

Self Managed Super Fund (SMSF)

1. What is a Self Managed Super Fund (SMSF)?

A SMSF is a trust fund set up by its members to gain greater control and choice over the investment options of their superannuation monies than is available through traditional superannuation funds. A SMSF operates as a government regulated trust that must have four or less beneficiary members who are also trustees of the fund. The SMSF has to exist solely for the purpose of growing wealth to provide retirement income for the fund members. For more information on SMSF go to <https://www.ato.gov.au/super/self-managed-super-funds/>

2. What are the rules when buying property through a SMSF?

When you set up a SMSF, you and the other fund members are in charge of what you invest in. When investing in property through your SMSF, the property of choice must be acquired for the sole purpose of growing investment wealth for fund members. The property must not have any connection to any fund member or their family and it cannot be lived in or rented by a fund member or their family. It is, however, permitted to purchase a commercial property that is then rented at the market rate by a fund member, with this rent being paid directly to the SMSF. The purchase of any property through a SMSF must be done in accordance with the super and tax laws and is regulated by the Australian Taxation Office.

3. How do I fund a property purchase through my SMSF?

Your SMSF may have enough funds for an outright purchase of an investment property, but if not, or you choose to borrow and diversify your investments, then Limited Recourse Borrowing Arrangements (LRBA) can be used to secure the balance of purchase price on a single asset or group of equal value assets. The property/ies purchased with a LRBA are held in a regulated holding trust with any investment earnings being paid to the SMSF trustees. In the event the LRBA loan is fully repaid, the SMSF trustees gain ownership of the property and it is then transferred out of the holding trust and into the trust. LRBA ensures the protection of other unrelated SMSF assets should a loan be defaulted upon.

4. What kind of properties can be bought through a managed SMSF?

The main rule for buying an investment property through your SMSF is that it is purchased with the sole purpose of building your fund's wealth. The type of property purchased can be residential, business commercial or rural commercial. Funds can be used to maintain a property but there are restrictions around renovating a property owned by the fund that must be adhered to. Examples of property you cannot buy using your SMSF are; contract of sale and a contract for build, holiday homes and your family home. To abide by the SMSF rules, the fund trustees must always ensure there is no conflict of interest and that any property purchased observes the "sole purpose test", <https://www.ato.gov.au/super/self-managed-super-funds/investing/sole-purpose-test/>