HOW TO BUY A PROPERTY WITH YOUR SUPER

Coronis
Finance

GENERAL ADVICE ONLY

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INTRODUCTION TO CORONIS FINANCE & MCD ADVISORY SERVICES

Coronis Finance in association with MCD Advisory Services have joined together to support Australians in reaching their retirement and lifestyle goals through self managed super funds (SMSFs). MCD Advisory Services principle adviser, Ian McDonald has worked as a Financial Adviser since 2008 specialising in the SMSF sector. Prior to forming MCD Advisory Services, Ian McDonald worked as a Financial Adviser for several national financial planning practices. This experience has been brought together to provide clients of Coronis with all the benefits and feel of a national firm, with the service and attention to detail of a boutique firm.

"I believe the best way to serve clients is to first develop a clear and in-depth understanding of their financial goals and lifetime objectives. Armed with this information, I strive to create a personalised financial plan that will accomplish all that is important to them."

- Ian McDonald

PROPERTY IN AN SMSF: THE BASICS

An SMSF is a superannuation fund set up for the benefit of 1-4 members who are also the trustees of the fund. To be recognised and regulated by the ATO an SMSF must comply with the SIS Act (1993) and other rules and regulations governing SMSF's.

Prior to 2007 SMSF's were not able to borrow funds. This meant that property investment was generally not an option for the majority of super funds. Changes made to the SIS Act have now made it possible for SMSF's to borrow funds (under strict conditions and regulations) meaning that it is now possible for many more investors to pool their funds together to invest into direct property. The many investors this has opened up some exciting and tax efficient ways to boost their superfunds and take control of their investments!

BENEFITS TO PROPERTY INVESTMENT THROUGH A SELF MANAGED SUPER FUND

The global financial crisis in 2008 sent shockwaves around the world with most Australian super funds heavily affected. For those Australians who were about to retire this meant delaying retirement or significantly downgrading their planned retirement lifestyle. Australians have always had a close affiliation with property and are extremely comfortable with it as an asset class yet many are unaware that direct property can be purchased within a SMSF and used to build wealth for retirement.

FIVE BENEFITS OF USING A SMSF

1. INVESTMENT CONTROL

Unlike many superannuation funds that have restrictions on investment mixes, or the type of investments you can access – with an SMSF you have complete control over your investment mix – you choose your investment strategy which can include direct property!

2. ENHANCED INVESTMENT FLEXIBILITY

An SMSF gives you greater levels of investment flexibility over your portfolio. This gives you a better opportunity of exploiting market conditions or changing tactics as markets change or evolve.

3. DIVE INTO A GREATER SUPER INVESTMENT POOL

With an SMSF you can "pool" or combine your investment resources up to a maximum of four members. This could allow your family to run an SMSF for instance. It can also mean you are exposed to lower administration and fund fees.

4. INCREASED ESTATE PLANNING BENEFITS

Using an SMSF can give you increased levels of estate planning flexibility. You can utilise tax advantages income streams to dependent beneficiaries and SMSF's can make binding death benefit nominations that don't lapse – reducing the requirement to constantly be updated. Furthermore, it's possible to tailor an SMSF to achieve multi-generational wealth transfer.

5. INCREASED TAXATION MANAGEMENT

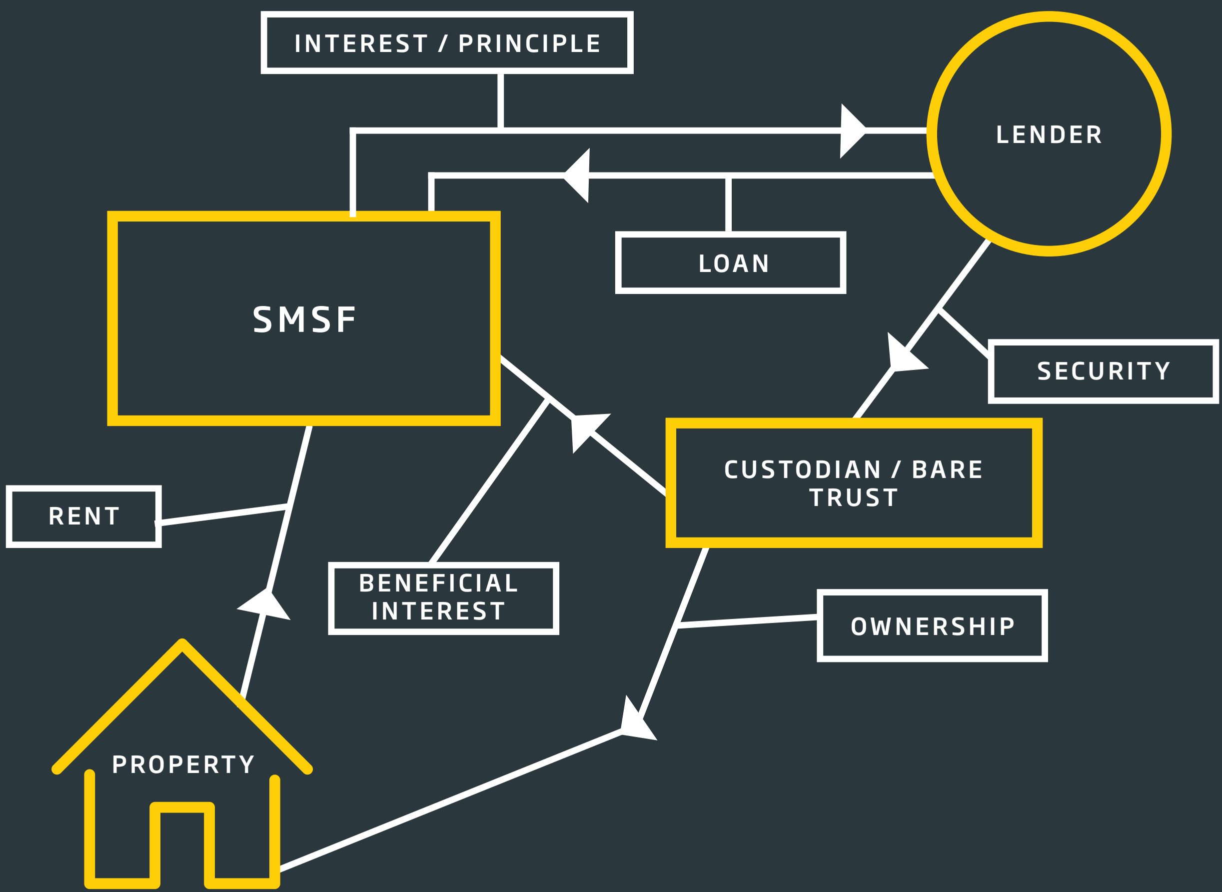
Using an SMSF has some real tax advantages as the rate of tax on income is generally 15% - one of the lowest of any investment entity in Australia. There can be additional tax benefits with operating a SMSF which could see this rate reduced even further. With an SMSF you, as the trustee, decide when to acquire or dispose of certain assets – this can assist in minimising or eliminating capital gains tax.

COMPLETING THE SMSF PROPERTY PURCHASE

Once the SMSF has been established and has funds available (from rollovers and contributions) the trustee(s) must decide how to complete the purchase. ie – will the property be purchased with cash from the SMSF (unencumbered) or will the SMSF pay a deposit and use a limited recourse borrowing arrangement (LRBA) to complete the purchase.

Prior to entering a LRBA the SMSF must be structured accordingly to ensure the purchase is compliant with strict Superannuation borrowing legislation. This generally involves the establishment of a separate structure commonly referred to as a property borrowing trust or custodial agency trust which has the primary purpose of holding the asset until such time as the borrowing is repaid. During this time the SMSF remains the beneficial owner in this arrangement and receives all the benefits associated with income and tax.

SMSF LRBA BASIC STRUCTURE



Several banks offer a SMSF lending product with the maximum available Loan to Value ratio (LVR) for residential property sitting at 70% and around 50% for commercial lending. This is further reduced for SMSFs that do not have a corporate trustee structure. As SMSF funding is limited recourse in nature, most banks apply a premium of around 1% to the standard residential home loan rates. It is not uncommon for banks to request trustees provide personal guarantees on the loan.

Once settlement has occurred, rental proceeds, super contributions and other fund income will be used to service the regular loan repayments.

LET US HELP YOU DESIGN OR REVIEW A RETIREMENT PLAN TO MEET YOUR REQUIREMENTS.

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