Australian Property Investor
FOR HOMEBUYERS, INVESTORS & PROPERTY PROFESSIONALS

SUPER WEALTH

It seems everyone is buying property with super these days. But what are the pros and the cons of using a self-managed super fund to expand your portfolio? API discovers the 10 super and 10 not-so-super rules to investing with superannuation.

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Super rules for many investors at the moment. Those with a self-managed super fund (SMSF) are quickly discovering it can be an exciting way to increase a property portfolio and also help create super wealth.

Mix a new pad, with tax benefits, and it's easy to see why the word 'SMSF' is the new 'sexy', according to Adelaide-based Mortgage 123 broker and property expert Les Harris.

"It's very sexy, a self-managed super fund (SMSF), because I'm old," Harris jokes.

"At a young age, it's not too sexy."

The main reason super rules and is considered 'sexy' by so many is because of the policies around capital gains tax when you're in pension phase. For people like Harris, who happens to turn 60 next year, they're able to access funds from within their SMSF and pay absolutely zero tax if they sell a property at a later date, provided they're in pension phase.

There's also the lure of being able to be in charge of your own future. Harris is a big fan of SMSF and says the fact he can buy property where he wants, when he wants and exactly what he wants is a big draw card.

"The appeal right now is people feel they have more control," he explains.

"If you prefer property to shares, you can move money into a SMSF and help reduce the debt quickly. The more money you have in a super fund, the more quickly you can pay debt off."

And it appears Harris isn't alone. Self-managed super funds are now the largest and fastest growing segment of the super industry.

There were 528,700 SMSFs with one million members as of June this year, compared to 271,000 SMSFs 10 years ago, according to research firm CoreData.

This represents almost a third of Australia's total $1.6 trillion super pool.

Chan and Naylor managing director Ken Raiss says the reason its popularity is increasing is because it's a tax free heaven in the pension stage, if set-up and structured correctly.

Mum and dad investors love it, but so do those with multimillion-dollar portfolios and even the most respected brokers and accountants.

"Personally, I love it, because you're in control and it's a tax-free environment when you're in retirement," Raiss says.

WHAT IS A SMSF?

The difference between a SMSF and a superannuation fund is that you're the trustee of the SMSF and you run it for your own benefit in retirement. Of course, superannuation is also for your own benefit in retirement, but the thinking behind a SMSF is that you have more control with what you do with the finances.

If you're keen to purchase a property using a SMSF but need a loan, you actually need to purchase the property within what's called a holding trust, also known as a bare trust.

Raiss says it's simply part of legislation.

"If there's going to be a purchase with debt, the asset can't be held directly in the super fund," he says.

"The loan is called a LRBA – limited recourse borrowing arrangement."

It sounds complex and scary but it's actually a way of protecting you, according to Raiss.

"What it means is that if you default on the loan, the person lending you money can only attack and take the asset they loaned you the money for," Raiss explains.

If you're thinking of trying to purchase a property using a SMSF, Rate Detective Finance managing director Warren Dworcan believes the sooner, the better.

"It's recommended you do so as early as possible from your planned retirement, as you have a steady cash flow to deal with any tenant problems," he says.

"This also allows the property a greater opportunity to grow, making sure you can take full advantage of the tax benefits, so you can live your latter years doing what you always dreamed of."

The Australian Tax Office (ATO) requires annual audits of SMSFs and so managing your own fund and getting it right is very important.

There are a lot of regulations that are designed to protect your super and your retirement income. Let's discover why you have to be super careful when it comes to your superannuation and look at the 10 not-so-super, and 10 super, rules.

10 NOT-SO-SUPER RULES

1. BIG SET-UP COSTS

Buying property always comes with big entry and exist costs. Add a SMSF into the mix and the fees are even more expensive.

You have to consider legal fees, advice fees, bank fees and set-up fees and always check with your accountant first.

"It probably costs about $2500 to set it up but then there are ongoing expenses, because you need an accountant, plus the SMSF gets audited each year," Harris says.

"If you have an investment property, it also has to be valued every three years."

If you're using a holding trust to set up a loan through your SMSF, the set-up costs also incur expenses.

"You virtually have to set up a separate company, which is the owner of the property," Harris says.

"That's another cost and you have to pay that every year."

2. YOU NEED A BIGGER DEPOSIT

Harris says most investors keen to purchase a property with a SMSF would need at least $100,000 as an absolute minimum.

In many cases, $150,000 or $200,000 is considered the norm.

"One of the banks I deal with expects you to have more than $250,000 before they'll look at it. Other lenders don't care, as long as you have enough money to meet repayments," he says.

Justin Beeton of the SMSF Club believes you also need a buffer of $50,000 to ride out any downturns or problems.

Raiss adds that more banks are now providing up to 80 per cent loans – you simply need to come up with the 20 per cent deposit for the purchase.

But add in entry costs and stamp duty, and

"The appeal right now is people feel they have more control. If you prefer property to shares, you can move money into a SMSF and help reduce the debt quickly."

LES HARRIS

you're likely to need about 30 per cent of the purchase price.

"The banks also require a financial planner's sign off to demonstrate that you have sought financial advice and that this purchase fits within your strategy," he says.

"Now, some of the banks insist you go to their own financial planner and that can cost up to $3000."

However, Raiss warns you should never give a bank control.

"There are a couple of lenders that want to put their own corporate trustee on the holding trust," he says.

"It's not as bad as it sounds but it means you have to go back to them every time you want to do something. Some banks are now insisting that if you want a loan from them, then this is how it has to be. Therefore, you want to make sure that you choose a lender where you can have your own trustee and seek your own independent financial advice."

3. INTEREST RATES ARE HIGHER IN A SMSF

Banks will always charge a higher interest rate for a SMSF. Raiss says they usually have their standard variable rate, and then other rates with a discount of 0.5 per cent or 0.7 per cent and sometimes even one per cent. With a SMSF, or holding trust, this will never happen.

"Banks will tell you that they have to charge more interest because of the LRBA," Raiss says.

"But nine times out of 10 they have a personal guarantee from you, so it's just banks being banks."

A SMSF loan also takes a little longer to process, simply because there's usually more paperwork involved.

4. NO RELATIVES

A property bought through a SMSF has to meet the 'sole purpose test'.

This means it must be purchased to help fund your retirement income and can't be bought from you or a relative. You can't live in your new digs and you can't rent it out to either yourself or relatives.

It's what property expert and author Miriam Sandkuhler of Property Mavens describes as 'an arm's length' requirement.

"You can't buy property and use it as a holiday home," she says.

"You or your family members mustn't get any personal benefit from the property. You can't do anything that puts that 'arm's length' classification at risk, or you risk making your super fund non-compliant. The consequences of your fund being non-compliant are severe."

DID YOU KNOW?

There's a loophole when it comes to developing in an SMSF and it's known as the 'non-controlled unit trust'.

You can't renovate, subdivide or develop using an SMSF if you have a loan against the property. However, Raiss says it's possible to set up a trust and borrow and develop with a group of people, provided no one's super has more than 50 per cent share in the trust.

"You can actually use your SMSF money to invest in the trust and go and borrow and do a development," he says.

"But it means the super fund or its members can't own more than 50 per cent."

He adds that a non-controlled unit trust takes you outside normal borrowing restrictions.

"Someone might say 'I would love to buy that block of land and then go and build there. I can't do it with super but I have a friend...' or 'I want to go and buy a commercial property'."

Interested? It's very much a case of 'don't try this at home'. Definitely see your accountant first.

5. NO NEGATIVE GEARING

If you love blue-chip properties and don't mind negatively gearing while you wait for capital growth, you're probably likely to face some shortfalls over the first few years.

However, negatively gearing is extremely difficult and not worthwhile within a SMSF, according to Dworcan.

"Losses are offset against other super fund income but the maximum tax rate is only 15 per cent," he says.

"It would make a bigger difference for your personal income, which could be taxed as high as 45 per cent (depending on your personal income).

"However, if you're currently contributing less than your allowable limits into your SMSF, you can salary sacrifice extra to fund the negative gearing, which is the same tax benefit if purchased outside super.

"Secondly, with the tight rulings on improvements, it can be difficult to increase the income generated to transform it to positively geared property. Lastly, with the generous tax rate on income, negative gearing may be a wasted opportunity, so the incentive should be to try and make a profit on rent."

Harris adds expenses for a SMSF property must be made within the SMSF.

"The actual investment itself is a standalone investment and the SMSF has to be able to pay for the repayments, based on the income generated through the SMSF," Harris adds.

Dworcan says this means loan repayments have to be made from your SMSF property.

"If you don't have the necessary cash reserves, you could be in trouble if your tenant stops paying rent," he says.

"This becomes even more relevant once retired, as you're no longer earning a steady income."

But don't forget that while you're working, your employer would also be putting money, as super, into your SMSF each week, through your normal salary. This amount should be around 9.5 per cent of your annual wage. It would also contribute towards holding costs.

For example, if two people have a SMSF and earn $100,000 combined, about $9,500 would be going into the SMSF each year.

"That amount, plus the rent from the property, has to be enough to service the debt or you won't be able to borrow," Harris explains.

6. COMPLEX STRUCTURE

Most people think you buy property through a SMSF, but you actually purchase property in a holding trust, as part of a SMSF.

The entire fund needs to be set up by an accountant.

Author of *Building wealth in a self-managed super fund* and property millionaire Coral Brian-Wheatley likes to call each of her trusts the street name of the property.

"If we buy a property in Victoria Street, we'll call it the Victoria Street trust," she says.

"Personally, I love it, because you're in control and it's a tax-free environment when you're in pension."

KEN RAISS

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"It's a piece of paper that states the property is in a trust, but it's run through the SMSF. All the rent goes into the SMSF and repairs and maintenance get paid from the SMSF. It's important that the accountant sets it up in the right names."

Like Raiss, she believes trusts should always be set up as a corporate trust, rather than an individual trust.

"If someone passes away (in an individual trust) you have to sell. In a corporate trust, it just gets passed to the next person. It initially costs more to set up a corporate trust but it far outweighs an individual trust."

7. SUPER SPRUIKERS

Sandkuhler warns those planning to purchase a property through a SMSF should avoid 'one stop shops'. If a developer is trying to sell property and promising they can also take care of your SMSF paperwork, it might be a red flag, she says.

"They flog poor performing property for their vendor, rather than offering what's best for the buyer," she says.

"They're unlawfully providing investment advice they're not qualified to give. If anyone suggests you should set up a SMSF to buy properties as a means of them selling their stock to you, you should be very wary. If you feel manipulated, report them to the Australian Securities and Investments Commission (ASIC)."

8. NO GET OUT OF JAIL FREE CARD

A SMSF is hard to cancel. If the property loan documentation and contract isn't set up correctly, unwinding the arrangement might not be allowed and you might be required to sell the property. This would obviously cause a substantial loss to the SMSF.

Raiss says getting out of a SMSF is always hard, simply because of the way it's set up in the beginning.

"Every member of a SMSF must be a trustee," he explains.

"If it's a corporate trustee (the preferred option), every member must be a director."

This means a SMSF has to be split with the allocation of members' funds.

"Whatever your dollar value is, it's yours," he says.

"If you want to leave, you have to be able to extract your member's balance. If there's not a sufficient number of other assets in shares or cash and one person wants to leave, people are effectively forced to sell a property."

On top of that, any tax losses from the property can't be offset against your taxable income outside the fund. So getting the structure right from the beginning is imperative and a SMSF should be seen as a long-term strategy for building super wealth.

SMSF CONTRIBUTIONS CAPS 2014-2015

Concessional contributions are contributions made into your SMSF that are included in the SMSF's assessable income.

These contributions are taxed in your SMSF at a concessional rate of 15 per cent, which is often referred to as 'contributions tax'. The most common types of concessional contributions are employer contributions, which include super guarantee contributions, and salary sacrifice contributions made by the member, where you can claim an income tax deduction.

Contribution type	Age of member	Contribution cap
Concessional contribution	Everyone	$30,000
Concessional contribution	Aged 49 or over	$35,000
Non-concessional (after tax) contribution	Older than 65 but younger than 75	$180,000
Non-concessional (after tax) contribution	Under 65	$540,000 over a three-year period

Source: ATO

TOP 10 SMSF STUFF UPS

1. Providing a loan or financial assistance to a member
2. Contravening the 'in house asset test'
3. Administrative type contraventions
4. Breaching the 'separation of assets'
5. Operating standard-type contraventions
6. Trying to use equity
7. Contravening the 'sole purpose test'
8. Investments aren't at an arm's length
9. Undertaking a renovation/development
10. Buying assets from related parties

9. NO RENOVATING, DEVELOPING OR SUBDIVIDING WITH A SMSF LOAN

You can't actually borrow, buy and 'improve' a property if it's in a SMSF and there's a loan on the property. That means you can't borrow for improvements, you can only maintain the property. In some cases a cosmetic renovation, (replacing what was there before), can be funded with borrowed money.

You also can't develop or subdivide if you have a property in a holding trust, (if you have a loan against the property), Raiss adds. In fact, it's pretty much a big 'no-no' to do anything other than hold the property long-term.

Dworcan says the reason you can only hold a property, rather than renovate it, is because of the LRBA structure.

"The ATO has strict rules on what qualifies under LRBA," Dworcan says.

"If it doesn't meet the requirements it can still potentially be done, however, it must be funded using cash in the SMSF. Therefore, bank policies are aligned with LRBA rules."

Dworcan adds repairs and maintenance of the property are allowed, but improvements aren't.

"You can borrow funds for repairs, but not for an extension," he says.

You can also borrow funds to retain the asset's identity, but any changes that result in a different asset aren't acceptable.

"For example, the original asset is a block of land. By subdividing it, the identity of the asset has changed," Dworcan says.

"The same applies if you build a house. Therefore, it can't qualify under LRBA."

However, if the land was originally purchased using cash, then it's not bound by a LRBA and construction can be done using the SMSF's cash, he says.

"Another example is an option to buy a house," Dworcan adds.

"It can be sold to another party as an option, but the option itself can't be realised by a SMSF, as it changes the identity of the asset, from an option into actual property."

While you can't buy a block of land, then build, you can purchase a house-and-land package.

"If the property was originally presented as a house-and-land package, then it's one single asset and the identity of it is as a house on land," Dworcan says.

A subdivision or development would also change the identity of the asset and no longer comply with LRBA rules.

"Therefore, it can't be financed and requires a lot of capital in SMSF," Dworcan says.

"You can be deemed as running a business as a developer out of your SMSF. This could result in loss of tax concession."

10. NO LEVERAGING OF EQUITY

If the property you own through a SMSF grows in value, forget about utilising the equity to borrow and build a portfolio. For investors, this is potential the biggest con.

"If you buy a property for $400,000 and the loan is $300,000 and the property increases to the value of $600,000, you can't refinance or increase the loan above $300,000," Beeton says.

"You can buy two properties with new super you've gained, but you can't use the equity to buy two properties."

Raiss believes this rule makes buying property through a SMSF not worthwhile for many beginner investors.

"For your first one or two properties, it might not be a good idea," he says.

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INVESTOR SNAPSHOT

A not-so-easy investment

Name: Sarah*
Lives: Holland Park, Brisbane, Qld
Invests: Holland Park, Deception Bay, Nundah, South Brisbane, Qld
Properties: 4
Strategy: Buy and hold

Sarah* works as an accountant but describes the process of purchasing property through a SMSF as "horrible, the whole thing".

"Just the paperwork, right from the beginning, and making sure you have the correct structures in place," she laments.

Sarah and her husband are already successful investors. They own a house in Holland Park, Brisbane, along with two investment properties in Deception Bay and Nundah, also in Brisbane. Their latest acquisition will be property number four.

It's a one-bedroom off-the-plan apartment in South Brisbane.

Sarah and her husband had purchased shares before but they never seemed to do well and their super also hadn't really performed.

So they decided to use their property skills and knowledge and purchase another property through a SMSF. With a price tag of $425,000 the numbers for an investment property with river views seemed to stack up.

"We thought, instead of leaving our money in an industry super fund, we'd bring it over to a SMSF," Sarah explains.

"We like to invest in property. Bricks and mortar is one of our favourite investments. We're not really good at choosing shares."

The trouble is, the way you set up a SMSF at the start determines what you can do with the property and how you can utilise it. Make one mistake and there's no going back.

Sarah and her husband have unfortunately learned this the hard way.

They established their SMSF first and thought they had plenty of money in it.

They then approached one of the big four banks, who told Sarah that they should easily be able to obtain a loan, provided they continued receiving super contributions from their employers and also put extra money into their super accounts through salary sacrifice.

Sarah and her husband then went and bought the off-the-plan apartment through their super fund, assuming the loan would go through. The big error was that they never got pre-approval.

"As we bought off the plan 18 months before we wanted the loan and it's a little bit risky this way (to purchase the property first)," she laughs.

"It's not something I'd recommend. When we went back to them and said 'can we get the ball rolling' the guy turned around and said 'no, we can't do the loan until we see the building'."

Obviously being off-the-plan, there was no building to see.

Sarah and her husband had already put a deposit down and signed the contract to purchase the property, so they faced either losing the deposit, or having to on-sell the property off the plan and try to at least break even.

They went to another smaller bank in search of a loan, but were told they wouldn't be able to obtain it because they didn't have enough liquidity in their account.

Sarah and her husband have $130,000 in their SMSF. The smaller bank told them they needed about $60,000 in their account, after the deposit and stamp duty were paid. In other words, they needed at least $200,000.

"There would only be about $20,000 left," Sarah says.

"So it's still not across the line."

They're now in the process of going back to the bigger bank and trying to work out some sort of an arrangement, with settlement supposed to be just weeks away.

The likely option is to put an after-tax contribution into their SMSF, probably by using equity in their own home and refinancing.

Otherwise, they could try and sell the off-the-plan property back to themselves, in their own name. However, this would mean paying stamp duty, legal fees and all the other entry-level costs twice. They're still trying to figure out exactly what to do.

If they don't go ahead with the purchase, they'll likely lose their deposit, and so the most likely option at this stage is probably to refinance their own home.

Having experienced this nightmare, Sarah advises those keen to purchase property through a SMSF to avoid off the plan. She now believes they would have been better off simply purchasing the property in their own names.

"It's quite stressful but it's our own fault," Sarah says.

"We could have bought something older but we wanted to buy a (new) unit because it's such a good building."

She also believes anyone using super to buy property needs at least $200,000 in their SMSF and that it's best to get pre-approval from a bank.

"I did the figures, but I didn't know the banks had liquidity rates," she says.

"We did it the wrong way and it's now a nightmare trying to sort it out."

**Sarah's real name has been withheld for privacy reasons by request.*

10 SUPER RULES

1. TAX BENEFITS

The biggest advantage when it comes to buying property through a SMSF is the beautiful tax concessions.

SMSFs are subjected to income tax but it's at a much lower rate of just 15 per cent.

"If you individually earn more than $80,000, you'll be taxed 38.5 cents in the dollar, but with a super fund it's taxed at just 15 cents (in the dollar)," Harris says.

Dworcan says the capital gains tax rate is reduced to just 10 per cent for assets held for 12 months and it's eliminated once you're in the 'pension phase'.

"It can save you tens of thousands, even hundreds of thousands, in tax," Dworcan says.

"It's a similar story for rental income, with 15 per cent tax being the maximum and none at all during pension phase."

Beeton says you can essentially purchase a property in a SMSF when you're 50, then sell it tax-free when you're in 'pension phase' at 60 (provided you have actually retired).

"A SMSF can sell at anytime, however, profits go back into the SMSF, which can only be drawn once members reach preservation/retirement age. If you were born before July 1, 1960, that age is 55 and anyone born after July 1, 1964, has a preservation age of 60, with the ages progressively increasing by a year for the period in between."

Brian-Wheatley says it's also possible to use an existing portfolio outside a SMSF to reduce tax.

"When we sell properties outside a fund we have a capital gain, but to reduce capital gains tax, we could contribute more to our SMSF," Brian-Wheatley says.

"If you retire and you're in pension phase you pay nothing (in tax when you sell through a SMSF). If you aren't yet in pension phase, you only pay 10 per cent."

However, the rules can vary and depend on each individual's circumstances, so always see an accountant or qualified adviser first.

Raiss adds buying property in a SMSF has enormous tax benefits for those who are getting closer to retirement and don't yet have a property portfolio.

"Some people can't buy outside super (because they don't have enough cash for a deposit) but they might have a lot of super. The bank also takes into account the 9.5 per cent super guarantee (from an employer). In this case, buying in super means you have a long-term asset that will grow and be tax free in the pension stage," he explains, adding that you can then sell it tax free and pay down

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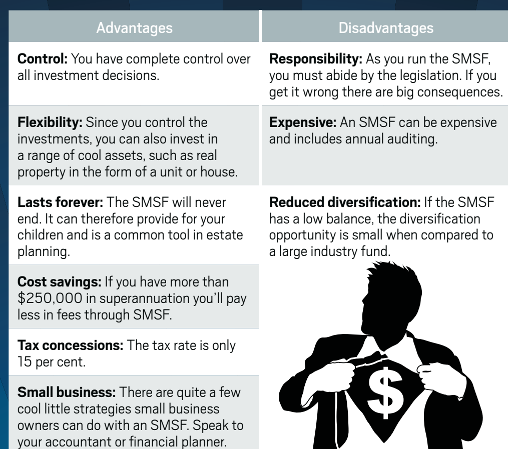
THE BASIC RULES THAT DEFINE A SMSF

1. A SMSF can have up to four members.
2. Each member must also be a trustee of the SMSF.
3. A member can't be an employee of another member.
4. The trustee can't receive remuneration for being a trustee.
5. The SMSF must be managed for the sole benefit of providing for retirement.

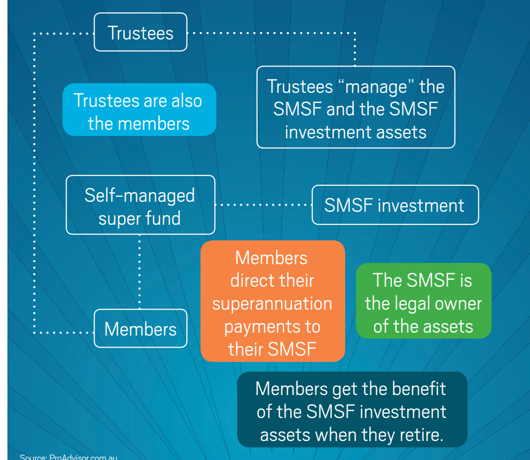
Members: get the benefit of the SMSF funds when they retire.

Trustee: looks after the SMSF and its investments for the benefit of the member.



Advantages	Disadvantages
Control: You have complete control over all investment decisions.	**Responsibility:** As you run the SMSF, you must abide by the legislation. If you get it wrong there are big consequences.
Flexibility: Since you control the investments, you can also invest in a range of cool assets, such as real property in the form of a unit or house.	**Expensive:** An SMSF can be expensive and includes annual auditing.
Lasts forever: The SMSF will never end. It can therefore provide for your children and is a common tool in estate planning.	**Reduced diversification:** If the SMSF has a low balance, the diversification opportunity is small when compared to a large industry fund.
Cost savings: If you have more than $250,000 in superannuation you'll pay less in fees through SMSF.	
Tax concessions: The tax rate is only 15 per cent.	
Small business: There are quite a few cool little strategies small business owners can do with an SMSF. Speak to your accountant or financial planner.	

HOW IS A SMSF STRUCTURED?



Source: ProAdvisor.com.au

the debt. It's also possible to claim depreciation through a SMSF, should you purchase a unit off the plan through a super fund, although there are some rules, Raiss says.

"The depreciation schedule must be prepared by a quantity surveyor and preferably one who specialises in this area," Raiss explains.

"Schedules produced by, say, the developer or builder, aren't

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HOW TO BUY PROPERTY THROUGH A SMSF

When you set up a SMSF, you become the trustee of the fund, or a director of a company that's a trustee.

"In either case, you'll be responsible for managing it according to its trust deed and the laws and rules that apply to SMSFs," the Australian Tax Office (ATO) says.

"The key principle is that you run your SMSF for the sole purpose of providing retirement benefits to members."

Your SMSF will be audited every year, so you need to keep heaps of records.

1 See an accountant

The first thing you need to do is see an accountant. They'll help you prepare your fund's accounts and also its annual financial position, operating statements, SMSF annual return and also provide tax advice.

Alternatively, a fund administrator can help you manage the day-to-day running of your fund and meet your annual reporting and admin obligations.

A legal practitioner can prepare and update your fund's trust deed and a financial adviser can help you prepare an investment strategy.

2 Work out the structure of the fund

You can choose one of the following structures for your SMSF. It can either be a corporate trustee, where a company acts as a trustee for the fund, or you can have up to four individual trustees within the fund.

"Your choice of trustee will make a difference to the way you administer your fund and the types of benefits it can pay, so you need to make sure it suits your circumstances," the ATO says.

However, Chan and Naylor managing director Ken Raiss says that it's best to go with the corporate trustee option. When this happens, every member must be a director.

"You've got the SMSF super fund and you've got the holding trust (where ownership of a property is held). Each of those needs a trustee and I would have a corporate trustee for both," Raiss explains.

He says the first reason is that banks prefer corporate trusts when lending money in a SMSF, so it's much easier.

But the second reason is for safety.

"If a tenant ever sued, then woe betide, something happens and insurance doesn't pay, then they'd go after the trustee," he says.

"If it's an individual, all their assets are potentially at risk."

Another benefit of having a corporate trustee is that the Australian Security and Investment Commission annual fee is just $40, rather than $230 for an individual trustee.

3 Ensure all members are eligible to be trustees.

In most cases, all members of the fund need to be trustees. Anyone 18 years or over can be a trustee of a super fund. The fund needs to meet the definition of an 'Australian superannuation fund'. If it's non-compliant, the fund's assets and its income would be taxed at the highest marginal rate.

4 Check your trust and trust deed

To create a trust, you need to have trustees, assets and beneficiaries. A trust deed is a legal document that sets out rules for establishing and operating your fund. It includes things like the fund's objectives, who can be a member and how benefits are paid.

New funds usually appoint trustees within the trust deed. You also need to provide your tax file number.

5 Open a bank account for your fund

You need to open a bank account in your fund's name to manage the fund's operations and accept cash contributions and rollovers of super benefits. The money can then be invested, according to the fund's investment strategy, and used to pay the fund's expenses and liabilities. The fund's bank account needs to be kept separate from each of the trustee's individual bank accounts and any related employers' bank accounts.

6 Register with the ATO

Once your fund is legally established and all trustees have signed a trustee declaration, you need to register the fund with the ATO.

7 Prepare an investment strategy

Before you start making investments, you need to have a written investment strategy. It provides you and the other trustees with a framework for making investment decisions to increase members' benefits for their retirement. It should be in writing so you can show your investment decisions comply with it and the SMSF laws. You should also consider whether to hold insurance cover for one or more members of your SMSF.

8 Ensure the property you want to buy is allowable

The property you purchase in a SMSF has to be a 'single acquirable asset'.

"A lot of people will go and buy a block of land and then they want to build on it," Raiss says. "That's two assets. You can't borrow money for it, as the first asset was the land and the second was the building. You have to be careful."

9 Make sure your loans have pre-approval

Raiss has seen many people purchase property in their own name, then try to transfer it into a SMSF. This is a big mistake and not allowable, he says.

"You can borrow from a bank but imagine you're a bit short. Some people could go and get the equity outside or do a loan through their super fund. It's called an 'associate party loan'," Raiss says.

"Now imagine you don't have enough inside your super but you have a lot of money outside super. You can contribute that money to super but the problem is if you're young and you put the money in, you can't get it out. You therefore need to work out the loan first."

10 Make sure any rollover from an existing fund is done correctly

Raiss warns you need your own SMSF to buy a property within a fund.

"Some people are in a government fund that have defined benefit schemes," he says.

"They won't let you roll it over. It's only the market-linked funds where you can rollover funds. Also, if you have insurance, such as life insurance, you want to make sure you can get it in your SMSF."

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"One of the biggest mistakes we find is people go to auction, they buy a property, then they want to put it in their super."

11 Set up the correct documents

The structure of a SMSF can be complex and so getting it right early is imperative.

"The other thing a lot of people ignore is if their super fund has shares and they want to buy a property and use super as a deposit, they need cash," Raiss says.

"They need to convert their shares into cash. That's a capital gains tax event. We tell people to get a cash balance instead and that's also why we advise people to get pre-approval and do rollovers."

12 Purchase the property

Raiss warns that the name on the contract of the property has to be in the correct structure before you buy.

"You can't go and buy a property and then say 'I'll now put it in my SMSF'," Raiss says.

"One of the biggest mistakes we find is people go to auction, they buy a property, then they want to put it in their super. You can't sell a residential property that you own into your super fund. It could cost you a second stamp duty. But even without that, the law prohibits buying a residential property from a member or associate of the member. You can buy listed shares and commercial property, but not residential."

Raiss believes it's imperative to have life insurance when it comes to purchasing property in a SMSF.

"If one person leaves (the super fund) they might have to sell. So imagine if one person dies. Just having life insurance outside your super isn't enough. You need it in the super fund correctly established, so the member's death benefits payment can be used as part of (paying off) the debt."

Always see an accountant first.

Source: Australian Tax Office and Chan and Naylor.

acceptable by the ATO. When looking at apartments, the state where the property is and the type of title are important. In some cases, you can't depreciate the value within common areas, so check carefully. Other areas for special attention include furniture packs and low-cost and low-value pool items. If the property is commercial there may be an opportunity to claim under the simplified depreciation rules for small business entities."

2. YOU PAY YOURSELF TWICE

If you have to negatively gear a property within a SMSF, you can pay yourself twice.

Sound too good to be true? It isn't!

You can salary sacrifice and get a tax benefit while working, while also using the money to cover holding costs for the property in your SMSF.

Brian-Wheatley says most people don't understand how the ATO actually gives you money back if you put money into your super fund first. The amount you can contribute to your super fund will depend on your age.

"If you pay yourself first through making contributions, you'd be taxed on that money anyway," she says.

"You can't afford not to (pay yourself first through salary sacrificing into your super account) because you don't have that money anyway. By contributing to the maximum amount you're able to in a super fund, you're able to leverage your super fund and also reward yourself."

For example, Harris explains you can salary sacrifice up to $35,000, depending on your age, and you'll be charged at a lower tax rate. In other words, if you earn $100,000 a year and put $35,000 in your SMSF, you'll be charged at a tax rate as if you were earning $65,000.

Using that $35,000 in your super fund, you can then pay down debt owed on your SMSF property.

"You're getting a tax deduction to put money in and you're actually using that money to pay down debt," Sandkuhler adds.

3. SMALL BUSINESS BONUS

While you might not be allowed to live in your own residential property, you can rent out a commercial property you own to your own business. So for those who own a small business, it's a nice bonus.

"Your SMSF could potentially purchase your business premises, allowing you to pay rent directly to your SMSF at the market rate," ASIC says.

Brian-Wheatley adds it's important to have good leases in place, if you do decide to purchase a commercial property through a SMSF.

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"If you move out, you have to be able to rent it for that amount of money," she says.

"Watch out for people promising big bucks. It doesn't happen."

4. FORCED SAVINGS

If you own a SMSF, you'll only be able to gain access to your super when you reach 'preservation age' and meet one of the specified conditions for release, such as retirement.

"There are very limited circumstances, such as death or a terminal medical condition, where a member's super can be accessed before this," the ATO says.

"There are significant penalties for unlawfully releasing super benefits."

In a way, it's a good thing. It's forcing you to save for later in life. In a world of instant gratification, it could guarantee you have money when you'll need it most.

However, Brian-Wheatley says it's important to understand that money in a SMSF is completely different to money in your personal bank account.

"It's like a bubble and you can't touch that money in the bubble," she says.

"If you take money out before then, you'll lose, because you'll pay (up to) 48 cents in the dollar. Whatever you build within a SMSF can't be used for holidays or instant gratification."

5. LAND TAX THRESHOLD

Properties within a SMSF have their own land tax threshold. It varies from state to state but it could save you big bucks, if you already own numerous properties in your own personal name in one particular state.

"Even though the property is acquired by a holding trust, it still gets the threshold, either because it's a super fund, or the state sees it as a fixed trust," Raiss says.

Beeton says if you already own a large number of properties, you might be able to save yourself thousands of dollars each year by purchasing through a SMSF.

"If you go over the threshold it could cost you a few thousand each year (and varies on a state-by-state basis). If you purchase a property in a SMSF it means the tax threshold would change."

6. YOU CAN CONSOLIDATE

If you have others in the family keen to build a portfolio, it's possible to consolidate your money into a SMSF. You can have as many as four people – enough for you and your three favourite siblings.

"You can use what might have been 'half-idle' money and actually purchase property with other people in your family, as long as you all stay friends," Raiss jokes.

DID YOU KNOW?

There aren't just benefits with putting money into a SMSF.

There are also benefits with taking money out.

In fact, it's actually possible to cut down your working hours while maintaining the same level of income using a SMSF.

Brian-Wheatley is a big fan of selling a property, then putting the money into a SMSF, and later taking it out through what's known as a transition to retirement, or TTR.

If you're over 55 and you earn, say, $75,000 a year, it's possible to cut back from 35 hours a week to just 25 hours, which would reduce your salary from $75,000 to $53,500.

By using the TTR strategy, you can maintain your after-tax income, despite reducing your working hours.

But it does come at a price – your super will dwindle over time as you continue to draw down your pension payments.

However, this strategy isn't for everyone, Brian-Wheatley says.

"I wouldn't encourage anyone to take money out of their super, unless it wasn't touching their capital and was only a rental, or they were investing in passive income assets outside their super fund," she says.

"You don't want your super fund dwindling at all."

	Before	After
Salary	$75,000	$53,500
TTR allocated pension	–	$17,494
Gross assessable income	$75,000	$70,994
Income tax	$17,422	$13,416
Take home pay	$57,578	$57,578

Source: AMP

7. YOU CAN WORK LESS HOURS

If you're older than 55 and sell property within a SMSF, you might be able to draw money out using a transition to retirement (TTR) scheme. This allows you to take money out and use it for whatever you want.

Brian-Wheatley has actually done a few developments with the help of a TTR.

She explains her husband was born before 1954, so he can draw out up to 10 per cent of money within their SMSF, as a TTR.

"We then use that money for developments in our NSW land tax unit trust," she says.

See the breakout box above for more information, which shows how this complex rule could potentially go a long way to help you cut down your work hours.

However, like all things in a SMSF, make sure you always check with an accountant.

8. YOU HAVE CONTROL

Sandkuhler says the benefit of a SMSF is that you have more control over what happens to your retirement nest egg.

"You have the capacity to buy direct property and direct shares," she says.

"The advantage and freedom of a super fund is that it puts the trustee in the driving seat versus a fund manager in the driving seat.

"The advantage of owning a leveraged property means you can also increase the total value of that super fund."

She adds as a trustee, you're responsible for failure or success of the SMSF's investment strategy, so it's important to seek independent and unbiased advice when it comes to what type of property to buy, and where.

Beeton adds most people reading API magazine would obviously be big property lovers and have plans to build a portfolio.

They might consider shares a risky strategy, because they have less experience or knowledge about them.

9. OFFSET ACCOUNTS

Sandkuhler says a couple of lenders have just started to allow the set-up of offset accounts, as part of the SMSF property loan structure. Not everyone knows about this, but it's something that could go a long way to helping many property investors.

"You can't redraw equity out of a primary asset but if there's an offset account you have the ability to put money into it and withdraw it for future investing within the fund," she says.

"Only a couple of lenders will do it."

If in doubt, check with a specialist SMSF broker.

10. LOTS OF HELP – FOREVER

While it sounds complicated and somewhat confusing, Brian-Wheatley says a good accountant will be able to guide you through a SMSF. Even though the structure is complicated, a SMSF can be rewarding.

The ATO is also 'amazing' and helpful.

"I ring them up, I hound them. They have great and amazing websites," she says.

And finally, a SMSF will always be there.

Even if you're 45, chances are you'll now live until you're 75, Sandkuhler says.

"You start getting exponential growth after 10, 20, 30 years, so it makes a massive difference to hold the property within the SMSF for a long time." API

This information is of a general nature only and does not constitute professional advice. You must seek professional advice in relation to your particular circumstances before acting. This information is also to be read subject to the disclaimer on page 6.