

Self Managed Superannuation Fund (SMSF) Lending – Niche Solutions

Using your super to buy property gives you access to some of the best tax incentives for investing in property. But it's essential to get the right structure to meet the ATO's strict borrowing rules and to allow your investment the scope to flourish.

Understanding SMSF residential loans

- Loan to value ratio can be up to 70%
- Interest rates are generally about 1% higher than traditional residential loans
- Can be used to purchase house, townhouse and apartments
- Can **not** be used to build a house (i.e. no progress payments allowed)
- Can **not** be used for vacant land
- Can **not** be leased to a related party
- Legal and application costs generally range between \$1,500 to \$3,000
- SMSF loans are most often harder to service than normal loans
- Servicing is met by using up to 80% of the rental income + the members' employers guaranteed super contributions, less the loan repayments at the qualifying rate
- Require a personal guarantee from the SMSF trustee(s)

Understanding SMSF commercial loans

Whether you are planning to buy a commercial property to lease out, or your business will be leasing the property through your SMSF, it is important to get the right lending framework to optimise tax incentives.

- Loan to value ratio can be up to 70%
- Interest rates are generally in line (or marginally higher) than traditional commercial loans
- Can be used to purchase traditional securities, such as factories, warehouses, shops or offices
- Can also be used for more specialised securities, such as farms or breweries
- Properties can be leased to a related party
- Application costs, including legal costs, are generally 1% and 1.5%
- GST may apply to the purchase cost
- Servicing can be met from rental income only, or rental income and prescribed superannuation contributions
- Commercial loans require personal guarantee(s) from the trustee(s)

Refinance SMSF loans

If your loan is more than 2 years old, you could be missing out on more innovative products recently released to the market.

The good news is that SMSF can be refinanced just like any other home and commercial loans, allowing you to secure a better deal.

There are strict rules, so you must be cognisant here

- Refinancing must not increase the amount you are borrowing against the property
- The refinance arrangement must be used to replace an earlier arrangement
- The trustee must not acquire legal ownership of the property while transferring to the new loan.



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At Breakfree Financial Solutions we evaluate your current lending structure and look for ways to save interest that will outweigh any costs associated with refinancing over the course of your loan. **We keep close partnerships with** specialist legal, financial and accounting experts - we have all your SMSF needs covered, so call us today...

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