

5 THINGS THAT CAN GO WRONG

WITH YOUR SMSF LIMITED
RECOURSE BORROWING
PROPERTY INVESTMENT



**best
practice**
SMSF[®]

Disclaimer

The information contained in this newsletter is purely factual in nature and does not take account of your personal objectives, situation or needs. The information is objectively ascertainable and, therefore, does not constitute financial product advice. It is not intended to be financial product advice, legal advice or tax advice and should not be relied upon as such. It is provided for the use of a Self-Managed Superannuation Fund Trustee or a person who has already made the decision to establish a Self-Managed Superannuation Fund only. In no circumstances, is it to be used by a person for the purposes of making a decision about establishing a Self-Managed Superannuation Fund. Best Practice SMSF Pty Ltd is not licensed to provide financial product advice under the Corporations Act 2001. If you require personal advice you should consult an appropriately licensed or authorised financial adviser. Liability limited by a Scheme approved under the Professional Standards Legislation.



CHARTERED ACCOUNTANTS
AUSTRALIA + NEW ZEALAND

LIABILITY LIMITED BY A SCHEME APPROVED UNDER PROFESSIONAL STANDARDS LEGISLATION



INTRODUCTION

By utilising a limited recourse borrowing arrangement in your SMSF you can leverage your superannuation monies with a view to magnifying your gains.

However, the strategy comes with risks and here are 5 things that could go wrong and our tips to help you avoid them.

YOU DO NOT APPROPRIATELY CONSIDER THE LIQUIDITY OF THE INVESTMENT



When you put together your investment strategy you need to consider liquidity. As property is not readily convertible to cash, it is necessary to include details of how you will deal with a situation that calls for liquid funds. You need to maintain enough cash in your SMSF to meet all required expense and have a plan for when unexpected expenses arise (which is not uncommon with property investments) or the income is less than expected due to a period of vacancy.



**QUICK
TIPS**

Work through and document the worst-case scenario
and your plan to deal with it effectively.

YOU HAVE INSUFFICIENT CAPACITY OR ARE INELIGIBLE TO MAKE CONTRIBUTIONS TO MAKE UP A SHORTFALL



In addition to having the financial capacity to top up your superannuation if you need to in a crisis situation, you also need to check on whether or not you meet all the eligibility requirements to make a contribution. The loan arrangements for an LRBA property fall under special rules for your SMSF and in general you cannot loan additional monies to your SMSF. So you have to make sure that any money that you are setting aside for a crisis is money that can remain in the SMSF until you have met a condition of release.



**QUICK
TIPS**

Regularly check your worst-case scenario plan against your current personal finances, your age and other eligibility criteria and confirm the plan remains sound.

YOU DO NOT ADEQUATELY PROTECT THE PROPERTY INVESTMENT

Even with the best of real estate agents managing your property, you could still end up with a rogue tenant who costs you money. Landlord insurance can help protect your LRBA property, in particular, it can continue to provide rent you can use to repay the LRBA loan in times when the property cannot be rented out due to damage.



**QUICK
TIPS**



Determine the appropriate level of landlord insurance required to properly protect your superannuation nest egg and make sure that the policy is held in the name of the custodian company.

THE MARKET VALUE OF YOUR PROPERTY FALLS SUBSTANTIALLY IMPACTING THE SOLVENCY OF YOUR SMSF



Property values do not always go up and you may find yourself in the unfortunate situation that the value of your LRBA property falls to levels closer to the loan value. You want to avoid the situation where the financier forces the sale of your LRBA property and you end up with even less than you might otherwise have been able to recover.



Keep a close eye on the market value and setting a loan to value ratio limit when you should consider your options.

YOU FORGET TO PAY THE ASIC FEE FOR YOUR CUSTODIAN COMPANY AND IT IS DEREGISTERED



Your LRBA property will be held in the name of your custodian company so maintaining the ASIC registration of this company is vital. Failure to pay the annual ASIC levy is grounds for deregistration and reinstating a company that owns real property can be a difficult and expensive exercise.



**QUICK
TIPS**



Always pay your ASIC fees on time or find an SMSF Administrator who pays it on time for you.

ABOUT BEST PRACTICE SMSF

Best Practice SMSF provides practical tools and resources to SMSF Trustees, Accountants and Advisers and anyone with an interest in Self-Managed Super. Our Videos, Templates, Checklists and Newsletter are designed to help with increasing knowledge about SMSFs so informed decisions can be made and costly unwanted outcomes are avoided.

Best Practice SMSF is a CAANZ Public Practice.

Join our Membership



Best Practice Tools and Resources for a better retirement

For a small annual fee, get access to practical resources to help you navigate throughout your SMSF journey.

[CLICK HERE](#)