RENT ROLL STARTER

BUYING PROPERTY WITH YOUR SMSF

The number of self-managed super funds (SMSF) has grown across Australia in recent years. Property investment through SMSFs has grown in popularity as it became possible for SMSFs to borrow money to fund a direct property purchase.

Setting up an SMSF and buying property through the SMSF takes considerable research and preparation. It's not for everyone and you need to have a full understanding of your administration and tax obligations before you establish an SMSF. We've listed the key details of investing in property through an SMSF to provide you with an overview of how investing with an SMSF works.

Residential property investing with an SMSF

Any residential property purchased with an SMSF must remain an investment property and cannot be lived in by you, any trustee, or anyone related to the trustees. The property cannot be rented by you, any other trustee, or anyone related to the trustees. This means, for example, you can't buy a holiday home with your SMSF and live there in the summer months.

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Commercial property investing with an SMSF

One of the most popular ways people invest in property with an SMSF is in commercial property. 'Business Real Property' can be purchased by an SMSF and the space can be used by its members and related parties. This is provided that it's done at an arm's length basis.

For example, many small business owners use their SMSF to buy their business premises and then pay rent directly into their SMSF. This process is important to get right and the rent must be paid at market rates. The property will also need to meet the sole purpose test meaning that the overarching function of the property is to provide retirement benefits for its members.

Your tax obligations

If you purchase a property through your SMSF, the fund will be required to pay 15% tax on any rental income from the property. For properties held longer than 12 months, the fund receives a one third discount on any capital gains made upon the sale of the property. This brings any capital gains tax liability down to 10%.

It's also important to note that, if you make a loss on a property, tax losses cannot be offset against your personal taxable income outside the SMSF.

Using an SMSF to purchase property has a number of administrative and accounting steps that need to be taken. As always, you should do your own research to see if investing in property through an SMSF is suitable for you.

This article is for general informational purposes only and must not be taken as legal, financial or any other professional advice. We recommend obtaining advice specific to your situation before making decisions relating to your investment property and financial position.