses what a Self-Managed Super Fund actually is. If you would prefer to skip to the Case Study detailing how an SMSF balance of \$200,000 could be invested in Property, skip to page 16 of this eBook.



What is a Self-Managed Super Fund (SMSF)?

A Self-Managed Super Fund (SMSF) gives investors total control over how their super benefit is invested. Thus, it is ideal for DIY investors who prefer to make their own investment choices. It facilitates all major superannuation functions including:

- Accepting new superannuation contributions
- Housing superannuation funds received from a change in employment
- Paying you a retirement income.

Regulatory Body

The Australian Taxation Office (ATO) regulates SMSFs ensuring that all SMSFs comply with Superannuation laws.



Establishing the Trustee

As a trust, an SMSF needs trustees to make decisions about investment and carry out operational and administrative duties. The trustees are also responsible for compliance with a range of investment-related requirements including:

- The investment strategy covenant
- Various restrictions on investments and benefits including those related to:
 - Lending to members or their relatives
 - Acquiring assets from members or their relatives
 - In-house assets
 - Arms-length transactions
 - Borrowing by the fund
 - Member reporting obligations
 - Contribution standards, and
 - Benefit payments standards.



Establishing the Trustee Continued...

The trustees exercise control over an SMSF, but do not own it. While trustees may outsource certain functions to external service providers such as a fund administrator or an accountant, the ultimate responsibility and accountability for the fund always lies with the trustees.

The trustee of a SMSF can be a corporate trustee (ie: a private company) or individuals who are members of the fund.

- Where the trustees are individuals, the trustee arrangements must be (subject to limited exceptions):
 - All members must be trustees and each individual trustee must be a member.
- Where an SMSF has a corporate trustee providing:
 - Each director of the company is a member of the fund, and
 - Each member of the fund is a director of the company.



Members and Ownership

The members own the SMSF and have respective and proportional interests in the fund's assets based on contributions and rollovers made to the SMSF. There can be a maximum of 4 members in an SMSF and they all must be trustees. No member is allowed to be an 'employee' of another member unless related.

Single Member Funds

Where an SMSF has only one member, that person may elect to have a corporate trustee; in this case, the member must be the sole director of the trustee company.

Alternatively; if the single member fund does not wish to have a corporate trustee, the fund must have an individual trustee who is the member.



Advantages of SMSFs

Total Control

An SMSF allows you to have full control over your investment choices and the timing of your investments.

Direct Investment Choice

You can invest directly in your own chosen combination of investments – for example; shares, property, fixed interest investments, managed funds and cash. You may also include business real estate property (commercial property).

Access to Wholesale Managed Funds

You may gain the benefit of access to wholesale managed funds where the investment charges are lower than retail managed funds.

Cost Effective

The annual fees charged by most superannuation funds are percentage-based, which means you pay more as your balance grows. In comparison, the annual fees for an SMSF can be fixed irrespective of your superannuation balance, which makes SMSF the most cost-effective type of superannuation fund.

Further Advantages of SMSFs

Consolidate Investments

You can choose to make ‘in specie’ contributions to an SMSF in different forms other than cash to combine all your investments together, e.g, shares, managed funds and commercial property.

Consolidate Member Super Accounts

All members of an SMSF – up to a maximum number of 4, can consolidate their super accounts in one, so that they do not need to pay fees to several accounts at the same time and have access to a wider range of assets with a much larger pool of investment fund.

Tax Planning

You have the ability to reduce taxation liabilities within the fund by selecting a tax effective mix of investments, including franked dividends. Investment earnings are subject to tax at a maximum rate of 15%.

Succession Planning

An SMSF allows you to conveniently and legally pass a member’s super benefits to the beneficiaries in the event of a member’s death. This can keep your SMSF assets under the same SMSF tax-advantage umbrella even after a member’s death.

Non-lapsing Binding Nomination

A member of an SMSF is able to have a non-lapsing binding nomination which allows them to specify how their benefits are to be distributed on their death.



Disadvantages of SMSFs

Cost Barriers

The costs associated with establishing a SMSF may include:

- The preparation of a trust deed including updates following legislative changes
- In the event of a corporate trustee, the costs of establishing and using this framework
- The costs of using and establishing the administrative framework and,
- The accounting, audit and ongoing administration of the fund

Legal and Compliance Obligations

Although many responsibilities can be outsourced, the ultimate responsibility remains with the trustee. Non-compliance can result in fines and /or imprisonment.

Expertise and Performance

A high level of flexibility in investment choice requires sound knowledge and experience on behalf of the members/trustees.

Time Consuming

It is reasonable to expect an SMSF will take up considerably more time from the members/trustees than alternative superannuation funds.



Start-up Capital for SMSFs

There is a common rule of thumb that you need at least \$200,000 before you can establish an SMSF so that you have enough funds to diversify into different assets, however, the starting balance for an SMSF is also a personal decision. You should also consider the level of control you want to have over your SMSF.

Ultimately the amount you need as a starting balance for an SMSF is a personal decision. Issues other than cost should be considered, including the level of control you want over your super benefit. Most importantly, do your own research and don't take averages as a guide because averages tend to distort the truth.



The Sole Purpose Test

To be eligible for the tax concessions available to a complying superannuation fund, the sole purpose test must be met to make sure SMSFs are established for:

- Benefits to members upon retirement, or
- Death or ancillary benefits to members.

Related Party Transactions

An SMSF may only purchase certain types of investments from you or an associate. A fund can only acquire the following assets from a member:

- shares listed in Australia or an approved overseas stock exchange
- units in widely held unit trusts
- business real property used wholly for any business purpose. The transfer of any other assets may attract a penalty of imprisonment



Investment Guidelines

Legislation requires the trustees of SMSFs prepare and implement an investment strategy that includes:

- Risk/return profile of selected investments in light of the investment horizon
- Diversification of fund assets
- Liquidity of fund assets
- Ability of the fund to meet current and prospective liabilities.

This strategy must be documented, monitored regularly and updated where required.



Cost Considerations

The costs associated with establishing an SMSF may include:

- The preparation of a trust deed including updates following legislative changes
- In the event of a corporate trustee, the costs of establishing and using this framework
- The costs of using and establishing the administrative framework and
- The accounting, audit and ongoing administration of the fund.



Property vs Retail Fund Case Study Comparison

Current Position

Description	Partner 1	Partner 2
Age	45	45
Marital status	Married	Married
Australian Tax Resident	Yes	Yes
Yearly Salary	\$75,000	\$75,000
Superannuation Balance	\$100,000	\$100,000



SMSF Financial Projections / Assumptions used

The financial projections include various assumptions about likely future economic conditions and investment performance. Details about these assumptions have been included below. The projections also assume the existing tax and social security legislation remains unchanged. The projections provided are purely estimates, they are not guaranteed and may vary with changing circumstances.

IMPORTANT NOTE: The rates of return and figures shown in this report are illustrations only and are based on current taxation and social security rates and assumed earnings and inflation rates. The figures are not guaranteed – the actual performance of the investments will depend upon economic conditions; investment performance, future taxation and legislative changes over the period.



A summary of the assumptions is shown below:

RETAIL FUND	Property IN SMSF
Investment Assumptions –IOOF Managed Fund	Economic Assumptions
Investment Profile: Growth	CPI: 3%
Total Investment return: 5.54% p.a	Increase in rental return: CPI
All cash surplus is invested into IOOF	Increase in property costs: CPI
	Salary indexation: 2% p.a

Property Analysis Assumptions

Property Value: \$400,000	Loan: \$260,000 (LVR 65%)
Capital Growth: 5%	Loan Details: Principal & Interest
Rental Return: 4.2% of the value	Loan Terms: 30 Years
Property related expenses: \$5,000	
Allowable Depreciation: not included	

Other annual expenses

SMSF running costs: \$3,700 pa
Life Insurance: \$2,000 pa
ASIC levy: \$320 p.a



Retail Super Financial Projections / Assumptions used

Investment Assumptions – Super Fund	Economic Assumptions
Investment Profile: Balanced	CPI: 3%
Total Investment return: 4.71 % p.a	Increase in rental return: CPI
Admin Cost: \$112 p.a	Increase in property costs: CPI
Investment cost: 1%	Salary indexation: 2% p.a
Life Insurance: \$2,000 pa (\$1,000 each)	



TALK TO US

If you would like to discuss your options with one of our consultants, please call us on (03) 9192 9955 or complete the form below and email *info@freedomstrategy.com.au*

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