

# Investing in Residential Property via your Superannuation

Report for April 2010



[www.garis.com.au](http://www.garis.com.au)

*The Strategic Accounting Specialists*

# Investment in Residential Property via Superannuation

The Garis Group offers strategic advice to many clients regarding their Superannuation. Since September 2007 when the SIS Act s67(4) was introduced, investors have had the opportunity to undertake a geared investment in property within their Super. Upcoming legislative change will see such investment designated as a “financial product” and hence a “Statement of Advice” will be required for investors to be compliant. This kit refers specifically to investing in residential property because, when correctly selected, the Rate of Return on this investment, when risk adjusted, outperforms all other asset classes. A Client may also be seeking to diversify their portfolio and choose to include property as part of their strategy.

**All investors must seek advice from their financial professional before undertaking any new investment strategy.**

This outline aims to give a clear overview of the changes now available to investors to encourage such dialogue.

There are a number of critical steps a client must understand:

## 1. Take Advice

Accountants and Financial planners will advise a suitable model for your circumstances, taking into account your assets and liabilities, the time until retirement, and whether you are Self Employed or a PAYG wage earner, as well as your income.

Most importantly the tax considerations in each individual case will need to be considered.

**Questions you should discuss with your accountant include:**

- **How can Superannuation be used?**
  - You need to establish a Self Managed Super Fund (SMSF).
  - Can your current work/industry/government fund be used? Yes –you can have a number of Superannuation Funds & only a small amount of cash may need to be transferred to your SMSF to access this opportunity.
- **What does it cost to set up a SMSF gearing structure?**
  - We can arrange this for \$3,900 for new SMSF clients
  - \$1500-\$2000 if you already have a SMSF.
  - Be aware that some time is involved in the set up process – usually a minimum of 6 weeks.
- **How much do I need to have in Superannuation to get started?**
  - As a general guideline \$150,000 would be needed to purchase a \$400,000 property.
- **Can both Self- employed and PAYG access this strategy?**
  - Both certainly can, though this strategy especially suits the self employed.
- **What are the tax considerations?**
  - There are clear tax benefits in this strategy:
  - 15% tax on the income of the fund in the accumulation phase
  - 10% Capital Gains Tax (CGT) on the sale of the asset in the accumulation phase
  - 0% CGT or income tax in the pension phase.
- **Can I claim depreciation allowances?**
  - Yes

- **Why invest in property both inside of Superannuation and outside of Superannuation?**
  - Residential Property as an asset class provides the highest return on investment when risk adjusted, than any other asset class. Outside of your Superannuation, you can leverage your investment, building your wealth faster.
  - Inside Superannuation complements investments outside Superannuation by allowing you add to your property portfolio more rapidly than you otherwise might, using the assets accrued in your fund. This is especially important if you are planning to retire tin the next 5-10 years.

## 2. Finance

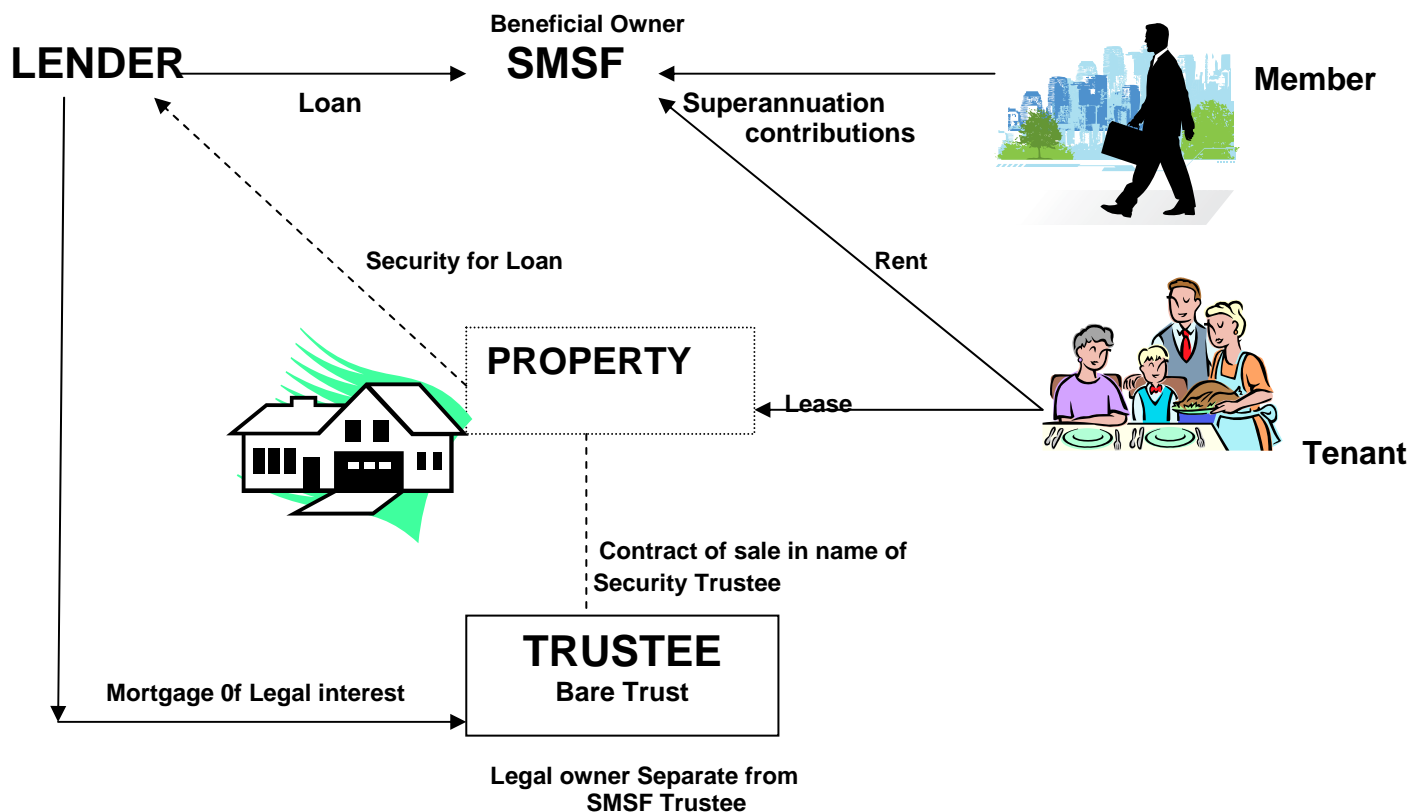
### Obtaining Access to all SMSF lending Products:

Many banks, brokers and advisers are uncertain about this highly specialised area. The Garis Group has sourced the experts for you to ensure all the appropriate steps are in place in accordance with Australian Tax Office (ATO) legislative requirements.

- **How do lending requirements differ?**
  - This is a non recourse loan ( meaning the lenders recourse to the assets of the fund are limited to recovering the secured real property asset only)
  - No construction borrowing is allowed
  - You cannot purchase non income producing vacant land
  - No personal financials are required
  - There is no impact on borrowing outside of Superannuation
- **Who will lend me the money?**
  - Finance providers as advised by SMSF Loans who are the specialists that we would recommend ([www.smsfloan.com.au](http://www.smsfloan.com.au))
- **Do I need to provide a personal guarantee?**
  - No
- **Is LMI (Lenders Mortgage Insurance) required?**
  - No
- **What are the key features of the loan?**
  - LVR 70-72% of purchase price( this varies with each lender)
  - Cash for deposit and costs needed in SMSF plus a buffer
  - P&I and Interest only are both available over a 30 year term



### 3. Setting up an ATO compliant structure



#### What steps are involved in setting up a correct structure?

All of the following can be facilitated for you through the Garis Group and its strategic alliances:

1. Take advice from your accountant and/or Financial planner
2. Get an indicative approval for your loan
3. Establish /review your SMSF
4. Establish your Bare Trust/Security Trust & Trustee
5. Find your Property (we recommend **Certain Wealth Group**)
6. Advise your solicitor/conveyancer that the property is to be purchased in the name of your Bare Trustee
7. Obtain Formal Loan approval
8. Enter into agreement between Bare Trustee/Security Trustee and SMSF
9. Contracts exchanged
10. Loan Documents issued
11. Settlement on Property

#### Compliance Considerations:

- The Tenant cannot be a **relative**
- Cannot use equity in SMSF property to leverage into another property
- Cannot acquire property already held ( except commercial property)
- Cannot refinance an existing property in this structure
- Cannot occupy the property **before** retirement

## **4. Finding Suitable Property**

To have your property asset perform well for you is critical. You need to select high growth property from a reputable company. The Garis Group works with Australia's premier boutique investment company, Certain Wealth Group (CWG). CWG use their research and facilitate the investment process for you.

CWG identify high growth, high yield property in emerging growth corridors of Australia's capital cities. They are a land based investment focussed company with strong ethics and values and unparalleled research and investment success.

CWG will provide you with a free individual property investment analysis and investment matrix, indicating why CWG property has been recommended to you.

### **Conclusion:**

The Garis Group recommends you consider a SMSF loan when:

- You lack equity outside Super
- You lack servicing capacity outside Super
- You need the tax benefits this structure provides
- As an adjunct to developing your portfolio outside of Super.

### **Your next step:**

**Contact us to discuss further how we can help you!**

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