

Super to Ensure Significant Savings on Commercial Property

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Self managed super funds and trusts are the preferred way to structure the purchase of a commercial property as they would ensure significant cost savings over time.

The introduction of the borrowing provisions in s67 (4A) of the Superannuation Industry (Supervision) Act ("SIS") meant owning commercial properties in SMSF's (self managed super funds) is by far the best structure for a business.

This particular strategy ensures that funding the commercial property purchase utilises the tax efficiency of superannuation. Paying less tax means significantly increasing the after-tax return on the asset over the period a business owns it.

However, businesses should be aware of specific provisions in relation to the structure of ownership of the property and the debt within an SMSF.

They are not overly complex, but if they are not complied with, you run the risk of your fund being

made non-compliant. This means that you will lose the concessional tax treatment that superannuation provides, as well as up to almost half the value of the fund.

Paying less tax on a commercial property ensures the business owner has more net income to repay their loan or reinvest.

Furthermore, the capital gains tax implications upon sale of a commercial property can have a significant impact on overall return. When an asset is owned for more than 12 months, one-third of any capital gain is tax-free when owned in a superannuation fund.

Tax is levied at 15% on the earnings and capital gains in an SMSF, which means that the tax on any capital gains will be limited to 10% or 15%, depending on how long the property is owned. When an SMSF is in pension phase, the earnings and capital gains will be tax-free. Therefore depending on the timing of when you sell a commercial property, you will retain nearly all of your capital for re-investment.

This scenario is contrasted with the usual taxation of commercial property net income and capital gains outside of super, at marginal rates of up to 46.5%, indicating an enormous cost saving.

Growing your assets within the superannuation environment will also produce long term tax efficiency. Once you are over 60, any withdrawals from you fund are also tax-free.

In addition, according to Mr Schlyder, business owners can lease their business premises from the SMSF, which puts more of their money into super, instead of in the landlords' pocket.

However, it is of importance to seek professional advice before structuring any asset purchase within an SMSF using gearing.

It is critical that structuring the asset ownership of a commercial property in an SMSF using a gearing strategy is suitable for and aligns with your funds investment strategy. ●

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1. Her husband was a stuntman and she had been watching him at work.
2. He was at the railway station on his day off and had missed the train.
3. If the witness's mother was say, 58, and the father was 27, then the father's mother could be 44.