



MODORAS
Financial Performance Solutions



Self-Managed Superannuation

Is self-managed super the way of the future?

The fastest growing sector in the superannuation industry is that of self-managed superannuation funds (SMSFs).

So, what's so super about SMSFs?

Below are some key advantages that can make them an attractive choice as part of your retirement strategy:

- **Cost savings.** SMSF fees are usually fixed. For accounts over for example, \$200,000, it may be more cost effective to establish an SMSF than to use a retail superannuation structure offered by a fund manager.
- **Control.** With SMSFs, all the members of the fund are also trustees and are therefore responsible for all decisions. They are also required to manage the fund in accordance with relevant superannuation laws.
- **Flexibility.** Trustees can seek assistance of administrators, accountants and financial planners in maintaining their legal responsibilities in the running of their fund or they can do it all themselves.
- **Investment choice.** A much wider range of investments is available to trustees than may otherwise be typically offered by fund managers. This allows maximum flexibility in investment selection, especially for geared investments and non-traditional assets like artwork, bullion and certain types of landholdings.
- **Direct property.** An SMSF can invest in direct property, whereas retail funds usually cannot. In addition, a business property owned outside superannuation can be transferred into an SMSF. For many self-employed people, having their SMSF own their business premises can make a lot of financial sense.
- **Taxation.** SMSFs can allow trustees to take a more tailored approach to managing taxation, especially when it comes to capital gains tax.
- **Insurance.** SMSFs can hold life, total and permanent disability and total and permanent disability as well as income protection on their members. This may be a tax-effective way of managing both the cost of the insurance and any future insurance payouts.
- **Estate planning.** The trust deed for an SMSF may allow for binding death benefit nominations. A Will can be challenged in court, but under a properly executed binding death benefit nomination trustees must pay a death benefit as directed. This provides greater certainty in the distribution of your Superannuation assets.

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Your SMSF can now borrow to invest

As Self-Managed Superannuation Funds (SMSF) become more popular the demand for more investment opportunities within that structure increases. Changes now mean that as long as strict conditions continue to be met, your SMSF can now borrow to invest, thus providing the potential to further bolster retirements savings, in rising market.

How does it work?

Borrowing for investment within superannuation depends on what type of asset is being purchased; however, the basic principles of an instalment arrangement, whereby the fund pays a percentage upfront and the remainder in instalments over a period of time, remains the same.

Investment Property

All investment property will be owned by a separate entity, known as a Bare Trust, with the SMSF having a beneficial entitlement to the Trust. The Trust can lease the property on commercial terms, with the income used to pay any expenses associated with the property. The net income is then paid to the SMSF. It is this income, along with any other fund income or member contributions, that provides the income source for the loan repayments.

Under a limited recourse loan, the property is security for the loan, which, in the event of a default, provides the lender with recourse to the property and assets owned by the guarantors, but not over any other assets held by the SMSF. After the loan is repaid, the SMSF has the right, not the obligation, to acquire the property.

What are the Benefits?

There are many benefits associated with borrowing through a SMSF. Some of these include:

- an increased exposure to capital gains
- reduced rates of capital gains tax
- access to tax deductions within the SMSF

Things to Consider

Despite the detailed legal responsibilities attached to SMSFs, it is clear that many people find the ability to manage their nest eggs highly rewarding. Although there are many things to consider when converting your super funds to an SMSF, the added choices, flexibility and cost effectiveness may far outweigh the additional time taken for administrative purposes and loss of super regulator protection.

Before borrowing through an SMSF there are many factors that should be considered by potential borrowers.

As superannuation is a very complicated area and the penalties and repercussions are severe - before you do anything, talk to an Modoras Executive Planner today and find out if a SMSF or borrowing within your existing SMSF will benefit you.

Need more information?

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