



SMSF gearing package

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Multiport's SMSF gearing package

Your guide to borrowing to buy residential and commercial property in an SMSF

Multiport is a leading provider of self managed superannuation funds (SMSFs) and managed account administration, reporting and compliance services. We are dedicated to providing the highest level of service for a transparent and competitive fee.

We'd like to introduce the Multiport SMSF gearing package. Advisers and SMSF trustees can now easily access a complete gearing solution for the purchase of either residential or commercial properties via a single application.

This document explains how the service works, the terms and conditions of the service and its features and benefits.

By coupling the SMSF gearing package with either a daily or annual Multiport SMSF administration service, you can enjoy a fully integrated gearing solution that utilises our significant industry expertise and delivers a successful and compliant outcome for your SMSF.

An exciting opportunity

You can now borrow cash to buy property in your SMSF. If this strategy is appropriate for your circumstances, the potential benefits can include:

- the ability to reduce your capital gains tax position (potentially to zero)
- fast tracking the growth of your SMSF (if you choose your property investment well)
- having the ability to combine the family's superannuation towards a property investment
- expansion and leveraging the assets of the fund
- using your SMSF to acquire an asset that you may feel more comfortable with.

Before you get started there are a few terms you should be aware of. In order to borrow to invest in property in an SMSF your fund needs to enter into a limited recourse loan structure. The entity that buys the property is a bare trust. The overall structure is referred to by lenders as a security trust. The lender may be a bank or other financial institution or could be you, as a related party.

As you can see, the rules for this type of borrowing are complex.

For an SMSF to borrow to acquire property it must establish a security trust structure. This is in some cases also referred to as a custodian trust, a nominee trust or a bare trust. When your SMSF applies for a loan using the Multiport SMSF gearing package, Multiport will arrange for the preparation of all the required documentation. This will usually include establishing a company to act as trustee for the security trust if you do not already have one.

When financing your loan for the purchase of your SMSF property, there are a number of conditions you must adhere to. These include:

- the property must be purchased in the name of the security trustee when you borrow to purchase property within your SMSF
- all directors of the security trust must sign the purchase contract
- it is recommended that the purchase contract be signed 'subject to finance'
- you must not put the name of your SMSF on the purchase contract.

As part of our gearing package, Multiport can ensure all these aspects are expertly managed for you.

Example



In this diagram, the lender could be either a bank or a related party.

How does it work?

There are a number of steps involved in borrowing to invest in property through an SMSF. Multiport's SMSF gearing package can simplify this process.

Property is purchased by the security trustee

The security trustee is an entity that must be established completely separate from your SMSF. The security trust will usually need to have a company as a trustee as this is generally required by banks. When an SMSF wishes to borrow to purchase a property, the property must be acquired by the security trustee and not the SMSF directly. The property purchased is held on trust by the security trust on behalf of the SMSF which has a beneficial right (but is not obligated) to acquire the property from the security trust at a future point in time, generally when the loan is repaid.

Loan is made to the SMSF

Although the security trust actually purchases the property, it is the SMSF that borrows from the lender to fund the property purchase. In return, the trustee of the security trust will provide a mortgage over the property purchased to the lender as security for the SMSF borrowing (which must be a limited recourse loan).

Limited recourse loan

The security trust will provide the property purchased as security for the loan made to the SMSF. This is the only asset that can be pledged to the lender as security for the loan made to the SMSF. In this way, the lender's right to recover is limited to the property purchased in the security trust. This means that in the event the SMSF defaults on the loan the lender can repossess or sell the property only – they cannot repossess or sell any other SMSF asset.

SMSF acquires the property from the security trust

Importantly under the above arrangement, the SMSF must have a right to acquire legal ownership of the property from the security trust by making agreed instalment payments after the property is purchased. Practically, this means that under the above arrangement, the SMSF will acquire the property from the security trust through a series of agreed instalment payments which typically will work as follows:

1. the SMSF invests an initial deposit as part of the property purchase price
2. the SMSF makes repayments to the lender until the debt is repaid in full
3. once the debt is repaid in full, legal ownership of the property is transferred from the security trust to the SMSF.

Property income and expenses

As the SMSF is the beneficial owner of the property (with the security trust named as the legal owner of the property until the loan is repaid) the SMSF is entitled to all rent and is responsible for paying all property expenses such as rates, insurance etc. The rent must be deposited to the cash account of your SMSF and expenses must be paid from that account. As the security trustee acts as the legal owner of the property only, any transactions in relation to the property will flow via the bank account of the SMSF only.

Repayment of loan to lender

On the repayment of the loan, the property is typically transferred from the security trust to the SMSF. Based on current legislation and assuming the above arrangement has been correctly implemented, the transfer will not generally be subject to CGT and nominal stamp duty should apply. Through Multiport's SMSF gearing package, we will assist you to meet all the requirements of the law.

What happens if the property is sold?

Should the property be sold, you, as the SMSF trustee, must use the proceeds of sale to repay the loan. The balance of the proceeds of sale can then be kept in cash within your SMSF or used to buy another asset. However, the existing loan cannot be used to buy another asset as it will be deemed to have been cancelled upon repayment.

Why do I need a corporate trustee?

Establishing a corporate trustee for both your SMSF and the security trust is an essential part of the process associated with using your SMSF to purchase a geared property where the lender is a bank or financial institution.

The majority of financial institutions require that a separate corporate trustee is established for both the SMSF and the security trust.

Where the lender is a related party it is not always necessary to have a corporate trustee.

In all cases the trustee of the SMSF must be a different entity to the trustee of the security trust.

As trustees of an SMSF, the additional benefits of having a corporate trustee may include:

- enhanced flexibility in relation to estate planning because the trustee does not need to change
- administratively easier to add or remove members from your SMSF without having significant paperwork
- administratively simpler for establishment of broking accounts and naming of assets with registries.

Multiport can simplify the process

SMSF gearing arrangements can be complicated and it is important to undertake the structuring arrangements in the correct order. Failure to correctly implement the above arrangements may result in a breach of superannuation laws. The breach may mean the SMSF is non-complying, which in turn may result in significant tax penalties or even civil or criminal consequences for you as trustee. So it is important to get it right.

How long will it take?

The first step will always be to establish the SMSF and security trustee; this generally only takes a few days. However, you should allow approximately 60 days for completion of the process from the time you complete the application form to settlement of the property transaction. This period can however be longer in some cases.

Timeline of establishing new fund vs existing fund

New fund	6 – 8 weeks		2 – 4 weeks
Client submits application for a new SMSF with corporate trustee and gearing package	SMSF established and rollovers in process	Indicative finance approval	Security trust and additional corporate trustee established
Existing fund	2 – 4 weeks		
Client submits gearing package application	Indicative finance approval	Establish security trust and corporate trustee	Client completes lender document package

Solution provider

Multiport is the facilitator of the SMSF gearing structure. We do this by bringing together all the relevant documents needed to enable you to successfully use gearing to invest in property through your SMSF. In order to use the SMSF gearing package, you will need to utilise a Multiport's daily or annual administration solutions for the ongoing administration of your SMSF. We would be happy to discuss which administration service is best suited to your needs.

Process

New funds (ie setting up a new SMSF):

Step 1: Multiport establishes the SMSF and corporate trustee under our normal establishment process and at standard costs.

Step 2: Arrange rollovers and or/initial contributions.

New or existing funds (including those already using Multiport):

Step 1: Ensure that the SMSF trust deed and investment strategy allow for the transaction

Step 2: Find the right property

Step 3: Organise finance. Multiport can refer you to an experienced mortgage broker if required

Step 4: Determine limited recourse borrowing trust structure, including security trustee

Step 5: Before any documents are signed, ensure advice has been sought so that the correct procedures are followed and no unnecessary stamp duty liability arises

Step 6: Multiport will arrange for the limited recourse borrowing structure documents for execution

Step 7: Contract of sale executed by security trustee and deposit paid by SMSF.

Step 8: Exchange contracts for sale

Step 9: After settlement, your solicitor or conveyancer may be required to arrange for the security trust deed to be stamped with the relevant duties office. Please note that Multiport does not arrange stamping of the security trust deed.

	6 – 8 weeks		Total
Client completes lender document package	Lender completes loan application/ process documents	Settle on property	14 – 20 weeks
	6 – 8 weeks		Total
Lender completes loan application/ process documents	Settle on property		8 – 12 weeks

About the SMSF gearing packages

The following features are included in the SMSF gearing packages and are covered by our fee.

	Essentials gearing package	Related party gearing
Loan agreement		✓
Security trust deed	✓	✓
Corporate trustee	✓	
SMSF trust deed review	✓	✓
Guidance, support and compliance (where applicable)	✓	✓

What does it cost?

There are two types of arrangements and the cost depends on who the lender is.

Third party loan

For a third party funded loan, the package fee for the facilitation of this service is \$1,995.

This fee excludes the bank application fee, bank legal fee and bank legal review fees as these vary between providers. The combination of these fees generally range in cost from \$2,000 to \$3,500 and you will need to verify this with your lender.

Additional costs may apply if you need to set up an SMSF. Other costs may also apply such as conveyance costs, valuation fees, inspection fees and stamp duty. These are charged by the service provider you choose and the relevant state government based on the price of the property.

	Establishment costs	
	New fund	Existing fund
SMSF establishment	\$660	N/A
Corporate trustee establishment (highly recommended)	\$725	\$725 (waived if already in place)
SMSF gearing package	\$1,995	\$1,995
Total	\$3,380	\$2,720

Related party loan

The package cost is \$1,650. If a new SMSF is to be set up, there is an additional fee of \$660. If a corporate trustee is requested for the SMSF then an additional cost of \$725 is charged for each trustee company.

	Establishment costs	
	New fund	Existing fund
SMSF establishment	\$660	N/A
Corporate trustee establishment (highly recommended)	\$725	\$725 (waived if already in place)
SMSF gearing package	\$1,650	\$1,650
Total	\$3,035	\$2,375

Ongoing SMSF administration

Depending on your needs as the SMSF trustee, Multiport can offer either a daily administration and compliance service or an annual service.

Our daily administration service is generally best suited to an SMSF with multiple assets, including the property, or where a higher level of transactions are likely to take place over the course of a year. Our daily administration service is also well suited where frequent monitoring of SIS compliance obligations is preferred. Under this administration option, clients and advisers also receive full website access to view daily updated portfolio valuations, transactions, tax records etc, as well as quarterly reporting.

Our annual administration service is suited to SMSF trustees with a limited number of assets and lower transaction volumes who don't require the functionality of web access and regular reporting.

Please call us on **1300 364 672** and ask to speak to our gearing specialists to discuss which service may be best suited to your needs.

Important information

Advice warning

Multiport (whether directly or via associated entities) is an administration service and therefore is not providing advice to you in relation to the borrowing of money or purchasing property.

Where this publication refers to a particular financial product then you should obtain a product disclosure statement (PDS) relating to that product and consider the PDS before making any decision about whether to acquire the product. We also recommend that you should seek professional advice from a financial adviser before making any decision to purchase any financial product.

Disclaimer The information contained in this document provides a general guide to our services only. Changes in circumstances may occur at any time and may impact on the accuracy, reliability or completeness of the information and we exclude liability for any decision taken on the basis of the information shown in or omitted from this document. Multiport Pty Ltd has taken reasonable care in producing the information found in this document.

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