MACQUARIE

Your super – booklet 6

Self managed super funds: a guide to super borrowing

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Introduction – what is super borrowing?

The term ‘super borrowing’ is used to describe when a superannuation fund borrows money to purchase an investment asset.

Borrowing to invest is not a new concept - many investors borrow money in their personal name or via a company or trust structure to purchase sharemarket stocks, managed funds, real property and other investment assets. Borrowing to invest is often referred to as gearing, gearing up, negative gearing, leveraging and a range of other terms. In the superannuation context, a borrowing arrangement is often referred to as a limited recourse borrowing arrangement (LRBA).

Borrowing to invest in super was introduced in 2007. Until then this strategy was generally not available to super funds because the superannuation law prohibited borrowing except in limited circumstances. The law was amended in September 2007 to allow super funds to borrow more broadly and subsequent amendments in 2010 have further clarified the capacity of super funds to borrow to invest. Today super borrowing is a popular strategy used by many self managed superannuation funds (SMSFs).

This booklet aims to help you understand the pros and cons of super borrowing, including:

- why you might enter into a super borrowing arrangement
- what the risks are
- establishing a super borrowing arrangement
- maintaining a super borrowing arrangement
- ending a super borrowing arrangement
- a detailed case study.

It is generally assumed in this booklet that an SMSF is in existence prior to the consideration of a super borrowing arrangement. Where this is not the case, please also refer to *Your super booklet 5 – Self managed super funds: from set up to wind up.*

> **“Super borrowing is a popular strategy used by many self managed superannuation funds (SMSFs).”**

The other booklets in the *Your super* series are listed below.

1 **GETTING THE BEST OUT OF YOUR SUPERANNUATION SAVINGS** which focuses on saving through super and some things to keep in mind while your super is accumulating.

2 **SUPERANNUATION WHEN LIFE CHANGES** which focuses on some important superannuation-related issues to consider whenever you experience changes in your circumstances, whether planned or unexpected.

3 **ACCOUNT-BASED PENSIONS: MAKING YOUR SUPER GO FURTHER** which focuses on using account-based pensions to provide income in retirement.

4 **SUPER AND ESTATE PLANNING** which covers information about the treatment of superannuation on death and the estate planning implications.

5 **SELF MANAGED SUPER FUNDS: FROM SET UP TO WIND UP** which focuses on the issues of establishing, running and winding up an SMSF and what to consider when deciding whether an SMSF is right for you.

This series of booklets provides information about taxed superannuation funds. A taxed superannuation fund pays tax on the assessable contributions and certain investment income of the fund. Most Australian superannuation funds are taxed superannuation funds. We have not included information about untaxed superannuation funds, such as certain government or public sector funds. Different arrangements apply to these funds which are beyond the scope of these booklets.

This booklet has been prepared without any knowledge of your personal circumstances. The information is general in nature and should not be relied upon as specific financial advice. Before entering into any superannuation transaction we strongly recommend that you seek the advice of a financial services professional, for example a financial planner, accountant/tax adviser, legal adviser, mortgage broker (credit adviser) and any other relevant expert adviser. Throughout this booklet the term ‘financial adviser’ is intended to include any one or more of these types of financial services professionals.

Why you might enter into a super borrowing arrangement

Investors generally borrow to invest for either or both of the following reasons:

- the investor has insufficient financial resources to purchase a desired investment asset without the borrowings, and/or
- the net investment returns (ie after costs, including tax) generated by the investment asset are expected to exceed the after-tax cost of borrowing.

These motivations are equally relevant whether the borrowing is through a super fund, in your own name, or via a company or trust structure.

1. Insufficient current financial resources

An investor may wish to purchase a specific asset (for example, an investment property or a parcel of shares in a specific stock) which is beyond their current financial means, but the investor expects to have greater financial resources in the future. Borrowing allows the asset to be purchased immediately, where that otherwise might not be possible.

It is however important to understand that this strategy exposes the investor to increased risks; in particular the risk that the future financial resources expected may not eventuate. For example, there may be a risk that:

- the investor's salary doesn't increase as expected, or worse, it is lost completely due to redundancy, illness, etc
- an inheritance may turn out to be much less than expected
- a marital or de facto relationship breakdown may have a significant impact on future financial resources.

The issue of financial resources is particularly pertinent to super borrowing. The restricted ability to contribute to superannuation means that many people's superannuation accounts may have insufficient funds to purchase a desired investment asset. If the super fund trustees wish to purchase a particular investment asset, borrowing further funds may be the only way to achieve that investment goal.

An investor may wish to purchase a specific asset (for example, an investment property or a parcel of shares in a specific stock) which is beyond their current financial means.

The issue of financial resources is particularly pertinent to super borrowing.

$250,000 SUPER
$600,000 PROPERTY

EXAMPLE – JENNY HAS $250,000 IN HER SMSF

Jenny would like her SMSF to purchase an investment property valued at $600,000, but her super fund balance is only $250,000. The SMSF will need to borrow at least $350,000 to purchase the investment property.*

Prior to entering into a super borrowing arrangement to purchase the asset, Jenny should ensure that the fund will have sufficient cash flow and/or cash reserves to meet the interest payment and other costs associated with the borrowings and ownership of the investment property.

The SMSF's cash flow may come from rental receipts, employer or other superannuation contributions and investment returns derived from other investment assets held by the fund (if any).

* stamp duty, other costs and lending criteria may increase the amount of borrowings required.

On the other hand, the existing funds accumulated in super may be used as an equity base upon which to borrow to purchase the investment asset. In some cases, far less (if any) equity may be available outside of super to purchase the same asset, so super borrowing may be attractive for that reason.

$250,000 SUPER
$30,000 INVESTMENT
$400,000 PROPERTY

EXAMPLE – GEORGE ALSO HAS $250,000 IN HIS SMSF

George is age 40 and has accumulated $250,000 in super. Outside of super, he has a cash management account balance of $30,000 available for investment.

He wishes to purchase an investment property valued at $400,000. Ignoring purchasing expenses, George would have to borrow at least $370,000 to purchase the investment property in his own name, outside of super.*

If he used his super funds to purchase the investment property, the fund would need to borrow at least $150,000.

* stamp duty, other costs and lending criteria may increase the amount of borrowings required.

> **"In some cases, far less (if any) equity may be available outside of super to purchase the same asset, so super borrowing may be attractive for that reason."**

2. Net investment returns are expected to exceed the after tax cost of borrowing

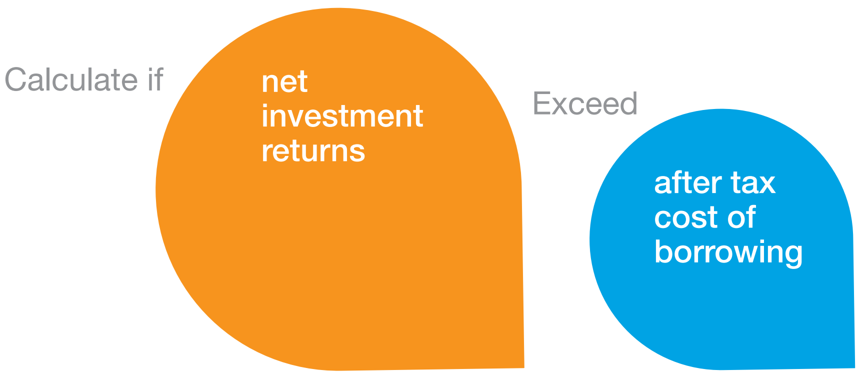
This is arguably the most important reason for borrowing to invest, regardless of whether the arrangement is inside or outside super.

Do the numbers stack up?

When considering whether to borrow to invest, it's important to determine if the net investment returns are likely to exceed the after tax cost of borrowing. The first step is to gather the available data about the asset being considered for purchase, the loan and associated structuring costs (including the costs related to the SMSF arrangements). We have assumed below that the asset being considered is an investment property, although the same style of analysis may be applied to any other income producing asset (for example, a parcel of shares). The sort of data that's relevant is outlined in Table 5 on page 43.

One key factor which has a great impact on the success of a borrowing arrangement is the rate of capital growth. Although estimations can be made, future capital growth rates are generally unknown at the time of entering into a borrowing arrangement. A good way to analyse the viability of an arrangement is to calculate the required break even capital growth rate over the intended period of ownership - your financial adviser may be able to assist with these calculations.

Once the break even capital growth rate is known, you can assess the likelihood of outperforming or underperforming that rate. The decision of whether to proceed with the arrangement may become much clearer after this type of analysis.



Unless the expected investment returns exceed the borrowing and other costs associated with the asset, borrowing to invest may cause a decline in the net asset position of the investor.

While not a primary motivation, taxation is nonetheless an essential consideration in any investment decision.

How does tax impact?

While tax benefits should not be a primary motivation for entering into any investment arrangement, taxation is nonetheless an essential aspect to consider in any investment decision. This principle applies to all borrowing arrangements, including super borrowing arrangements.

The general rule is that tax will reduce the profits (net income received and capital gains realised) generated by the asset purchased. In contrast, income losses will generally be reduced by tax benefits. This leads to the following key principles:

- the lower the tax rate, the higher the after tax profit
- the higher the tax rate, the lower the after tax loss.

The tax position of a borrowing arrangement (ie whether it produces net income or net losses) can change from year to year. Depending on the level of borrowings, a borrowing arrangement may produce net income losses each year for several years following acquisition. This is often referred to as 'negative gearing'.

In the years when net income losses occur, a high tax rate results in greater tax benefits, effectively reducing the net income losses.

Over time, as the level of income produced by the investment asset grows or the level of debt is reduced and interest expenses decline accordingly, net losses may reduce until ultimately a positive net income position is reached (ie the arrangement becomes 'positively geared'). Once this happens, a low income tax rate will be preferred.

Of course taxpayers generally can't choose their effective tax rate year by year to suit their circumstances.

However a choice can be made between:

starting a borrowing arrangement personally
(where, for example, a relatively high personal tax rate may apply)

or possibly in a spouse's name
(where a different, perhaps lower tax rate may apply)

or via an SMSF
(where a relatively low, even nil, tax rate may apply)

Note that some investors choose to invest via a company or trust - in this booklet we don't consider company or trust borrowing arrangements.

Table 1: Individual versus SMSF tax rates (2017/18)

Taxable income	Marginal tax rate	Tax rate on income (incl. Medicare)	Effective tax rate on capital gains (incl. Medicare)*
Individual			
$18,201 - $37,000	19%	21.0%	10.5%
$37,001 - $87,000	32.5%	34.5%	17.25%
$87,001 - $180,000	37%	39.0%	19.5%
Over $180,000	45%	47.0%	23.5%
SMSF			
Accumulation phase	15%	15%	10%
Pension phase	Nil	Nil	Nil

* assumes capital gains tax 12 month discount applies (50% individuals, 33.3% super funds)

Often borrowing arrangements are started in the name of an individual who is subject to a high marginal tax rate. The decision is usually driven by the immediate tax benefits when the arrangement is producing net losses each year. This may make perfect sense while the arrangement remains negatively geared.

$400,000 BORROWING $600,000 PROPERTY

EXAMPLE – INSIDE OR OUTSIDE SUPER?

Rachael purchased an investment property for $600,000, after borrowing $400,000. The interest rate on her loan is 5.0% per annum, so the annual interest cost is $20,000.

The property yields $2,000 per month ($24,000 per annum) of rental income, but property management and other repairs/ maintenance costs are expected to be $6,000 per annum.

So the property produces a net income loss of $2,000 in the first year. As Rachael's marginal tax rate is 47.0%, she will receive a tax benefit of $940 (ie $2,000 x 47.0%), **reducing the net loss to $1,060.**

Alternatively if Rachael arranges for her SMSF to purchase the property with otherwise similar arrangements, the maximum tax benefit to the SMSF would be $300 (ie $2,000 x 15%), and the **net loss after tax would be $1,700** (ie $640 more than if in Rachael's name).

So Rachael would prefer the investment to be outside super.

However, if the arrangement later produces net income, rather than net losses, and ultimately large amounts of capital gains upon disposal, a high marginal tax rate would be a burden on the overall profitability of the arrangement.

5 YEARS LATER

EXAMPLE – RACHAEL CONTINUED

Assume that five years later Rachael has reduced the outstanding borrowings to $300,000 (still attracting interest at 5.0% per annum), the annual rental yield has increased to $27,000, while management and repairs/maintenance are $7,000 per annum.

Net income is now positive, ie $5,000 for the year - $27,000 (rent) less $15,000 (interest) and $7,000 (repairs/maintenance).

If Rachael owned the property, her tax liability would be $2,375 (ie $5,000 x 47.5%*). If her SMSF owned the property, the SMSF's tax liability would be $750 (ie $5,000 x 15%).

If the property was sold after five years for $700,000 after sale costs, then a capital gain of $100,000 would result.

If Rachael owned the property, the capital gains tax (CGT) liability would be $23,750*. If her SMSF owned the property, the maximum CGT liability would be $10,000 and could be nil if the property was sold in pension phase.

In taking a longer term view, Rachael now decides the investment would be better inside super.

* Assumes Medicare levy has increased to 2.5 per cent from 1 July 2019.

> It's important to the overall profitability of a borrowing arrangement that it starts in the appropriate person's or entity's name.

This will involve understanding each individual's and entity's current and possible future effective tax rates, as well as whether, when and for how long a borrowing arrangement is likely to produce net losses, net income and capital gains.

Generally an investor should not borrow for investment purposes unless the after-tax returns derived from the asset are expected to exceed the after-tax costs of borrowing and ownership of the investment asset.

Before entering into a borrowing arrangement, an investor should determine:

- the expected income and capital growth returns
- the expected borrowing costs and other costs of asset acquisition, ownership and disposal
- the expected tax consequences of the above points
- in whose name the borrowing arrangement will be most profitable.

Analysing the viability of a super borrowing arrangement may involve some complexity – talk to your financial adviser.

TALK TO YOUR FINANCIAL ADVISER

...an intention to reduce debt quickly may lead to an initial preference for a super borrowing arrangement over a non-super borrowing arrangement.

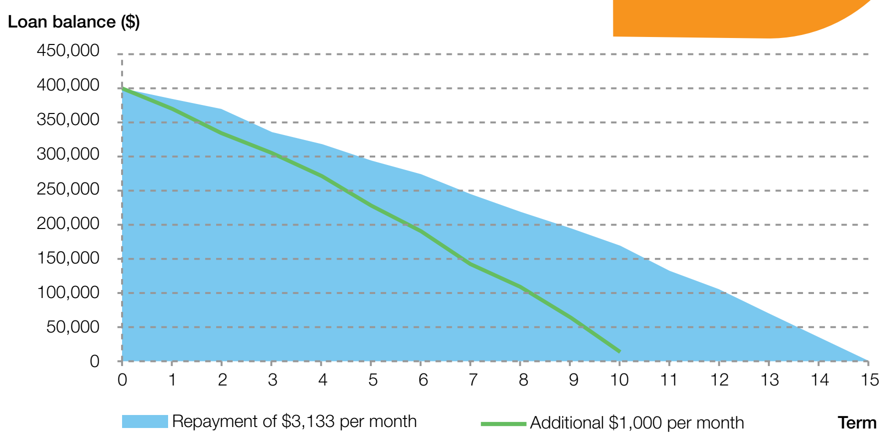
The impact of debt reduction

Another consideration is the rate at which the loan will be repaid. The amount of interest payable will generally decrease as the loan balance is paid down, which may ultimately result in the arrangement being positively geared. The generally lower effective tax rates applicable in superannuation are attractive when a borrowing arrangement is positively geared.

So an intention to reduce debt quickly may lead to an initial preference for a super borrowing arrangement over a non-super borrowing arrangement.

Additionally, debt reduction can occur more rapidly in super. See the *Decreasing the loan* section in *Maintaining a super borrowing arrangement* on page 25.

A $400,000 loan can be paid down five years sooner by paying off an additional $1,000 per month (assuming 5.0% per annum interest)



What the risks are

Gearing may magnify returns, but it magnifies the risks also.

Often investors enter into borrowing arrangements to accelerate the growth in their net asset position. But this potential acceleration also brings additional risk of greater investment losses and introduces other risks.

These risks should be carefully considered prior to entering into a borrowing arrangement. Some of the risks apply to both non-super and super borrowing arrangements, while a number of additional risks are specific to super borrowing arrangements only.

How gearing magnifies investment risk is discussed below, followed by the generic risks of investing, and the risks which apply specifically to super borrowing arrangements.

Gearing may magnify returns, but it magnifies the risks also

Borrowing to invest effectively magnifies the impact of investment returns, when compared with investing without borrowings. If the after-tax investment returns exceed the after-tax cost of borrowing and asset ownership, then entering into the borrowing arrangement will mean faster growth in the net asset position of the investor.

Conversely, if the after-tax investment returns are less than the after-tax costs of borrowing and asset ownership, then the net asset position of the investor will decrease more rapidly than if the borrowing arrangement was not entered into, assuming all other assumptions are unchanged.

The example on the following page illustrates this concept.

$100,000 INVEST 5 YEARS

EXAMPLE – KEVIN INVESTS $100,000

Kevin has $100,000 to invest over five years and is interested to know the outcome of borrowing another $100,000 at an after-tax rate of 5% per annum.

The following table illustrates the sensitivity of the final outcome to different net investment returns.

Amount realised after 5 years (ie net of borrowings, if any):		
Net investment return per annum	No borrowings – $100,000 invested for 5 years $	$100,000 borrowed – $200,000 invested for 5 years $
-2.5%	88,110	52,438
0.0%	100,000	75,000
2.5%	113,141	100,000
5.0%	127,628	127,628
7.5%	143,563	158,084
10.0%	161,051	191,577
12.5%	180,203	228,325

Kevin can see that the break-even between the two strategies is a net investment return of 5.0% per annum, with the risks and rewards of investing magnified by borrowing below and above that level.

Having seen these numbers, Kevin is in a much better position to understand the rewards of borrowing to invest, versus the risks, and make an informed decision whether to borrow to invest, or simply invest without borrowing.

These numbers and calculations have been simplified for illustrative purposes. In practice, the calculations are more complex, involving issues like franking credits (where the investment is shares), capital gains taxation impacts, etc. Talk to your financial adviser about the sensitivity of a proposed borrowing arrangement to changes in investment return rates.

Risks associated with all investment arrangements

There are several types of risk common to most types of investment (whether or not borrowings are involved) which should be considered prior to making an investment. These risks may have different implications depending on whether the investment asset is real property, listed equities or some other type of investment asset.

Types of investment risks include:

MARKET RISK
The value of investments decrease across the entire market

SPECIFIC ASSET RISK
A particular asset decreases in value, despite the behaviour of the entire market

LIQUIDITY RISK
The asset cannot be sold in a timely manner

LEGISLATIVE/REGULATORY RISK
A change in the law, or the way the law is applied, potentially affecting the investment yield and/or the value of the investment.

CREDIT RISK
A party defaults on capital or interest payments, or rental income obligations

SPECULATIVE PURCHASE RISK
The greater the period between purchasing an asset and settlement, the greater the risk the purchaser is exposed to. Two points to consider are:

Asset value:

- for example an off-the-plan property purchase - what is the strategy should the property be worth less than the agreed purchase price at the time of settlement?

Member circumstances:

- employment and health related matters that may impact on member contributions and the overall fund investment strategy?

These speculative risks may impact on the ability of the SMSF to source finance to complete the property purchase at the time of settlement.

Where borrowings are used to fund the purchase of an investment asset, further risks are introduced including:

- **interest rate risk** – that is, that interest rates increase, increasing the cost of borrowing
- **cash flow risk** – cash flow intended to be used to fund interest payments decreases or ceases completely.

> Understanding the sensitivity of an investment outcome to these risks will help evaluate the likelihood of achieving a profit which justifies the costs associated with the investment arrangement. In addition, being aware of the risks increases the likelihood of foreseeing and acting quickly when a particular risk is about to, or does, eventuate.

INVESTING FOR CAPITAL GROWTH

EXAMPLE - STEPHEN

Stephen is considering purchasing an investment property. He has calculated the break-even capital growth rate required is approximately 2.5% per annum. What are some of the risks Stephen faces?

Market risk and **specific asset risk** may impact the capital growth rate. There is also **credit risk** that the tenants fail to meet their rental payment obligations, which along with other **cash flow risks** (for example, Stephen continuing to receive employment income) could impact Stephen's ability to meet his loan repayment obligations.

Additionally, if Stephen was unable to meet his loan repayments, **liquidity risk** might affect his ability to sell the asset quickly to reduce his losses.

Interest rate risk affects the loan interest rate and there is **regulatory risk** of, for example, tax changes that might impact Stephen's borrowing arrangement.

Some of these risks may be mitigated, for example by having appropriate insurance arrangements in place, such as death and disability cover.

Additional risks associated with super borrowing arrangements

There are further risks which apply specifically to super investments and super borrowing arrangements.

Superannuation is highly regulated so the regulatory compliance risk can be higher.

There are strict rules regarding the acquisition of assets from related parties to the fund, the use of super fund assets for personal purposes or by related parties, investments in related entities (known as 'in-house assets'), the replacement of assets which are the subject of a borrowing arrangement and development of those assets.

In addition, there is a general rule (known as the 'sole purpose test') which requires all SMSF investments to be held for the purpose of providing retirement or death benefits, or other ancillary benefits as allowed by the regulators.

Breaches of certain superannuation laws can result in civil and criminal penalties and heavy tax penalties of up to 45% may be applied to the fund's assets. Ensuring that an SMSF remains compliant is both an important and onerous responsibility.

Borrowing arrangements structured through SMSFs are subject to greater regulatory control than similar arrangements outside of super.

The superannuation law was amended in 2007 to broaden the ability of superannuation funds to borrow money – there is a risk that the law could be amended in the future to restrict super borrowing arrangements.

Superannuation contributions are restricted, so cash flow risk may be increased for super borrowing arrangements, especially if there's an intention to partially fund the cash flow requirements with concessional or non-concessional contributions to super. Additionally the rules relating to superannuation contributions may change in the future. Talk to your financial adviser about the superannuation contribution rules and how they impact on you.

Superannuation is highly regulated so the regulatory compliance risk can be higher.

"Breaches of certain superannuation laws can result in civil and criminal penalties, and heavy tax penalties..."

Government compensation arrangements

The superannuation law allows trustees of APRA-regulated superannuation funds to apply for financial assistance where the fund incurs a loss as a result of fraudulent conduct or theft. SMSFs are specifically excluded from being able to apply for this financial assistance.

It follows that members of SMSFs are at greater risk of unrecoverable losses than members of APRA-regulated superannuation funds. However, where trustees of SMSFs qualify as retail clients under the Corporations Act, they may have rights to compensation on par with other retail clients.

Establishing a super borrowing arrangement

A high level of care should be taken when establishing a super borrowing arrangement. The superannuation regulatory environment involves complexity that requires specialist knowledge – SMSF trustees should seek expert advice prior to entering into any transactions related to a super borrowing arrangement. This section addresses just some of the issues you might encounter when establishing a super borrowing arrangement.

SMSF trust deed and governing rules amendment

The trust deed and governing rules of an SMSF, and the superannuation law, set out the rights and obligations of SMSF trustees, including their powers to act. A legal specialist should be engaged to review the SMSF trust deed and governing rules to determine if the trustees have the authority to enter into a super borrowing arrangement. Amendments to the trust deed and governing rules may be required.

In addition, SMSF trustees are required by law to form and regularly review the fund's investment strategy. The investment strategy should be reviewed for consistency with the proposed super borrowing arrangement, and if necessary amended accordingly.

The super borrowing arrangement structure

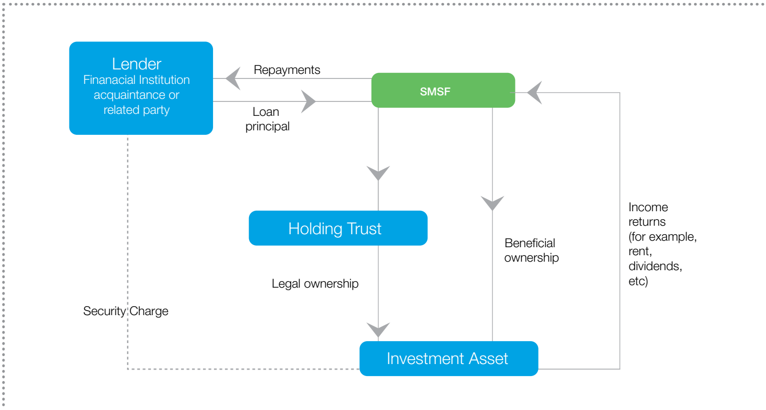
Superannuation law requires that the asset purchased with the borrowed funds is held in a separate trust ('holding trust') to the SMSF. This helps protect the other assets of the SMSF if the loan is in default and the lender seeks recompense to satisfy the debt owed by the SMSF.

The holding trust must be the legal owner of the asset, but the asset is held for the benefit of the SMSF, so the SMSF is the beneficial owner. The SMSF may still receive any income generated by the asset, and will be responsible for making loan repayments.

SMSF trustees should seek expert advice prior to entering into any transactions related to a super borrowing arrangement.

Diagram 1 illustrates a typical super borrowing arrangement structure.

Diagram 1: Super borrowing structure



SMSF trustee and lender's roles

It's important to understand the different responsibilities and obligations of the two key parties to an LRBA loan – that is the SMSF trustee and the lender. Table 2 illustrates some of the relevant responsibilities and obligations of these parties.

Table 2: Responsibilities of parties to an LRBA loan

SMSF trustee's role
SMSF trustee is to provide the following legal documentation: • Trust Deed for the SMSF • Trust Deed for the Holding Trust • Sale documentation (contract of sale, transfer of land and other relevant documents such as property searches)

SMSF trustee's role

SMSF trustee has the following obligations:

- understand the terms of the SMSF Trust Deed and Holding Trust Deed:
  - do they allow the trustee to enter into this transaction?
- ensure the sole purpose of the SMSF is to provide retirement benefits or other benefits as allowed by superannuation law:
  - does this transaction fit within this requirement?
- act honestly in all matters affecting the SMSF
- act in the best interests of all members
- keep SMSF fund assets separate from any personal or business assets
- keep accurate records
- formulate and regularly review the investment strategy, and consider if this particular investment is appropriate taking into consideration:
  - personal circumstances of fund members (for example, their age, risk tolerance and attitude to risk)
  - risk and likely return from this and other investments taking into consideration the fund's cash flow requirements
  - diversification, and
  - liquidity
- ensure compliance with legislative obligations under the superannuation law and the Corporations Act
  - is the purchase of this particular asset permitted by the legislation?
- appoint appropriate advisers (accountants, auditors, financial planners and/or legal advisers) – note that the SMSF trustee remains responsible for any tasks and functions outsourced to all advisers and service providers.

Lender's role

The lender has the following obligations:

- to provide appropriate loan documentation ensuring the loan is a limited recourse borrowing such that the lender has access to the specified asset on default but does not have access to any other asset of the superannuation fund
- review credit applications in line with the lender's credit assessment methods
- approve or reject any credit application
- provide the SMSF trustee with the terms and conditions of the LRBA including fees, charges and the method by which interest is calculated, when it is charged and the interest rate
- notify the SMSF trustee of their repayment requirements
- provide the SMSF trustee with information about the account opening and maintenance procedures
- provide the SMSF trustee with regular statements of account
- administer the loan in accordance with regulatory requirements.

What assets can be purchased?

Generally any asset that an SMSF may otherwise legally acquire is allowable, including assets such as residential or commercial property, a parcel of listed shares, units in a managed fund and other investment assets.

There are restrictions on SMSFs purchasing assets from the members or other related parties to the SMSF, and on holding assets which involve an investment in, or a lease to, a related party of the SMSF. Generally an SMSF cannot acquire an asset from a member or related party of the fund. One important exception to this rule is real property which is used wholly and exclusively for business purposes – ie 'business real property' - which may be acquired by an SMSF from a member or related party.

Talk to your financial adviser about these restrictions.

Generally an SMSF cannot acquire an asset from a member or related party of the fund. One important exception to this rule is real property which is used wholly and exclusively for business purposes.

EXAMPLE – ARNOLD

Arnold has owned a residential investment property for several years.

His SMSF cannot acquire this property from him without causing a breach of the superannuation law. However the SMSF may purchase a residential property on an arm's-length basis from a third-party that is unrelated to Arnold or the SMSF.

Generally a single super borrowing arrangement cannot be established over multiple residential or commercial properties unless there is some unifying physical object of significant value which ties the multiple properties together.

EXAMPLE – ANNA

Anna's SMSF is considering the purchase (through a super borrowing arrangement) of a residential property which was built 30 years ago straddling two land titles. It is likely that the property will be considered as a single asset for the purposes of a super borrowing arrangement.

The SMSF is also considering an adjacent block of vacant land to the property mentioned above. The vacant land and the residential property will not be considered as a single asset, so each would need to be the subject of separate super borrowing arrangements.

This principle also extends to an apartment with a car park which is on a separate legal title - unless the apartment and the car park must be sold together due to legal requirements, they cannot be subject to the same super borrowing arrangement.

SMSF trustees should seek expert advice where more than one land title is being considered in a proposed super borrowing arrangement.

Implications for listed shares in super borrowing arrangements

A key limitation of a super borrowing arrangement is that a separate super borrowing arrangement must be established for each 'single acquirable asset'. A parcel of the same listed shares is treated as a single asset, but a diversified share portfolio cannot be the subject of one super borrowing arrangement.

Treating a parcel of shares as a single asset means that an SMSF trustee cannot reduce the holding in that listed share incrementally (for example, by selling down 10% of its holding) – the trustee can only sell the entire holding. Conversely, if the trustee wished to increase its holding in that listed share, it would need to establish a new super borrowing arrangement.

These limitations mean a separate super borrowing arrangement is required for each individual stock in a diversified portfolio of listed shares which is subject to gearing. This may be prohibitively expensive, especially if there's an intention to reweight the portfolio regularly over time. However, financial institutions may develop administration systems to facilitate this type of super borrowing arrangement in a cost effective manner for SMSFs.

Documenting each asset correctly is vital

Often the nature of the asset which is the subject of a super borrowing arrangement is quite clear. For example, it could be a residential property, commercial property, parcel of listed shares or units in a managed fund.

However, in some circumstances the 'asset' is an interest in another asset. It could be a tenants-in-common* interest in a residential or commercial property, or an interest in a trust which holds residential or commercial property.

The documentation associated with the loan must clearly describe the 'asset' which is the subject of the super borrowing arrangement. If the asset is not accurately described the arrangement may be ineffective, potentially resulting in non-compliance and a costly wind up process.

The documentation associated with the loan must clearly describe the 'asset' which is the subject of the super borrowing arrangement.

* Note: Lender restrictions may apply to tenants-in-common arrangements.

EXAMPLE – JAN

Jan wishes to purchase an investment property with her friend – they intend to hold the property on a 50% tenants-in-common* basis. Jan plans to use her SMSF to purchase her interest in the property. Her SMSF will enter into a super borrowing arrangement as it doesn't have enough existing financial resources to purchase the interest in the property.

The 'asset' which is intended to be the subject of Jan's super borrowing arrangement is the 50% tenants-in-common interest in the property, not the property itself.

SMSF trustees intending to purchase an asset associated with a super borrowing arrangement should seek expert advice before signing any contracts for sale.

Holding trust establishment timing issues

The investment asset must be legally owned by a holding trust. Generally this means that the contract for sale should be executed by the trustee of the holding trust.

There are technical issues regarding the timing and manner of establishment of the holding trust in relation to the acquisition of the asset, which differ in many Australian states. For example, SMSF trustees in Queensland may need to establish the trust at a different time (with respect to the acquisition of the asset) than SMSF trustees in New South Wales.

If the correct timing and process is not followed, the consequences may include:

- additional stamp duty payments when the property is acquired from the vendor
- additional stamp duty payments when the property is transferred from the holding trust to the SMSF once the loan is repaid in full
- a technical argument under trust law principles that a valid trust has not been created when the holding trust is declared.

Establishing the loan

Generally a super borrowing arrangement will involve a limited recourse loan.

The lender generally places a 'charge' over the asset, which gives the lender the option to take possession if the SMSF defaults on its loan repayment obligations or other conditions of the loan agreement. However the lender's 'recourse' is limited to the LRBA asset only – it cannot take possession of any other SMSF assets. This is another measure that helps to protect the other assets of the SMSF (see also the discussion in *The super borrowing arrangement structure* – page 17).

Note however that a lender might have cause to recover losses via guarantor arrangements (see *Financial institution loans* below).

Who can be the lender?

There is no restriction on who may lend to an SMSF. The lender may be a financial institution, a personal acquaintance or a fund member.

Financial institution loans

Where the lender is a financial institution, the interest rate charged in relation to a residential or commercial property loan is generally higher than similar loans for non-super borrowing arrangements.

Due to the limited recourse nature of a super borrowing loan arrangement, a financial institution may insist on personal guarantees from fund members. These guarantees are generally structured to prevent the guarantor having recourse to the SMSF.

Otherwise the general terms and conditions of a financial institution loan, including the repayment requirements, are usually broadly consistent with commercial practices involving equivalent non-super loans.

Related party loans

The loan for a super borrowing arrangement may be provided by an SMSF member or relative of a member. Where the loan is provided in this way, it is important to ensure that it is clearly documented as a loan. Failure to adequately document the loan may result in the loan amount being treated as a superannuation contribution, and possible contribution cap breaches and excess contributions tax.

'Safe-harbour' guidelines

The Australian Taxation Office has provided guidance to SMSF trustees about when it will accept that a super borrowing arrangement has been structured and maintained on an arm's length basis. This is important in avoiding the penalty taxation implications sometimes referred to as the non-arm's length income provisions. These provisions can result in tax being levied at the top marginal tax rate, currently 45 per cent.

The safe-harbour guidelines impose the following features on related party loans:

- minimum interest rate on borrowings
- limitations on how long an interest rate can be fixed
- maximum repayment term
- maximum loan to value ratio
- loan security requirements
- monthly principal and interest repayment
- written and executed loan agreement.

For further information about the safe-harbour guidelines, talk to your financial adviser.

Costs associated with establishing a super borrowing arrangement

The costs and fees are likely to vary widely depending on which service and product providers are used. The following list indicates some of the costs and fees that may be incurred when an arrangement is established.

Types of costs and fees that may be encountered when an arrangement is established:

- **advice about super borrowing arrangements**
- **SMSF deed and governing rules advice and amendment fees**
- **holding trust establishment fees**
- **investment asset advice**
- **property valuation fees**
- **mortgage application fees**
- **mortgage stamp duty**
- **related party loan documentation fees**
- **stamp duty on asset transfer**
- **conveyance fees.**

Many of the costs and fees above apply to both super borrowing arrangements and non-super arrangements, but some are only applicable to super borrowing. A super borrowing arrangement will generally cost more to establish than a non-super borrowing arrangement – the additional cost should be accounted for when comparing the relative profitability of super and non-super borrowing arrangements.

Maintaining a super borrowing arrangement

Maintaining a super borrowing arrangement generally involves:

- meeting the terms and conditions of the loan agreement
- maintaining the asset
- complying with the superannuation, taxation and other applicable laws.

Loan maintenance

Continuing to meet the terms and conditions of the loan agreement is important to avoid the lender exercising its right to take possession of the asset as a consequence of defaulting on the loan. Careful management of the SMSF's cash flow will help avoid missing repayment obligations.

Insurance

Continuing to meet the repayment requirements of a super borrowing arrangement loan is generally critical to the overall profitability of the arrangement. This means ensuring the SMSF has sufficient cash flow to meet the repayment requirements as they fall due.

Often cash flow planning will involve certain SMSF members making contributions to the fund. A risk to the cash flow plan is the possible loss of that member's ability to make super contributions because of disability or death.

SMSF trustees may reduce the impact of this risk with insurance cover over the key SMSF members. As part of the fund's investment strategy, SMSF trustees have an obligation to consider the insurance needs of members. The trustee may apply for various types of insurance cover, including life, total and permanent disability and/or temporary disability cover.

In addition, the death of an SMSF member of will generally result in the fund being required to make a death benefit payment. Without appropriate insurance arrangements being in place, the payment of a large death benefit may cause liquidity issues for the fund. See further discussion in *The end of a super borrowing arrangement* on page 33.

SMSF trustees should talk to their financial advisers about the insurance requirements that may emerge when establishing a super borrowing arrangement.

As part of the fund's investment strategy, SMSF trustees have an obligation to consider the insurance needs of members.

Increasing the loan

The superannuation law allows a loan to be further drawn to pay for certain expenses incurred in acquiring or maintaining the asset. SMSF trustees should be aware of the distinction between repairs/maintenance and improvements to the asset, as the latter cannot be funded by further drawings from the loan arrangement. See further discussion below in the *Residential and commercial property* section on page 29.

The law allows interest charged on the loan to be capitalised, increasing the outstanding loan balance. SMSF trustees may decide to capitalise interest of commercial loans (subject to the loan terms), for example, when the fund has insufficient cash flow to meet the interest payment requirements.

Not all loan arrangements allow further draw-downs and interest capitalisation, so it is best to confirm these features with the lender when establishing the borrowing arrangement.

Decreasing the loan

It may be attractive for the SMSF trustee to reduce the outstanding loan balance as quickly as possible, subject to the terms and conditions of the loan.

Unlike borrowing arrangements in an individual's name, super borrowing potentially offers a unique benefit with respect to reducing the loan balance. Concessional contributions (ie superannuation contributions made by your employer or personal contributions for which you claim a tax deduction) are generally taxed at only 15% (in certain circumstances higher tax rates may apply).

This means that for each $1.00 of pre-tax income that is contributed to superannuation, $0.85 remains in the super fund after tax. That $0.85 may be used to reduce the outstanding balance in a super borrowing arrangement.

> **“For each $1.00 of pre-tax income that is contributed to superannuation, $0.85 remains in the super fund after tax.”**

Compare this to an individual receiving the same pre-tax income as wages. After paying tax at their marginal tax rate an individual will generally have less remaining to reduce the outstanding balance of a non-super borrowing arrangement. Table 3 shows the net amount available to reduce an outstanding loan balance per dollar of pre-tax income.

Table 3: Tax rate impact on debt reduction

	Tax rate applied to $1.00 of pre-tax income (incl Medicare levy)*	After tax amount available to reduce loan balance
Individual receives income as salary/wages	0%	$1.00
	21.0%	$0.79
	34.5%	$0.655
	39.0%	$0.61
	47.0%	$0.53
Concessional super contribution	15%	$0.85

* Marginal tax rates are effective in 2017/18

Note that this strategy is limited by each individual's concessional contributions cap, which is $25,000 per annum in 2017/18. Consider also that your employer's mandatory Superannuation Guarantee payments (9.5% of your ordinary time earnings) will count towards your concessional contributions cap.

$120,000 INCOME

EXAMPLE – JOCELYN

Jocelyn's income is $120,000 per annum, so her marginal tax rate (incl. Medicare) is 39.0% in 2017/18. She's interested to know the relative impact of directing $10,000 per annum of pre-tax earnings towards reducing the balance of a non-super borrowing arrangement compared to a super borrowing arrangement, over a five-year period.

Jocelyn assumes interest rates of 5.0% per annum (non-super) and 6.0% per annum (super), and monthly loan repayments.

After five years the non-super borrowing arrangement loan outstanding will be reduced by $35,392, whereas the super borrowing arrangement loan outstanding will be reduced by $50,790.

So Jocelyn's SMSF will be $15,398 better off with the super debt reduction arrangement than a borrowing arrangement in her own name.

Asset maintenance

SMSF trustees have an ongoing duty to maintain the asset in the best interests of the beneficiaries of the fund.

There is generally minimal maintenance required for listed shares or units in a managed fund, apart from monitoring their performance and ensuring they continue to meet the requirements of the SMSF's investment strategy.

Residential and commercial property

Residential and commercial properties will generally require ongoing repairs and maintenance. Often property owners wish to make improvements to their property, in contrast to simple repairs and maintenance.

The distinction between repairs/maintenance and improvements is important for two reasons:

- repairs and maintenance can be funded by further draw downs on the loan, whereas improvements must be funded by other means available to the fund, such as its existing cash assets
- repairs and maintenance are generally immediately tax deductible, while improvements are generally a cost base adjustment for capital gains tax purposes, generally applicable only when the asset is sold.

In practice, as most lenders do not provide loan increases or redraw facilities, appropriate cash flow planning is required by the SMSF trustee.

SMSF trustees should seek expert advice about this distinction, and other issues relating to the superannuation and taxation implications of repairs/maintenance versus improvements.

SMSF trustees should also beware of improving a property to a point that it becomes an entirely different asset. If this happens, there may be a breach of the superannuation law requirements, which could result in a wind up of the borrowing arrangement.

Table 4 summarises the difference between repairs/maintenance, allowable improvements and non-allowable improvements.

SMSF trustees should also beware of improving a property to a point that it becomes an entirely different asset.

Table 4: Property repairs/maintenance and improvements

	Repairs / maintenance	Allowable improvements	Non-allowable improvements
Super borrowing implications	May be funded by borrowings, if the lender allows	Cannot be funded by borrowings – can only be funded from other fund resources	A new asset results causing the original super borrowing arrangement to be non-compliant
Taxation implications*	Generally tax deductible in the year the expense is incurred	Generally reduces the capital gains tax impact (if any) upon sale	N/A
Examples	Broken windows repaired immediately after property purchase	Adding a pool, garage or second storey to an existing residential property	Sub-dividing vacant land
	Fire damage resulting in restoration of a kitchen with modern equivalent materials	Substantial renovations, including adding another bathroom	Building a residential house on vacant land
	A fire alarm installed to comply with local council requirements	Addition of a shed, cattle yards, tank, windmill and fencing on a farming property	Renovating a residential house into commercial premises

Source: Australian Taxation Office, Self Managed Superannuation Funds Ruling SMSFR 2012/1

* Note: What is considered repairs/maintenance for superannuation law purposes may not apply for taxation purposes.

These restrictions on making general and more substantial improvements to a property may be a significant deterrent to establishing a super borrowing arrangement.

EXAMPLE – WILLIAM

William is aware of a run-down residential house in his local area which he believes has very good long-term capital growth prospects.

He considers that the property has an immediate need for modest, but significant, renovations to raise the standard of accommodation to a level expected by potential tenants seeking accommodation in the local area.

William also has a long-term view that the property, if combined with neighbouring properties, could be redeveloped into several apartments or town-houses, resulting in very substantial capital gains.

William seeks expert advice on whether this property is an appropriate asset for a super borrowing arrangement. His financial adviser identifies that the immediate renovations should not be funded by super borrowings, as they are unlikely to be treated as repairs or maintenance. The renovations should be funded from other financial resources available to William's SMSF. Therefore William must consider if his SMSF has the resources necessary for the renovations he desires.

Additionally William's financial adviser identifies that the redevelopment into apartments or town-houses should not occur whilst the property is the subject of a super borrowing arrangement as the apartments or town-houses will constitute a new asset or assets.

This advice might not prevent a super borrowing arrangement from being established, but William's SMSF may need to dispose of the property before the redevelopment occurs, which could be many years into the future.

> **SMSF trustees considering purchasing a residential or commercial property should be aware of the significant restrictions that the superannuation law imposes on improvements to the property. The same restrictions are generally not a consideration outside of super.**

Regulatory compliance

The loan liability, expenses, income, capital gains and asset value are required to be reported in the SMSF's financial statements.

The investment asset cannot be subject to a charge other than in relation to the original or allowable replacement loan, so generally cannot be used as additional security for future borrowings. Additionally the investment asset generally cannot be replaced by another asset, except in very limited circumstances.

SMSF trustees should also ensure that related parties to the fund do not use the investment asset for personal benefit, as this may breach the superannuation sole purpose test.

The end of a super borrowing arrangement

A super borrowing arrangement may come to an end because:

1. **The outstanding loan has been paid off**
2. **The investment asset has been sold (and the loan paid off)**
3. **The lender has taken possession of the asset due to default by the SMSF**
4. **Non-compliance with superannuation law causes the Australian Taxation Office (ATO) to enforce winding-up of the arrangement.**

Loan has been paid off

Once the outstanding loan has been paid off, the legal ownership of the investment asset may be transferred from the holding trust to the SMSF. When the asset has been transferred, the holding trust usually ceases automatically as a matter of law, as there generally will be no assets remaining within the trust.

TALK TO YOUR FINANCIAL ADVISER

Changes to the law in 2015 confirm that there are generally no capital gains tax issues in transferring the asset from the holding trust to the SMSF.

SMSF trustees should seek advice on the possible stamp duty implications of the transfer.

Investment asset is sold

Selling a residential or commercial property before the loan has been repaid will generally result in a commercial lender being involved in the settlement process and claiming any outstanding monies owed directly from the purchaser. A different process may occur for non-commercial lenders and for assets other than real property.

As mentioned above, once the asset is sold and the loan cleared, the holding trust generally collapses automatically.

Sale of the asset may result in capital gains tax implications for the SMSF and stamp duty implications for the purchaser. Talk to your financial adviser about how these issues apply in your specific circumstances.

Loan default or regulatory non-compliance

The asset will generally be sold, transferred to the lender or to the SMSF. The holding trust will generally cease as a result.

Death or disablement of an SMSF member

The death or permanent disablement of an SMSF member may pose significant issues. The fund may be required to make a large benefit payment as a result of the member's death or disability, which may cause liquidity issues if the SMSF holds a large investment asset such as a residential or commercial property. As a consequence, a super borrowing arrangement may be forced to wind up.

Appropriately structured insurance arrangements may provide much needed liquidity when these events occur, avoid forced wind up of the super borrowing arrangement and/or help with repayment of the investment loan. See also the *Insurance* section on page 25.

> **Capital gains tax and stamp duty implications may arise, depending on who the asset is transferred to – talk to your financial adviser.**

Next steps

We hope this guide has helped you learn about what's involved with a super borrowing arrangement within your SMSF.

If you're considering this type of arrangement, you should consider all the rules and regulations as well as the risks and costs involved.

Speak to your financial adviser who may be able to provide further information and guidance.

Case study – Maxine and Greg

Maxine and Greg (both aged 45) are married with young children.

They wish to purchase an investment property which they believe will appreciate in value over the long term.

> **Maxine and Greg are considering using their existing SMSF to purchase the investment property. Naturally they're interested to understand whether a super borrowing arrangement will be more profitable than a non-super borrowing arrangement, and which option is more suitable in their particular circumstances.**

They're also interested to know whether a moderate level or a high level of borrowing is more effective in each option.

Maxine is the primary bread-winner, with an annual income of $230,000. She is keen to pursue her career and does not see any likelihood of a reduction in her income level until retirement.

Greg looks after their children three days per week, and works as a consultant on the other two days, with annual earnings of $60,000.

MAXINE AND GREG'S OPTIONS

Maxine and Greg are considering two properties with very different potential purchase prices. Using initial equity of $250,000 Maxine and Greg would like to understand more about the impact of the following:

1. moderate level of borrowing – borrow at 50% (approximately) of the property value ($500,000) in:
   - Maxine's name
   - Greg's name
   - their SMSF.
2. high level of borrowing – borrow at 70% (approximately) of the property value ($833,333) in:
   - Maxine's name
   - Greg's name
   - their SMSF.

Maxine and Greg approach their financial adviser with their options. Their financial adviser considers their situation and helps Maxine and Greg determine the best option for the purchase of their investment property.

Moderate level of borrowing

Compare borrowing at a moderate level in Maxine's name to their SMSF.

Property and loan details

- Maxine and Greg's financial adviser considers the price of the property as well as the location and estimates the capital growth will be 4.0% per annum, with initial rental yield of 4.0% and rental growth to be 3.0% per annum.

Interest and costs details

Maxine and Greg's financial adviser assumes:

- the loan interest rate is 5.0% outside of super and 6.0% within super. The following upfront fees have been used to model the two scenarios:

Fees	Property 1 ($500,000)	Property 2 ($833,333)
Stamp duty	$17,990	$32,993
Mortgage registration	$417	$417
Conveyancing fees	$1,000	$1,000
Settlement fee	$1,430	$1,430
Valuation	Nil	Nil
Mortgage application	$500	$500
Total	**$21,337**	**$36,340**

  - upfront costs for purchasing property within super are likely to be higher due to the fees associated with setting up an LRBA within an SMSF (estimated to be $3,000). However, if an SMSF does not already exist the upfront cost could be significantly more
- ongoing costs of managing and maintaining the property are 33.3% of the first year rental income:
  - property 1 – $6,667
  - property 2 – $11,111
- sale of the asset costs will be approximately 2.0% of the value of the property at the time of sale.

Tax and inflation details

Maxine and Greg's financial adviser assumes:

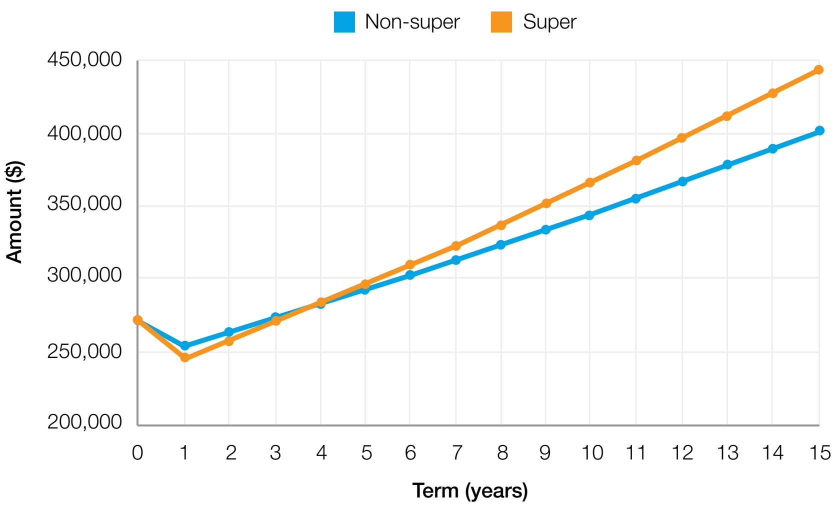
- if investing in Maxine's name, a tax rate of 47.0% will apply to earnings from the property. Any discounted capital gains from the sale of the property will also be taxed at this rate
- the property will be sold in the pension phase of super with no capital gains tax (CGT). Should this asset be sold in the accumulation phase CGT at 10% will apply
- there are no depreciation benefits applicable.

Comparison results

- Maxine and Greg's financial adviser notes that their *Net realised assets* is greater within super than investing in Maxine's name, with the difference over a 15 year period being $42,676 in today's dollars.

Net realised assets

Term	Non-Super	Super	Difference
5 years	293,689	297,878	4,189
10 years	345,661	367,314	21,653
15 years	402,515	445,191	42,676



Remaining scenarios

Greg and Maxine's financial adviser runs similar calculations for the remaining scenarios, that is moderate and high borrowing levels for Maxine, Greg and the SMSF. The results below were obtained.

Net Realised Assets after 15 years			
Borrower	**Maxine**	**Greg**	**SMSF**
Marginal tax rate / effective CGT rate	**47% / 23.5%**	**34.5% / 17.25%**	**15% / 0%**
Moderate gearing	$402,515	$418,053	$445,191
High level gearing	$501,132	$505,623	$502,886

From the results Greg and Maxine note that:

- if borrowing at a moderate level, the SMSF option is the most attractive
- if borrowing at a high level there is marginal difference between the three options after 15 years.

Key points

Moderate level borrowing:

- the level of *Net cash flow* surplus is reduced by the higher tax liability associated with higher marginal tax rates
- the *Outstanding loan debt* is reduced by surplus cash flow
- the capital gains tax rate is lowest in superannuation (ie nil if we assume the asset is realised in pension phase, otherwise 10% capital gains tax applies when the asset has been held for 12 months or more).

High level borrowing:

- the higher level of borrowings results in a negatively geared arrangement (ie annual net tax losses)
- the level of *Net cash flow* deficit is reduced by the higher tax benefits associated with higher marginal tax rates
- the overall *Accumulated net cash flow* deficit is lowest for the highest marginal tax rate (ie Maxine).

Case study summary

Maxine and Greg's case study demonstrates that in their situation borrowing at moderate levels favours an SMSF borrowing strategy. However, the added complexity and compliance obligations associated with a super borrowing arrangement should be considered also.

Direct comparisons between borrowing at moderate and high levels should be avoided, as borrowing at a high level results in significantly more risk being taken than borrowing at a moderate level.

It is important to calculate if a borrowing arrangement is more profitable inside or outside of superannuation.

Other considerations

Practical limitations and other considerations affect the decision also.

- A greater amount of capital inside super (ie Maxine and Greg's existing super account balances) may mean that a higher level of borrowing is required outside of super, with the following possible impacts:
  - if the loan-to-value ratio exceeds 80% mortgage insurance may be required and could be a significant additional cost
  - the same property in each case may be purchased with a lower level of super borrowings
  - a larger property could be purchased inside super with the same level of borrowings
  - the SMSF could hold additional investments to the property, providing investment diversity.
- Maxine or Greg could choose to pay off the loan more quickly by using future income to reduce the debt. Using super concessional contributions will generally result in debt being reduced more quickly than outside of super – this may lead to a greater preference for super borrowing.
- If Maxine and Greg did not already have an existing SMSF the cost of setting up and maintaining the SMSF also should be considered.

Case study assumptions

- All valuations are in today's dollars, assuming an inflation rate of 2.5% per annum
- Upfront costs are capitalised
- Maxine's income will remain constant over the projection period
- Greg's income will remain constant over the projection period
- Income and capital gains tax rates remain as announced at the time of printing
- Maxine has a marginal income tax rate of 47%
- Greg has a marginal income tax rate of 34.5%
- Super tax rate of 15%
- Capital gains tax:
  - 50% discount applies outside super
  - Asset sold in pension phase inside super (ie nil capital gains tax will apply)
- Cash flow deficits are funded from a cash account at a cost equal to the loan interest
- Cash flow surpluses are used to reduce the outstanding debt

Other references

Australian Taxation Office:

Self-managed super funds

- go to ato.gov.au/super/self-managed-super-funds/

Limited recourse borrowing arrangements by self-managed super funds – questions and answers

- go to ato.gov.au and search for 'LRBA Q&A'

Table 5: Asset and loan data

Property details	
Acquisition costs:	
Asset transfer stamp duty	$
Mortgage registration and land transfer	$
Conveyancing fees	$
Survey report and inspection fees	$
Valuation fee	$
Mortgage application fee	$
Total acquisition costs outside super:	**$**
SMSF LRBA set up costs (SMSF only)	$
Total acquisition costs inside super:	**$**
Ongoing costs:	
Property maintenance/repairs costs	$
Property management and leasing fees	$
Insurance	$
Depreciation write-offs, if any	$
Sales costs:	
Agent commission	$
Conveyancing fees	$
Property returns:	
Projection period	years
Current rental return	% pa
Expected increase in rental return	% pa
Capital growth outlook	% pa
Inflation	% pa
Loan details	
Loan amount	$
Loan term	$
Application fees and duties, including mortgage insurance (if any)	$
Interest rate	% pa
Annual fees	$
Other costs, including SMSF specific	
Additional SMSF reporting and compliance costs	$

When this data has been collected, calculations can be made which demonstrate the viability of borrowing to invest.

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