

Setting up my own superfund and borrowing to acquire a property





1. How much do I need in my super account to consider a borrowing?

\$100,000 in combined super balances (i.e. husband and wife)

2. If I have funds in my name can I add them to my self managed superfund?

An individual can make a non-concessional of \$150,000 per annum or \$450,000 for the next 3 years.

3. Can I pool my super with my spouse and/or other relatives or friends?

A self managed superfund can have up to 4 members. The members can be your husband/wife, brother/sister, parent, friend, relative or neighbour.

4. Do my future contributions go to my fund to help repay the loan?

Yes. Your employer is directed to pay your super into your self managed superfund.

5. Does someone else control my self managed superfund?

No. Members (i.e. You) of a self managed superfund have to be the trustees and control the fund.

6. What is the comparison between my work super and a self managed superfund that gears into property?

See answer at 20 below.

7. Can I have more of my salary go to my super to pay off the property?

Yes. Up to the contributions limit. Under 50 years of age is \$25,000. Over 50 years of age is \$50,000.

8. Can I sell or transfer a residential investment property I currently own?

No. This is illegal.

9. Can I use the property or rent it to myself or a family member?

No. This is also illegal.

10. What are the benefits of a self managed superfund over an industry or retail fund?

A self managed superfund can borrow and acquire direct property. A self managed superfund offers a lot more flexibility in relation to investments and the method and timing of the payment of pension benefits and death benefits. Better planning for you and your family.

11. Aren't the annual costs of managing my own superfund more expensive than my work super?

No. The costs of managing your own superfund should be about 1% per annum of the assets which is what is charged by Industry and Retail funds.

12. How many properties can I acquire in my superfund?

There is no limit.

13. How fast can I pay the loan?

There is no limit.

14. If I retire can I then use the property I acquired in my superfund?

Yes. If it is transferred out of the superfund as a pension payment. Some people acquire their beachside retirement apartment with this in mind.

15. Should I take out insurance for the amount of the loan?

Yes. This provides for more certainty in case of a disaster. The superfund pays the premium and gets a tax deduction.

16. Which is better: Negative gearing in my own name or buying a property in my self managed superfund?

If you are on the top marginal tax rate (i.e. 46.5%) then it is better to use your self managed superfund. See the example of John below.

John who is 50 years old is considering borrowing and acquiring a \$500,000 rental property in his own name versus acquiring one in a self managed superannuation fund. The details are as follows:

- Total loss after depreciation and interest \$15,000
- Total annual repayment of principle loan \$30,000
- Sale of property after 10 years with \$500,000 capital gain
- John is on the top marginal tax rate of 46.5%

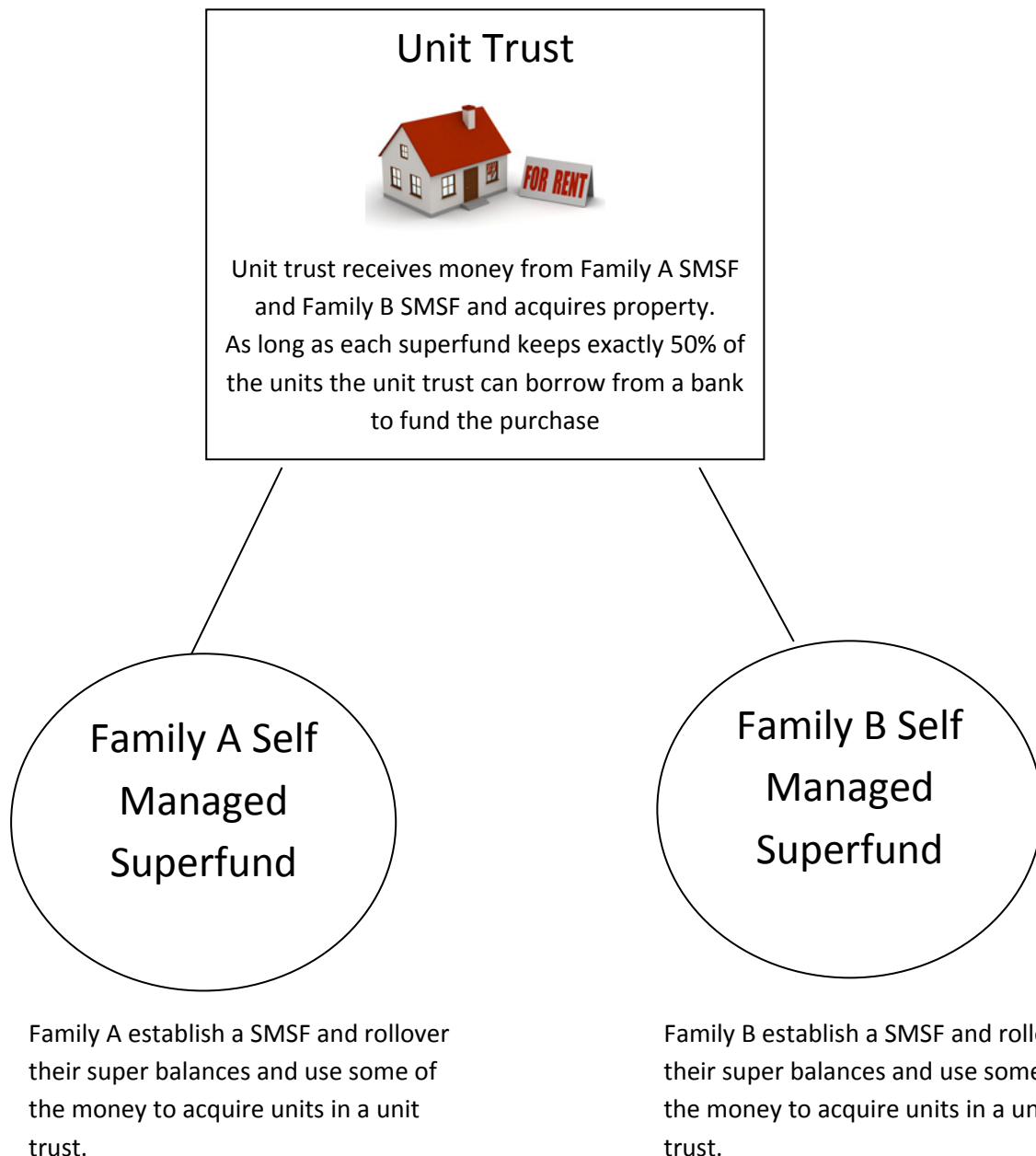
	Negative Gearing in Own Name		Self Managed Superfund	
Annual Tax Benefit		Tax Benefit (\$)		Tax Benefit (\$)
	Non-deductible loan payment (\$30,000)	0	Salary sacrifice contributions @ 46.5%	13,950
	Deductible rental loss (\$15,000 x 46.5%)	6,975	Tax payable on contributions (\$30,000 contribution less \$15,000 rental loss) x 15%	(2,250)
	Total Annual Tax Benefit	6,975	Total Annual Tax Benefit	11,700
Future Capital Gains Tax		CGT Payable (\$)		CGT Payable (\$)
	Discount Capital Gains on sale (\$500,000/2) x 46.5%	116,250	If in accumulation phase with a 10% tax rate	50,000
			If in Pension phase with no capital gains tax	0
Potential Capital Gains Tax saving of between \$66,250 and \$116,250				

17. What is the tax rate of a self managed superfund?

Contributions = 15%. Income = 15%. Capital Gains = 10%. No tax is payable when a pension starts.

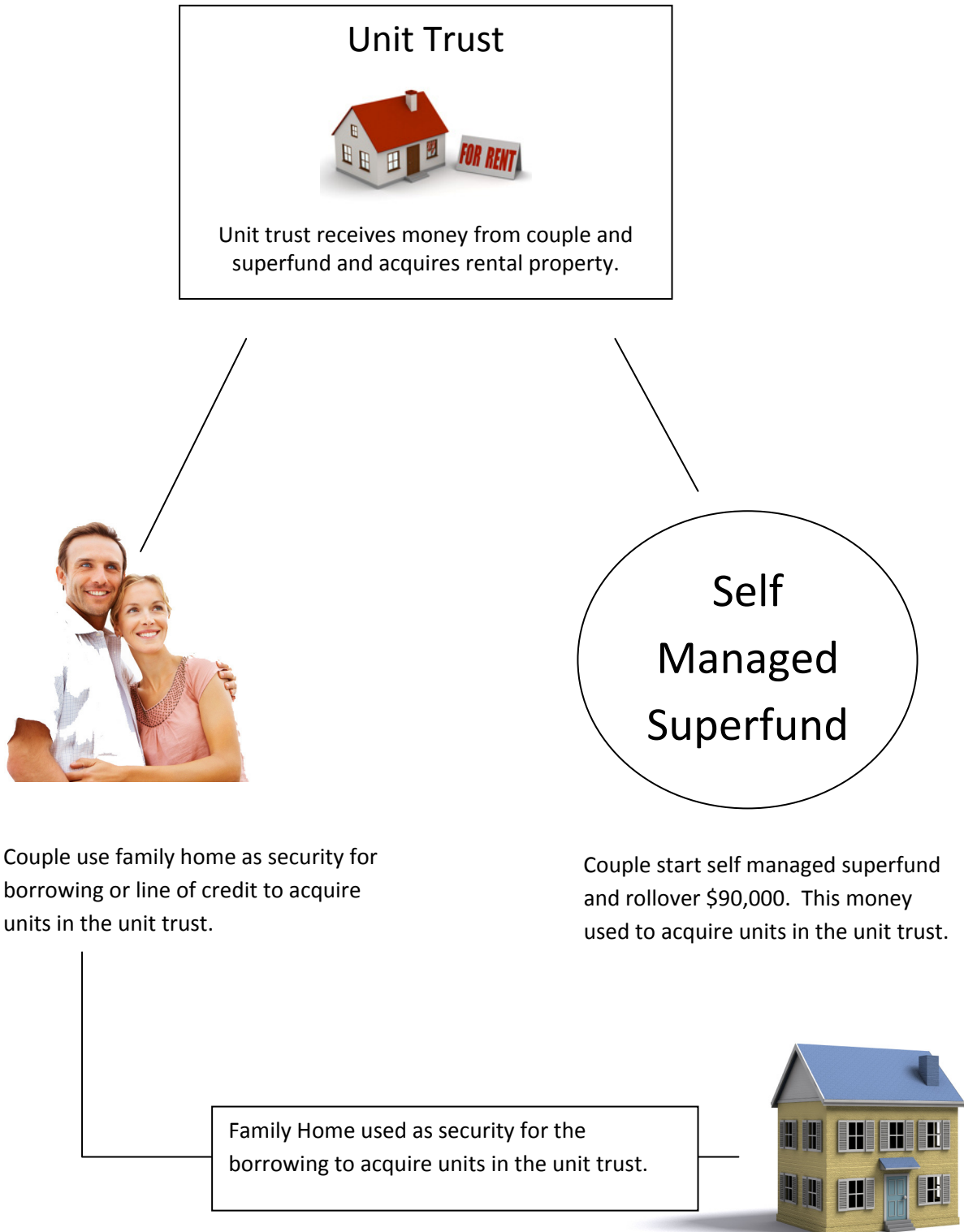
18. What would be the best way to do this with a neighbour or friend?

If you are considering using your superannuation to invest with a friend or neighbour it is optimal if you both have your own self managed superfund and use a unit trust to hold the investment. That way your financial affairs in relation to your superfund are kept separate.



19. What if our combined super balances are less than \$100,000 and we have equity in our home?

If you have a superannuation balance less than \$100,000 you can still use your superannuation as a deposit on property if you have enough equity in a property like the family home. This is by way of using a unit trust as outlined below.



20. Comparison between balanced managed funds and gearing into a property with a self managed superfund.

Over 80% of Australians in the workforce have their superannuation savings in a Balanced Managed Fund. The majority of employers use this for their default fund. The following table shows the difference between being pro active about your super and retirement and leaving your super in the “default fund”.

The assumptions and predictions are on the next page and have been prepared without taking into consideration the Global Financial Crisis when preparing Bobs projections. Otherwise Sue held a balance 3 times that of Bob.

Compare the Pair

	Bob (aged 40)	Sue (aged 40)
Salary	\$80,000 (indexed until retirement)	\$80,000 (indexed until retirement)
Super contribution	9% to employer default fund	9% to a self managed superannuation fund
Amount of contribution	\$7,200 pa indexed	\$7,200 pa indexed
Investment choice	Balanced Managed Funds as per the employers default fund. This represents over 80% of Australians in the workforce.	Gearing into residential real estate through her self managed superannuation fund.
Superannuation fund balance at 40 years of age	\$150,000	\$150,000
Value of fund at 60 years of age	\$885,188*	\$2,070,722
	<small>* Figure doesn't include Global Financial Crisis</small>	
Value of fund at 65 years of age	\$1,277,520*	\$3,300,059
	<small>* Figure doesn't include Global Financial Crisis</small>	
Lifestyle at 60 years of age	Approx \$1,460 per week.	Approx \$3,425 per week.
Lifestyle at 65 years of age	Approx \$2,110 per week.	Approx \$5,458 per week.

Assumptions & Predictions

Managed Funds

1. Balanced Managed Funds returns based on the Russell ASX Investment Performance Report annual return for Balanced Managed Funds 10 Years to 31 December 2007. Annualised return calculated before the Global Financial Crisis.
2. Fees and charges associated with an Industry Fund assumed to be 1.0%.
3. Income tax and contributions tax of 15%.
4. Inflation rate of 2.9% pa.

Residential Property

1. Residential Real Estate growth based on Sydney top 500 suburbs average annual change in median price by RP Data Limited.
2. Rental returns of 4.5% of property value. (Note: Average rental of Sydney top 500 suburbs was 5% based on RP Data Limited).
3. Cost of purchasing property (i.e. stamp duty, legal fees, etc) assumed to be 5% of purchase price.
4. Cost of holding property (i.e. rates, land tax, repairs) assumed to be 1.0% of value of property.
5. Cost of running self managed superannuation fund assumed to be 1.0% of value of property.
6. Sue acquires a property for \$350,000 with a loan of \$250,000 (i.e. 71% Loan to Value Ratio (LVR)).
7. Interest assumed to be 8% throughout period.
8. Income tax and contributions tax of 15%.
9. Inflation rate of 2.9% pa.

21. What should I do next?

Contact InvestorOne and make an appointment to explore the possibility of taking charge of your superannuation and investing with a strategy and plan of how much you need at retirement.

22. Why should I use InvestorOne for all my self managed superfund needs?

With over 20 years experience the advisors at InvestorOne know every angle on self managed super, land tax, stamp duty, income tax, capital gains tax and structures for holding assets. We are also self managed superannuation specialists.

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InvestorOne Pty Ltd is an Authorised Representative of InvestorOne Capital Pty Limited
ABN 87 134 712 039 (AFSL 337568).
Ground Floor, Beanbah Chambers, 235 Macquarie Street, Sydney NSW 2000.
Telephone: 02 92315111 Facsimile: 02 92315122
Email: contact@investorone.com.au Website: www.investorone.com.au.