

SMSF Loans

Case Study 4

Turning Business Property into
a Retirement Fund



Tim, a physiotherapist, and his wife Susan, a remedial masseuse, operate a successful practice on Sydney's Northern Beaches. The 52 year olds are keen to put more of their assets into super to take advantage of its tax-effectiveness.

They used their life-savings to buy the business property three years ago for \$1.8M, with a \$1.25M loan. It has since appreciated to a market value of \$2M and the loan has reduced to \$1.2M. The practice pays Tim and Susan \$20K per month in rent, which they use to service the interest on the loan and reduce the principal outstanding.

They make a good living from the practice, earning over \$300K p.a. between them – but they have few assets outside the business property, their family home and an \$850K SMSF. In discussions with their Accountant, it is suggested that the SMSF acquire the business property. The transaction looks like this:

- *The SMSF purchases the property for \$2M (market value) with a loan of \$1.3M*
- *Tim and Susan receive \$2M, use \$1.2M to pay off the existing loan and contribute the remaining \$800K back into their SMSF. \$100K is deductible and \$700K is non-deductible**
- *No CGT payment is required as the \$200K gain is reduced to \$100K (50% Capital Gains Tax Discount) and is offset by the combined \$100K deductible contribution to super*
- *The practice pays the same tax-deductible rent as before – except now it is funding their retirement*
- *All future gains in the property's value are concessionally taxed*

** The balance could be contributed as concessional contributions over the next few years because they qualify for the transitional arrangements being over 50.*

“The Practice pays the same tax-deductible rent as before – except now it is funding their retirement.”

Call 1300 485 243

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