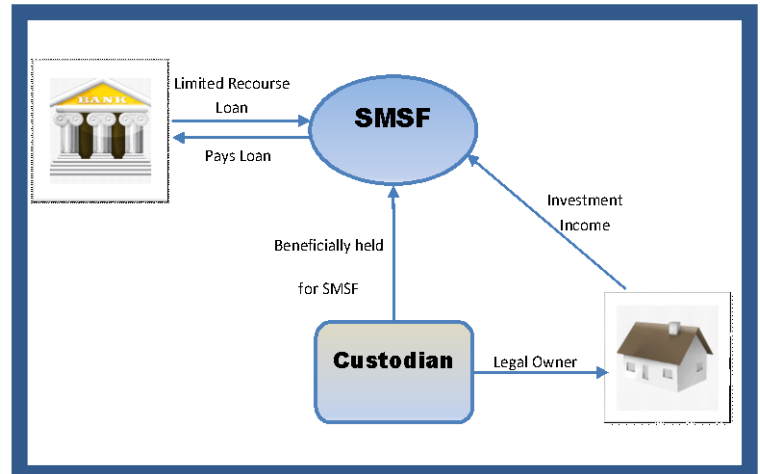


# Borrowing Within Self-Managed Superannuation Funds

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The rules limiting self-managed superannuation funds (SMSF) from borrowing to invest have recently been amended. The following publication outlines how a limited recourse borrowing arrangement works in a self-managed superannuation fund.



## What does it mean?

- ✓ SMSFs can borrow to acquire an investment such as property or listed shares.
- ✓ Borrowing can be an effective way to boost your future superannuation benefits through the acquisition of investments previously unattainable due to insufficient cash.
- ✓ Finance can be sought from all major lenders or from a related party.

## How we can assist you

- ✓ Attend to setup of your SMSF trust deed.
- ✓ Attend to SMSF trust deed variations to allow for borrowing provisions.
- ✓ Attend to the change of SMSF trustee from individuals to corporation.
- ✓ Assistance with updating and implementing the fund's investment strategy.
- ✓ Registering the fund for GST, if applicable.
- ✓ Setup of custodian trust.
- ✓ Setup of corporate trustee for custodian trust.
- ✓ Assistance with major lender correspondence.

# Borrowing Within Self-Managed Superannuation Funds

## Conditions of Borrowing

The following conditions must be satisfied in order for an SMSF to borrow under SIS Legislation.

- The investment must be an asset that the trustee(s) of the SMSF are permitted to acquire.
- The asset's legal ownership is held by a custodian or bare trust until the borrowing is repaid.
- The SMSF holds beneficial ownership and once the loan has been repaid acquires legal ownership.
- The only security the lender may have in relation to the loan is over the investment acquired and no other assets held by the super fund. This is known as a **Limited Recourse Loan**.
- The SMSF can borrow from a major lender or related party on commercial terms.
- The SMSF is the entity that borrows, makes repayments and receives investment income.
- The SMSF can use borrowed money to meet expenses incurred in connection with the acquisition of the investment such as conveyancing fees and stamp duty.
- If applicable the SMSF is the entity that registers for GST.

## Things to consider

- The SMSF's trust deed must allow borrowing.
- The fund's investment strategy should be reviewed and updated if necessary.
- The costs of establishing a corporate trustee for the fund, if borrowing from a major lender.
- The costs of establishing the custodian trust and a corporate trustee for the custodian trust.
- The impact of loan repayments and contribution limits on the SMSF's cash flow and the ability of the SMSF to meet any future tax and financial obligations.
- Major lenders may require personal guarantees from the fund members.
- There are no limits imposed by the SIS legislation regarding Loan to Value Ratio (LVR) limits, however major lenders will generally only lend up to 80% of the asset's market value for residential property and 65% for commercial property.
- If not setup correctly there may be CGT and stamp duty implications on the transfer of the asset.

If you have any questions regarding the information outlined in this publication, please call GTH Accounting Group and ask to speak to a member of GTH Superannuation Solutions.

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