



# ICCA NEWS

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## Special points of interest:

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- Gearing—Residential and Commercial Property Sales
- Loan Criteria: Residential and Commercial Property Sales

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## Self Managed Superannuation Funds Summary of Geared Property Acquisition Options

Self-managed superannuation funds ("SMSFs") have for some time been able to structure finance options around property purchases. The main impediment to this has purely been both documentation cost and complexity due to the non-recourse position of the loan facilities. We are happy to announce that we are now able to provide cost effective options for Superfunds to secure the purchase of geared properties into their investment portfolios.

In association with Family Wealth Professionals we have sourced and secured a cost effective solution that can be integrated with either an existing SMSF or via a rollover of existing superannuation investment funds into a new SMSF to secure the geared purchase of investment properties. The provision of this additional service to property developers is at no cost to you.

Obviously there are some basic rules and we will endeavour to summarise the main ones here below:

### WHAT YOU CAN'T PURCHASE

In order to take advantage of the geared facility, the funds must be used to purchase a 'single acquirable asset'.

This means you cannot do the following\*:

- Buy a block of land and engage a builder to construct a dwelling or commercial premises
- Buy an existing property and develop it (although recent rulings have relaxed these rules for existing SMSF property assets)
- Enter into a borrowing arrangement and use borrowed funds to enter into a contractual arrangement which gives the right to a completed property – such as an off-the-plan development
- Acquire under finance and then Sub-divide a property (although recent rulings have relaxed these rules for

existing SMSF property assets)

If you are looking to purchase an off the plan development property, you need to ensure that when the SMSF enters into the borrowing arrangement, the asset it is acquiring is actually the completed property – not just a contractual right. It may simply come down to timing as often with strata-titled developments the separate strata titles do not come into existence until completion.

If you do want to utilise your superannuation monies with gearing to undertake some form of property development, there may be other options available.

### HOW DOES IT WORK?

The structure requires the establishment of a simple property trust to acquire the nominated investment property on behalf of your SMSF. This is requirement at Law to protect the other assets within a SMSF from any issues arising from your geared property investment.

This entails the procurement of a limited recourse loan. This is then combined with a deposit sourced from your SMSF to complete the purchase. The SMSF has an ownership interest in the property that entitles it to the income and capital gains from the property.

Once the loan facility is repaid, the mortgage is discharged. Thereafter the bare property trust is at will to transfer the legal title to the SMSF with no additional stamp duty or capital gains consequences at that juncture.

### WHAT'S INVOLVED?

The prospective purchaser must engage a qualified financial planner to advise them. He will access the appropriateness of their SMSF borrowing funds to purchase an

investment property. With that out of the way the finance arrangements are generally turnkey processing to a concluded sale.

### Gearing - Residential and Commercial property Sales

Loan purpose: Limited to Investment purposes only.  
Loan term: 10 – 30 years.  
Interest type: Variable rate.  
Repayment type: Principal & interest, (or subject to LVR - interest-only up to 5 years then principal & interest)  
Repayment options: monthly, fortnightly or weekly.  
Repayment method: Direct debit only.  
Maximum Loan Value Ratio: 70% to 80% subject to valuation

### LOAN CRITERIA: RESIDENTIAL AND COMMERCIAL PROPERTY SALES

Credit history: Clear credit history or past credit impairment can be considered.  
Minimum equity: No minimum net asset requirements. Every buyer must seek independent financial planning advice to establish these arrangements.

Minimum loan size: \$150,000  
Acceptable guarantors: All adult members and associated trusts.  
Serviceability: Acceptable income may include superannuation contributions and any SMSF income (rental income is acceptable at 80%).

Acceptable Security type: House, townhouse or unit within acceptable locations.  
Commercial real estate: Acceptable locations subject to valuation review. LVR's are generally lower for Residential property purchases.

The above information does not constitute professional advice. For further information, contact Noe Vicca or Kim Macaranas of this office.