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The future for SMSF borrowing

Self Managed Superannuation Funds (SMSFs) have been able to borrow to fund investment property purchases using limited recourse borrowing arrangements since 2007 and this has been a great strategy for investors to increase their property portfolio.

By Pat Mannix and Bec Mackie



The ability to save up to 34 per cent income tax while paying off loan principal and to have your super fund assets free from capital gains tax (CGT) on retirement can be a fantastic opportunity.

With the release of the *Murray Report* late last year, there's been a lot of speculation about whether this may be coming to an end. The report has recommended a ban on all borrowing to purchase assets such as property or shares within super. Funds with existing borrowings would be permitted to maintain those borrowings. If the government is going to accept these recommendations it's likely the changes will be included in the next Federal Budget in May.

So, is this an opportunity you could miss?

Obviously this strategy isn't for everyone – investing in property has its own risks, particularly when using debt – but it can be a brilliant way to build your superannuation balance. Determining if gearing in your super is a sound strategy for you will be dependent on factors such as your super balance, age and risk profile. If this is right for you, and if you do your research and purchase a sound, highly sought-after property in a great location, the tax advantages can mean the debt is repaid faster with lower tax on contributions and rental income.

The important thing is to steer well clear of greedy property spruikers selling poor properties at top prices targeting lower balance superannuation members who will have no diversification. There has been an influx of media advertising lately offering SMSFs off-the-plan apartments, some with guaranteed tenancies and double-digit capital growth, with developers and financial

advisers offering their staff up to 20 per cent commissions on sales. Always remember to get independent expert advice before setting up a SMSF and purchasing a property.

For small business owners considering purchasing their own premises now is also the time to consider whether superannuation is the right vehicle for you to make this purchase. If you have the funds within super to be able to cover the deposit and costs associated with a commercial property purchase, it could be a great way to own your own premises and no longer be paying rent to a landlord. You can also take this opportunity to transfer an existing commercial property into your SMSF to receive concessional tax rates on rental income and the potential for capital gains to be tax-free (under current tax laws).



Pat Mannix and Bec Mackie *have been operating Gatherum-Goss & Assoc for more than seven years and both have extensive experience dealing with tax and structuring advice for investors. For more information, go to www.gatherumgoss.com*