SMSF SAFETY STEPS

Property investment via SMSFs can be a valuable retirement strategy, but you need to proceed with caution, writes **Ben Kingsley**

Currently, with historically low interest rates and property prices on the rise in virtually every state, real estate is back on the agenda in a big way.

But what if you can't afford to invest right now with your current household commitments? What about purchasing property through a self-managed super fund (SMSF)? It sounds like a good idea, especially if you don't have equity to invest another way.

SMSF property investment is opening up some great opportunities for investors. But it's also opening up a whole new can of worms, in terms of unscrupulous operators pouncing on innocent consumers.

So if you're exploring an SMSF opportunity, you need to be exceptionally careful – this is your retirement fund we're talking about.

SMSF investment appeals for a number of reasons. Perhaps you're frustrated by the lack of control you have over your financial future or maybe you understand property more than all of those other complicated products your current fund invests in.

Whatever the trigger, this newfound potential to purchase real estate makes easy prey for property spruikers.

That's why, if you're exploring this option, you must be vigilant. If the person recommending you set up an SMSF is not qualified or licensed to do so, they are actually breaking the law.

SMSFs are classified as a 'financial product', so only financial planners, and to a limited extent accountants, are able to make recommendations about establishing them.

INVESTORS CONSIDERING SMSFs NEED TO DO THEIR DUE DILIGENCE

To understand what an SMSF can offer you, you need to seek advice from a professional – and not one with a vested interest.

Be cautious taking advice from someone who's linked to the property deal, even if they are qualified. Their advice is likely to be unbalanced.

Also, remember that SMSFs are not a quick fix. You will essentially be taking on the full responsibility of trustee of your fund and all that goes with it, so you need to be willing and able to invest time into your fund's strategy and management.

SMSFs are not the playground of the simple investor and the reason for setting one up must go well beyond the desire to simply purchase property.

Here is a list of five critical items I recommend you educate yourself on before committing to an SMSF:

1. THE LEGAL AND TAX STRUCTURES OF AN SMSF: For example, what is your role as a trustee and what are the tax requirements? Will you have a corporate or individual trustee?

2. BORROWING FINANCE – THE REQUIREMENTS AND STRUCTURE: If you are planning to leverage your position within your SMSF, you need to understand the financing options and requirements.

3. THE RISKS AND BENEFITS OF BUYING A PROPERTY WITHIN AN SMSF: Trustees will need to familiarise themselves with all the risks to make an informed decision.

4. GENERAL SMSF LIMITATIONS AND RESTRICTIONS: You need to understand the broader limitations or add-ons you might have within an SMSF.

5. PROPERTY-SPECIFIC SMSF LIMITATIONS AND RESTRICTIONS: The option to purchase direct property within an SMSF is relatively new, so legislation continues to evolve. There are certain limitations, such as what type of property you can buy, so qualified advice is essential. ■

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Ben Kingsley is the chair of the Property Investment Professionals of Australia (PIPA) – www.pipa.asn.au – Australia's peak association for property investment professionals, as well as founder and CEO of Empower Wealth