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SMSF STRATEGIES SPECIALIST SMSF
ADVISER TRAINING

Module 7 – SMSF Borrowing



MODULE 7 OVERVIEW

- ❖ Limited Recourse Borrowing Arrangements
- ❖ What can be borrowed
- ❖ Bank Requirements
- ❖ 5 Benefits of SMSF Borrowing
- ❖ What happens on death



PREVIEW OF MODULE 7

QUIZ QUESTIONS (MULTIPLE CHOICE ANSWERS)

- ❖ The current rules for a Limited Recourse Borrowing Arrangement can be found in ...
- ❖ A Trustee of a SMSF can borrow under section 67A ...
- ❖ Which of the following is a repair under the Commissioner's draft ruling?
- ❖ The SMSF borrowing checklist provides that the name on any section 67A LRBA arrangement is ...
- ❖ The Trustee of a fund has acquired \$100,000 of BHP shares in a LRBA but wants to sell ...

LIMITED RECOURSE BORROWING ARRANGEMENTS (SISA S67A)

- July 2010
- Borrowing for property became entrenched
 - Borrowing for shares is harder and more expensive
 - Must be a single acquirable asset for each arrangement
- Was always a trial

Even if legal, always check . . .

- trust deed
- investment strategy



WHAT CAN BE BORROWED


- Acquisition price
 - Stamp duty
 - Current and future repairs
 - Other incidental costs
 - Refinancing of the original loan is OK
- What is a repair?
 - the replacement of a roof after a cyclone?
 - the expansion of office space inside a warehouse?
 - the addition of a kitchen in a factory?



BANK REQUIREMENTS

- Limited recourse means only the asset secured by the mortgage is exposed.
- Guarantees of the members are also acceptable BUT no guarantee is enforceable other than the rights to the acquirable asset



- SMSF borrowing over **single asset only**
- 67(A)(1) – a collection of “identical assets”
- A collection of shares of the same type in a single company  single asset
- Case study – an SMSF buys a factory that sits on two titles. Is this acceptable?

BENEFITS & TRAPS

Benefits

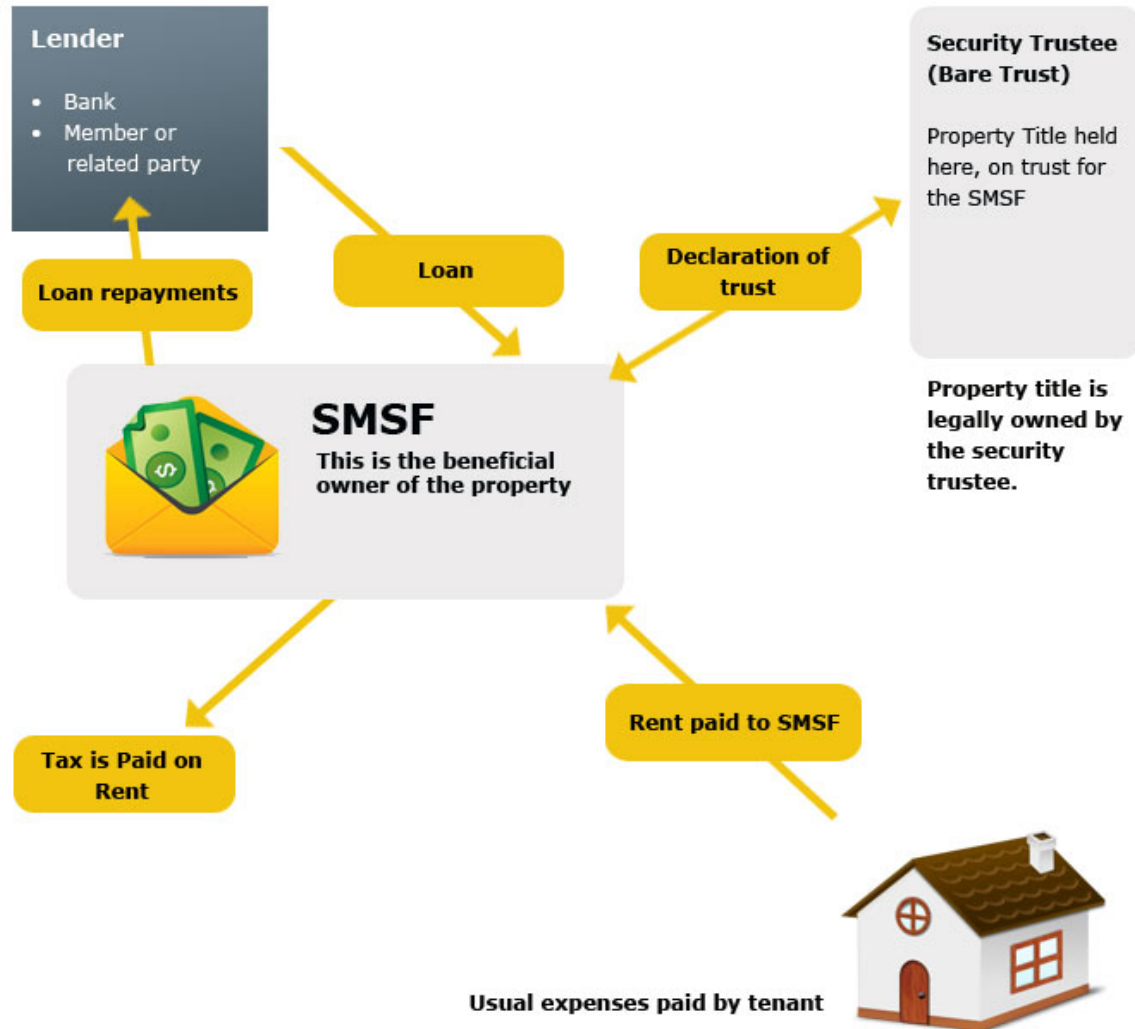
- Maximizes wealth
- Can be short or long term
- Members and related businesses can act as lenders
- Increases the flow of non-contribution style funds.
- Future income and capital gains taxed concessional or tax free

Traps

- The loan must be with the fund
- Get insurance
- Beware of the ATO requirements
- Get the documentation right
- Upgrade the deed
- Watch RevenueSA



FLOW CHART





1. Loan must be with the fund
2. Upgrade the Trust Deed
3. Beware of the ATO requirements
4. Get the documentation right - start the bank process early
5. Get insurance



CASE STUDY

- John 58 and Jenny 56 have an SMSF with a balance of \$300,000
- They run a successful business with a cash at bank figure of \$450,000
- Their profits total \$200,000 and they distribute earnings via a family trust
- They are seeking to purchase their office valued at \$1,000,000
- They have recently sold an investment property and, after CGT, have over \$500,000 in the bank

What are their options?

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CASE STUDY

- Review the trust deed
- Review investment strategy
- \$70,000 in concessional contributions
- \$370,000 in non-concessional contributions
- SMSF - \$740,000
- Could go to bank or SMSF loan agreement with their Family Trust for \$260,000 and charge \$0 interest
- Rent is \$120,000
- Value of the fund is \$1m and John could commence a TRIS for 100,000 and receive 15% rebate on PAYG



WHAT HAPPENS ON DEATH?

1. If there is no insurance, and as long as the repayments are met – nothing
2. If payments cannot be met – bank will foreclose, ask surviving members for the proceeds
3. If there is insurance – commonly the loan is paid out, property is transferred from custodian trust to SMSF



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QUIZ TIME

- Go online
- Take the Module 7 Assessment
- Ask us if you have any queries
- You will have TWO opportunities to take the quiz

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