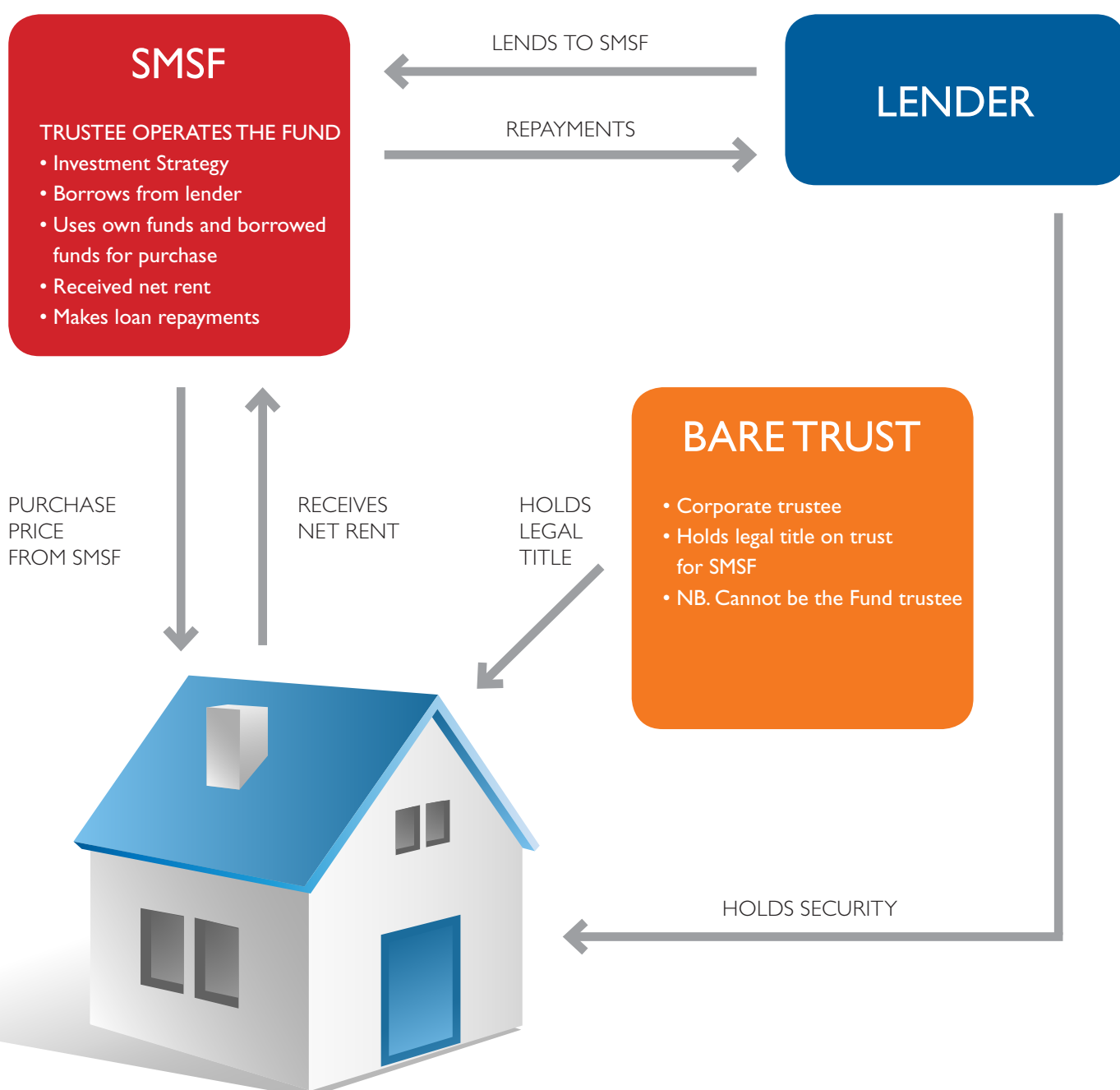


Borrowing for a Property Purchase in an SMSF

The legislation for SMSF allows for borrowing to acquire properties if the specific criteria is met. The property title must be held in a bare trust whose trustee must be different to the SMSF trustee. The borrowing must be non-recourse.

A bare trust is trust where the title holder, holds the property for a specified beneficial owner in this case the SMSF trustee. That is the fund trustee is the operator of the property and receives the rent and meets the expenses as if it was the title holder.



The steps in setting up a gearing structure for the property in an SMSF are:

STEP 1

Ensure your SMSF is allowed to purchase the property.
Review trust deed to ensure that borrowing is allowed by the deed. Investment strategy caters for property holding and the possibility that the strategy will be concentrated in the property.
Ensure that you have sufficient funds to meet the leveraging requirements.

STEP 2

Select the company that will be the bare trustee and holder of the property.

Note the bare trustee cannot be the superannuation fund trustee, but can be any other existing company.

STEP 3

Select the property noting the following restrictions:

- Residential properties cannot be purchased from members or related parties.
- Residential properties in an SMSF cannot be leased to members or related parties.
- The banks will not lend on vacant land
- The property cannot have improvements or be developed while the mortgage exists over the property.
- Existing properties in an SMSF cannot be geared.

STEP 4

Obtain approval in principal from the bank for the borrowing by your SMSF.

STEP 5

Set in train arrangements for the bare trust documentation that cedes beneficial ownership from title holder to the superannuation fund trustee and other conditions as required by the SIS Act.

STEP 6

Secure the property in the name of the bare trustee.
Any deposit is to be paid from the superannuation funds bank account (*This is important for stamp duty purposes at the conclusion of the loan*).

STEP 7

Submit the loan application to the bank. This will include:

- The bare trust documentation
- SMSF Trust Deed, and
- Normal Financials

STEP 8

Complete the purchase with the fund paying all of the acquisition expenses from its bank account.

The information contained in this Business Guide is not exhaustive and is based on conditions prevailing at the time of publication. Users are advised to consult professionals before taking any formal action. While all reasonable care has been taken in the preparation of the publication, we do not accept any responsibility for any errors it may contain, whether caused by negligence or otherwise, or for any loss, however, caused, or sustained by any person that relies on it.

Note: This information is of a general nature only and is not intended to be relied upon, nor to be a substitute for, specific professional advice. Also as changes in legislation may occur quickly we recommend that our formal advice be sought before acting in any of the above areas.