HOW TO SUPERCHARGE YOUR SUPER

Buying a rundown commercial property with your superannuation fund and renovating it can have multiple wealth-creating benefits. Here's why. PAT MANNIX

BUYING a geared property in a self-managed superannuation fund is becoming increasingly popular because of the security of this type of investment and its ability to drive up a tax-free nest egg on retirement.

Over the past 15 years all the changes in superannuation have been positive for members, apart from two. The decision by the former Coalition government to include a superannuation surcharge on higher contributions was an administrative nightmare for the government and for superannuation funds and their advisers. This became so bad that the change was repealed.

The other change of the past 15 years that has a negative effect on superannuation members is the 2009 Budget decision by the current Labor Government to reduce concessional (deductible) contributions by members under 50 years old from $50,000 per year to $25,000 per year (indexed), and $50,000 per year (not indexed) for concessional contributions made before June 30, 2012 if members are at least 50 years of age at the end of a financial year.

These adjusted contribution caps are limiting the acceleration of your member account which, from a tax viewpoint, is discouraging because your superannuation taken as a pension at retirement is tax free.

So the ability to gear up your super by buying a direct property with a property warrant, involving a bare trust and a self-managed superannuation fund loan, is an excellent way to minimise the stifling effect of the reduced contribution cap for concessional contributions.

A property warrant is the only structure that can be used to purchase a geared property in superannuation.

In a warrant structure it's important that the property is bought in a bare trustee company name and not your self-managed superannuation fund, as per section 67 (4A) of the *Superannuation Industry Supervision Act*, which was updated in September 2007 to enable this warrant structure to buy geared property.

Once the title of the property is bought in a bare trustee company name then the bare trust is established and a self-managed superannuation fund loan is approved from a third party bank or related party. This provides the leverage for your property purchase.

As long as the above steps are taken to correctly set up the property warrant, then members are starting to drive up their super fund member balances.

There are some even smarter people among us who are driving up the member balance in their superannuation by being more active with this warrant structure. Commercial property purchases via this structure allow a lot more flexibility for those active in business. A commercial property is the only type of property that can be bought from a related party and/or used by a related party but be owned in the superannuation fund.

One strategy that's being used by savvy business people is to buy a rundown commercial property and renovate it to substantially increase its capital value.

HERE'S AN EXAMPLE

Brendan and Claudine Murphy are a builder and café manager respectively and have decided to purchase a corner shop in a residential area that lacks a quality café. They have $400,000 in their 'B&C Murphy Self-Managed Superannuation Fund' bank account after rolling their two existing industry fund superannuation balances in.

The shop has been vacant for four months and the landlord is looking to sell. An unsuccessful café was in the shop previously and the tenant was paying $20,000 before GST per annum to the

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landlord, so at a seven per cent rental yield the value of the property was $285,000.

This is the price Brendan and Claudine purchase the property for, paying a 35 per cent cash deposit, plus stamp duty and other associated costs from their self-managed super fund. A third-party bank finances the 65 per cent balance of the transaction of $185,250 via a property warrant.

Brendan and Claudine still have $280,000 left in their superannuation fund bank account and Brendan then starts to put plans in to the council and takes instructions from Claudine about how the building needs to be altered and renovated to house her funky café, to be named Merle's Pearl.

Four months and $100,000 in building permits and renovations later, Merle's Pearl opens to the public.

The Murphys still have $180,000 left in their superannuation bank account so they engage a financial planner to invest this money to yield more than an at-call interest rate from the bank and diversify their superannuation fund investment portfolio.

The business, Merle's Pearl, was established in a discretionary trust separate from the property owned by a bare trustee company as part of the property warrant structure for the B&C Murphy Superannuation Fund.

The business, structured in the discretionary trust, pays rent to the superannuation fund and is built up over the next 18 months. Claudine is so adept at running the café that it becomes the most popular eatery in their suburb.

At the end of this 18-month period Brendan and Claudine decide their efforts should be rewarded and Claudine is keen to have a break before recharging her batteries for the next café project.

Brendan puts the feelers out to a couple of commercial real estate agents and business brokers experienced in café valuations to value both the business for sale and the property for its commercial rental yield. The result is that the business can be sold for $320,000 and the rent that a new business owner would be expected to pay equates to $42,000 per annum. So the couple sell the Merle's Pearl business to a third party for $320,000 but hold onto the property. Their rental income of $42,000 from the new tenant results in an estimated freehold valuation of $600,000.

Now the Murphys have about $780,000 in assets ($180,000 in managed funds and $600,000 in the commercial property) and $185,250 in liabilities in their superannuation fund's balance sheet, resulting in a combined members' balance of $594,250. Their starting balance was $400,000. Not a bad two-year result for a couple using their own skills and some sound advice!

Using this strategy, Brendan and Claudine have effectively supercharged their superannuation.

A final point is that of the $320,000 they received for the business sale, $240,000 is held in a private bank awaiting the next opportunity, apart from $80,000 which is rolled into the B&C Murphy Superannuation Fund.

Just to reaffirm the merit of this strategy, this $320,000 is tax-free. api

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