

# SMSF LIMITED RECOURSE BORROWING ARRANGEMENTS



We can help you from  
the onset and discuss  
with you key compliance  
considerations



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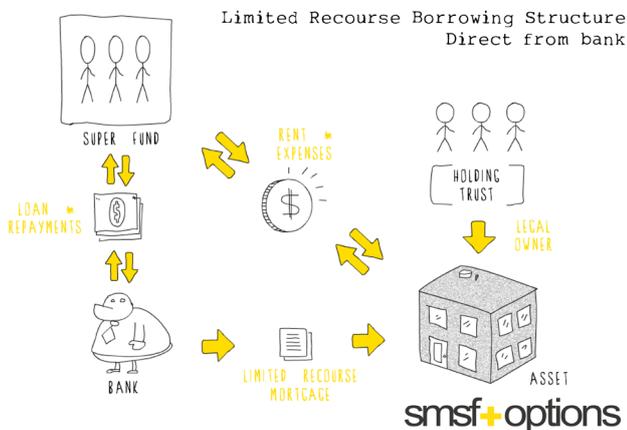
Used in the right circumstances this strategy can assist members grow their retirement savings



Self-Managed Superannuation Funds (SMSFs) are normally not allowed to borrow, there are however some important exceptions to this rule. One such exception, which has received plenty of attention in recent times, is an "SMSF limited recourse borrowing arrangement.

### WHAT IS AN SMSF LIMITED RECOURSE BORROWING ARRANGEMENT?

An SMSF limited recourse borrowing arrangement (LRBA) typically involves an SMSF taking out a loan from a third party lender or from a related party, such as a member of the fund. The SMSF then uses the loan, together with its own available funds, to purchase a single asset (normally a residential or commercial property) that is held in a separate holding trust.



The SMSF trustee acquires a beneficial interest in the asset with the trustee of the separate holding trust being the legal owner of the asset. The SMSF trustee has a right to acquire legal ownership of the asset by making one or more payments. Any investment income received from the asset goes to the SMSF and if the SMSF defaults on the loan, the lender's rights are limited to the asset held in the separate trust. This means there is no recourse to the other assets held in the SMSF.

### IS A LRBA RIGHT FOR ME?

Used in the right circumstances this strategy can assist members to grow their retirement savings. However there are many risks and issues that should be considered carefully before embarking on this strategy.

Borrowing arrangements that do not comply with the law can cause considerable problems for SMSFs. Some of these arrangements, if structured incorrectly, cannot simply be restructured or rectified and can result in the SMSF needing to sell the property at a substantial loss.

Given the serious consequences if the rules are not followed, it is essential to seek specialist advice well before to signing a contract on a property.

### HOW WE CAN HELP?

We can help you from the onset and discuss with you key compliance considerations such as:

- + Does your SMSF Trust deed allow LRBA's?
- + Can the asset be acquired?
- + What are the costs involved?
- + Are any property alterations required and are they allowed?
- + How will improvement costs be funded?
- + Can I loan the money from a related party?
- + Will the fund have sufficient liquidity?
- + What are the correct steps in setting up this structure?
- + When can I make sign a contract?
- + Are there any tax loss capital gains considerations?
- + Are there any alternative structures to purchase the asset?

We can also refer you to a financial planner specialising in this area if required.

### FURTHER INFORMATION

To find out how smsf+options can assist you in setting up a LRBA, please contact your adviser below:

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