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The rise and rise of SMSF investors

As self-managed super fund (SMSF) investors search for better returns in this low interest rate environment, property continues to see significant interest from SMSFs. A decrease in rates and fees being charged by lenders as competition heats up for SMSF loans has also helped make this an even more attractive strategy for many SMSFs, as Thinktank director Per Amundsen reveals

What is the current SMSF lending landscape at the moment?

We are continuing to see tremendous ongoing growth in the SMSF sector, driven largely by the ability of limited recourse borrowing arrangements (LRBAs) to open up access for investing in direct real property for those pursuing long-term wealth management goals backed by residential or commercial property. The pandemic has further highlighted the quality of these loans, evidenced by the very low hardship cases and extremely low arrears experienced across the sector.

With more non-bank lenders specialising in SMSFs due to the level of demand and the quality of the assets/borrowers, competition has also increased. This is great news for borrowers with offers improving in many respects while still retaining a very high quality of compliance and asset quality.

Is now a good time for SMSFs with existing LRBAs to consider refinancing?

Traditionally, refinancing has been a rare occurrence for SMSF LRBAs, as unlike other non-regulated forms of lending there is no such thing as an equity release or "cash-out" option. However, there are situations that might be worth considering, the most common being for better terms (which can include a longer amortisation term) and/or a lower interest rate. The first step is to seek informed advice, as the refinancing costs can sometimes neutralise or outweigh the benefit of the lower rate.

What are some of the important rules around investing in SMSFs through LRBAs to keep in mind?

There are five key points that all SMSF trustees need to be aware of:

- Maintain an up-to-date trust deed and investment strategy.
- Be aware of, and strictly adhere to, the "sole purpose test" (*SIS Act* s62).
- Understand and adhere to the "In House Assets" rules and the "business real property" exceptions.
- As previously mentioned, while it is possible to refinance an LRBA, there is no provision for additional borrowings (cash-out or equity release is not allowed).
- It is best to arrange an LRBA with an experienced licensed professional to streamline the approval process. An expert's knowledge of all the issues, such as understanding the requirements for having a bare trust in place and what it is used for, can save a lot of time, inconvenience and unnecessary cost.

Are there any recent rule changes that SMSF clients need to be mindful of?

The ATO's non-arm's-length income rules are definitely an area that SMSF trustees need to take seriously. In a nutshell, the rules provide harsh penalties in the form of much higher taxation rates when even a small amount of income or expense is considered to be at "non-arm's length". While the government is considering reviewing the rules, most advisers are suggesting great care be taken to avoid the possibility of transgressing these provisions.

Another significant rule change is increasing the maximum number of members allowed in an SMSF fund from four to six. This positive step opens up the opportunity for funds to accommodate larger family arrangements and allow SMEs greater flexibility for bringing more work partners into the SMSF.

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