



Super new opportunity



HAVE heard that my self-managed super fund can now borrow to invest. I am interested in buying a rental property. Is it OK to use my self-managed super fund to buy residential property using borrowed funds?

You have heard correctly. Trustees of a self-managed super funds are now permitted to borrow to invest in assets (including residential property).

The Federal Government has relaxed the borrowing restriction that up until recently applied to superannuation.

The new rules clarified uncertainty regarding whether super funds could invest in a class of investment called instalment warrants.

Instalment warrants allow an investor to acquire an asset (normally shares) through the payment of a series of loan instalments.

Ownership passes to the investor on completion of the agreed instalments. Along the way the investor enjoys the income (usually dividends).

The new rules, however, can be broadly applied to a range of assets including property.

There are a number of key conditions that must be observed.

Firstly, your fund must be allowed to purchase the asset. Does your trust deed allow the acquisition of direct property and does it permit borrowing? Is direct property addressed in your investment strategy? If in doubt, you need to check.

Also, the normal restrictions regarding acquiring in-house assets also apply and should be observed (for example, you cannot buy a rental property from yourself or a family member unless it is business real property

such as a doctor's surgery or the value is less than 5 per cent of your fund assets).

The property can only be transferred into fund ownership when all repayments are complete.

In the interim, it must be held in a "security trust" for the benefit of the members. This should be documented.

The prohibitions against running a business through your super fund still apply so don't be tempted to use it as a vehicle for property development.

Importantly, you cannot claim interest you pay on a loan as a tax deduction (unlike with conventional investment borrowings).

Further, fund assets cannot be used to secure a loan. Practically speaking, this means you would need to use the security of the rental property itself or non-fund assets such as your family home to secure a loan.

Because investment risks come with any investment, great care should be taken when putting up the family home to secure a loan.

There are no restrictions on sourcing a loan and funds can come from a family member or another member of your fund.

It is important, however, that interest be at commercial rates and that loans are properly documented.

Your fund has to be able to meet the needs of all its members. This is best achieved investing in a broad range of assets.

You should also ensure your fund has sufficient available cash to meet its commitments now and in the future.

In short, take care, seek professional advice and don't ignore your obligations as trustee.

● Answer this week provided by David Allen, of CRC Financial Services. Answers should be used as a general guide only. Professional advice should be sought before making investment decisions. To find a financial planner, call the Financial Planning Association on 1800 626 393 or visit www.fpa.asn.au.