

# 7 Pitfalls

To Steer Clear of When Buying Property  
With Your SMSF




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# Introduction

Self-Managed Super Funds (SMSFs) are being employed far more frequently for property purchases. This growing trend has many advantages.


It's easy to see why it's popular. From 10% to as low as 0% capital gains tax and simplifying your self-funded retirement strategy are some of the benefits to buying property this way. While you may decide to follow suit, there are some dangers to be avoided when deciding to buy property with your SMSF.

In the excitement of securing a new property, some buyers do become prone to acting on poor advice, making hasty decisions or falling prey to smooth-talking sellers.

Enabling you to make a calm and clear decision after carefully evaluating the main aspects of making property purchases through your SMSF, is the aim of this ebook.

The seven pitfalls that follow are those we believe are inclined to be the most hazardous while navigating the intricate path of buying property through your SMSF.



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## **Doing a Deal without Asking an Expert to Help you Navigate the Pitfalls of SMSF Investing**

You may be thinking it seems expensive to engage an expert who has experience and knowledge of all the implications of investing in property through your SMSF before you buy. Yet it will undoubtedly save you countless hours of deliberation and worry as well as potentially increase your savings should you decide to contact a specialist.



The rules and protocols of SMSF investing are fairly complex and since buying this way is a relatively new practice, you may find yourself speaking to people along the way who lack the knowledge and experience to effectively answer questions.

Securing the services of an expert in SMSF investing from the start of your undertaking will prove invaluable, enabling you to proceed through all the steps required of the transaction more easily and purchase your property with confidence.

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# Buying Property through your SMSF without Seeing the Special Rules of the Transaction

The purpose of your SMSF is clear. At its heart, your SMSF is a financial investment vehicle that is designed to provide you with retirement income according to the rules and laws regulating superannuation in Australia.


Trustees of SMSFs need to be cognisant of relevant legislation as industry regulators use this aptly named 'sole purpose test' to make sure of compliance.

It needs to be understood that there is little similarity between buying property as a private citizen and buying property within your SMSF.



Following the special rules that govern the purchase of property through SMSFs will help you to avoid negative consequences or losses and ensure your property investment is protected.

Some of the rules and protocols applied in these transactions are discussed within the pages of this ebook as a guide to safely investing in property through your SMSF.

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# Purchasing Property without Making Sure your SMSF is Well-Structured in Advance




The thrill of finding the perfect property can sometimes blind a buyer into quickly making an offer and paying a deposit in the fear of losing out. This is often done on the spur of the moment, without thinking things through.

Requesting a financial adviser set up the SMSF retrospectively, leaves many people surprised by the expense and complexity of correcting the situation.

Your SMSF needs to be in place in advance of your property search. Planning and following a healthy strategy for your investment in property via SMSFs cannot be underestimated.

Appointing trustees ahead of any purchase being made as well as obtaining pre-approval for your property purchase really does help you to secure a beneficial investment property that fits well with the structure and purpose of your SMSF.

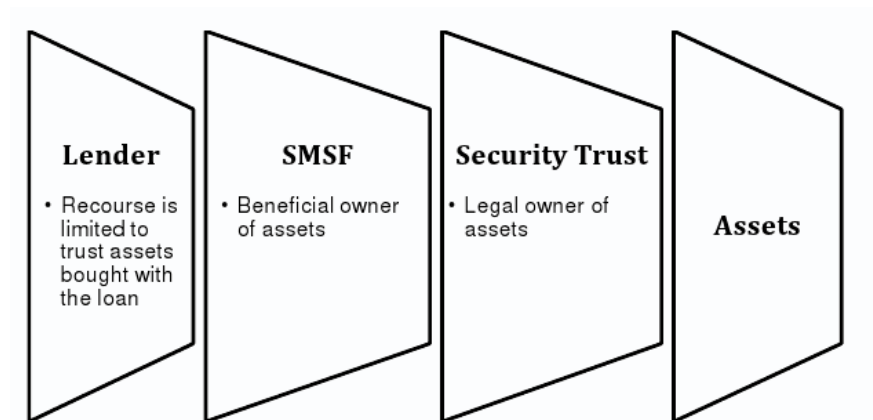
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# Failing to Set Up your SMSF and its Related Trust(s) in the Acceptable Way


Keeping to the standard procedure for setting up your SMSF helps to protect you against any loss that may result from a messy arrangement.

A simple structure for your SMSF loan is as follows:



In this example, the loan agreement is between the lender and your SMSF. The transaction occurs between the buyer and the security trust. The security trust simply holds the title deeds of the assets. It does not enter into a loan arrangement with the lender.

This ‘arm’s length’ arrangement honours Australian Tax Office requirements while limiting and simplifying the activities of the security trust.

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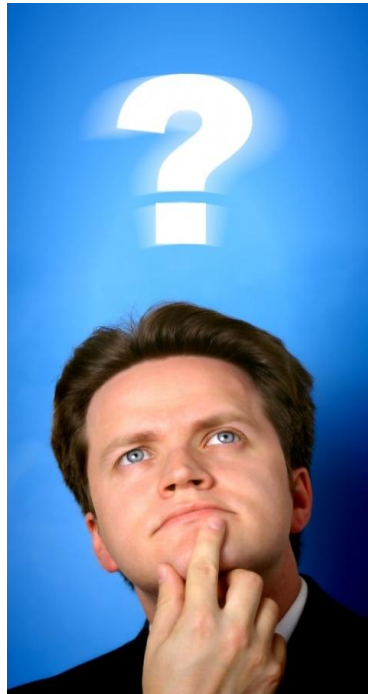
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# Falling Short in Meeting the Requirements of the Lender and Providing the Right Documents

Mainstream mortgage products differ significantly from SMSF investment loans. There are additional rules governing loans provided for the purchase of property via your SMSF.


Carefully studying lender requirements is essential for any success in obtaining the funding you need.

Lenders are much stricter when providing finance for property purchases through SMSFs. Acquiring funding for this type purchase will mean a lot more paperwork. The lender will also adhere more stringently to due diligence procedures.



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The Limited Recourse Borrowing Arrangements (LRBAs) associated with buying property through your SMSF commonly specify that the lender's recourse is limited to the financed SMSF asset and any income generated by the asset.

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This arrangement protects the trustees of the SMSF from being pursued as individuals for debts or liabilities incurred by the SMSF unless the individual has also signed as guarantor in a personal capacity.

Setting out to fulfil the lender's criteria wholeheartedly and providing the right documents for each stage will help you to limit any difficulties during your loan application process.



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# Only Vaguely Grasping the Significance of Rules Governing SMSFs and Related Parties




One of the most noteworthy pitfalls encountered by SMSF members is failing to see the consequences of wanting short term gains from your SMSF.

Stepping outside the rules that govern SMSFs and related parties can cause the SMSF to fail the ‘sole purpose test’.

Your SMSF is regulated and these rules strictly enforced because the purpose of your SMSF is to provide income for you in retirement. It is not to be used as a vehicle for members to make immediate financial gains.

SMSFs may not hold ‘in-house’ assets that consist in more than 5% of the total fund. Any type of investment, lease arrangement or loan wherein a member or a related party has a considerable stake is prohibited. SMSFs are also prohibited from making loans or financially assisting members or related parties.

By making sure that SMSF activities are differentiated from the personal interests and finances of its members, a responsible trustee can look forward to stable SMSF growth and ensure strong returns across all economic cycles.

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# Overlooking the Crucial SMSF Regulations related to Property Repairs and Improvements

It is worthwhile remembering that repairs and renovation of property assets within your SMSF are set apart from home improvements or upgrading work. The way the building work is financed is different.

Maintenance, according to the ATO, applies to work done to prevent defects, damage or deterioration to the property and keeping the asset in a functional condition. Taking care of wear and tear can be financed through either your SMSF's own or borrowed funds.




Home improvement or upgrading the property, like extending the kitchen, installing decking or a swimming pool is seen as altering the state and value of the property for the better. This type of building work may only be paid for using funds from external sources or non-borrowed funds within your SMSF.

When considering getting building work, home maintenance or even renovation work done to property assets via your SMSF, the defining line is whether or not the work will bring the property to

its previous standard or whether it will go beyond that to substantially increasing its value.

Getting the advice of an expert before you allocate your SMSF funds to home improvement can reduce confusion, help you to allocate funds appropriately and save you money.



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# Conclusion

Most buyers setting up SMSFs for the first time have suffered through some of the consequences of the common pitfalls outlined in this ebook.


For this reason, these chapters aim to give you a glimpse into the SMSF regulations and how best to benefit from buying property via your SMSF. We hope that some of these insights are useful to you.

A careful study of relevant procedures and protocols can go a long way towards shielding you from the hazards of SMSF investing and building a strong SMSF that will support you in your retirement.

You are welcome to contact us for answers to some of the more complex issues that you may encounter on your journey. Our team are qualified, knowledgeable and experienced in helping our clients to enjoy the benefits of SMSFs while being compliant within all the relevant rules and accepted protocols.



We hope too that this ebook serves to prepare you for setting up your SMSF and successfully planning your financial future with a calm and clear mind. Getting the right guidance and advice from the start is vital to your success. We are here to help you make the most of your SMSF.

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# No Advice Warning


The advice in this ebook has been prepared without taking into consideration your personal objectives, financial circumstances or needs.

All information provided is for general information only and is not a substitute for sound financial advice.

You should not act on any information provided within this ebook without considering your personal financial situation and not before contacting a suitably qualified and knowledgeable financial advisor.



Should you wish to acquire a financial product, be sure to obtain a Product Disclosure Statement and read its contents thoroughly before making decisions that may affect your financial standing. We cannot be held responsible for actions taken independently of professional advice from a licensed financial advisor.

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# Contact Us

We hope you will call us on 1300 139 883 to gain clarity on questions you may have about buying property with SMSFs. We look forward to helping you.

You may also contact us by email to [info@grandcapital.com.au](mailto:info@grandcapital.com.au) or via fax on 1300 139 732.

There is also a contact form on our website:

<http://www.grandcapital.com.au/contact-us/>

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Grand Capital Finance Group is a team of licensed and knowledgeable finance advisors and finance brokers with more than 10 years of experience in mortgage broking, superannuation and wealth protection.

We also have access to quality investment properties.

A testimonial from one of our clients:

*“I just wanted to tell you that you are a miracle worker, you have helped us have a safe and secure future. We will always mention you to our friends and family whenever they need financial help. You’ve managed to help us when no one else was interested.”*

– C.S. Mid North Coast NSW, Business

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