

**DIY SUPER DOS AND DON'TS**

# Computer snag pain in debut

**DIY  
SUPER****Monica Rule**

A computer taking a fundamentalist view of trust law is causing headaches for both self-managed superannuation fund debutants and Australian Taxation Office workers.

The snag is with the online application form for an Australian Business Number, which all DIY super funds are legally required to have as part of their official registration process.

In a classic chicken and egg problem, trustees of new DIY funds with no assets can't complete their registration for an ABN and, therefore, can't embark on the process of building their fund's nest-egg.

However, a helpful senior tax office official has come up with a solution that should cost less than a cooked chook.

The snag arises from SMSFs being established under trust structures, which are governed by laws dating back to Tudor England.

Under a trust structure, a trustee holds and deals with the assets of the trust for the benefit of the beneficiaries.

In order for a trust to exist there needs to be a trustee, beneficiaries and assets. A trust with no assets is not a trust.

Before you can contribute or roll over money into your fund, you need to apply to get your SMSF's tax file number and ABN. Once you have these, you can then open a bank account for the fund.

Yet, if you apply for an ABN on the tax office website, you would correctly state that the value of assets held by your SMSF is zero.

The tax office's ABN system is refusing to complete the registration of newly established trusts that are recorded as having no assets.

While the tax office computer system is working correctly at a technical level, it has created prob-

lems for advisers and officials who have to sort out all the declined applications caused by this snag.

Senior tax office official Nathan Burgess said the problem could be avoided simply by the trustee attaching a \$5 note to their SMSF's trust deed.

Mr Burgess, the director of income tax and regulatory programs, said people could then select a balance other than zero when applying for an ABN.

You may ask, why not just change the computer system?

The problem is that the software has been developed for all ABN applications and not just for SMSFs, which make up a small part of the total ABN application workload.

Fixing the problem will be costly.

Given it is only SMSFs that will have this problem, we may have to be prepared to work around this for the foreseeable future.

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*Straight talk from one of the nation's top financial analysts and humbug detectors*



## DEBTMAN

*with Bruce Brammall*

# Touts turning a good thing bad

If you aren't aware of the hottest investment in the superannuation world at the moment, check your pulse.

Self-managed super funds and geared property are "it". The opportunities are being promoted everywhere. With internet ads, through property seminars, by the same-old spruikers, the unwary are being bombarded with promises of property riches.

Seeking a chance to save the gullible, the authorities now want in on the action. Whenever a government wants a piece of anything, it's a bad sign for most investors.

But the fact is that too many people who know too little about property have been lured into too many bad properties and have blown up their super savings as a result.

Where's the problem?

At its core, geared property in super — known as limited recourse borrowing arrangements, or LRBAs — is a good thing.

SMSFs can buy an investment property, using borrowings, allowing them to own an asset the SMSF could not otherwise afford with cash savings. It's really the same premise for getting a mortgage to buy any other property.

For example, take a husband and wife, who have a combined super balance sitting with industry or retail funds of \$250,000. They earn reasonable incomes as employees.

They could roll over their super funds into the SMSF and then purchase a \$450,000 investment property. They could get a loan to cover them for 80 per cent of the purchase price, or \$360,000.

That means they would have to put in \$90,000 for the 20 per cent deposit, plus the stamp duty and other purchase costs, of roughly \$20,000, for a total required to purchase of \$110,000. The remainder of their super fund, about \$140,000 (\$250,000 minus \$110,000) could be used for other investments.

Setting up a new SMSF, plus the other structures required by banks to comply with the loan, can cost thousands of dollars also.

The fund would have rent coming in and expenses going out, including the interest, plus agent's fees, rates, insurances and general maintenance costs.

Even with low interest rates, the property is likely to be negatively geared initially, until rents rise. But superannuation contributions from their employers should assist in continuing to grow the balance of the super fund.

With the right sort of property, this could be the beginnings of a great investment for your SMSF.

However, purchase an inferior property and you could eventually blow up not just your super fund savings but your savings outside super also. Banks insist on personal guarantees for SMSF loans, so they can come after your non-super wealth if they can't sell the property to get enough to cover the loan.

What is an inferior property? Obviously, property that is likely to fall in value. Or that can't be rented. Or where an investor overpays, not knowing what the true value of the property really is.

And where do SMSFs tend to buy these properties? From spruikers and property developers. Property developments, particularly apartments, in the "next big thing" suburbs, or rural and regional towns.

Development properties, unfortunately, are very high-risk for investors. It can be difficult to determine the true value of the property. And the purchase price can also be loaded with profits for the developer, which disappear as equity the second you take control of it.

Don't buy investment property inside a SMSF unless you have experience with property investment in your own name.

It's a huge investment, with big debt and significant risks. And your superannuation is not the place to be practising with these sorts of investments.

While governments may wish to act to protect the gullible, any move on banning geared property in super would come at a significant cost to other investors who understand the risk and can make those calculated decisions.

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Going global: Investment Trends analyst Recep Peker says SMSF trustees are increasingly seeking help.

# Selfies lead global share drive

**Neale Prior**

Investor interest in overseas shares has surged over the past 12 months, with the operators of self-managed superannuation funds leading the charge.

Research carried out by analysis group Investment Trends and researchers Morningstar shows there was a near-doubling in the proportion of investors planning to invest in overseas equities or share funds in 2014.

Investment Trends analyst Recep Peker said SMSF trustees had become less concerned in recent times about losing their money in an overall market downturn yet their outlook for Australian shares had deteriorated. Mr

Peker said the international push was a product of investors chasing growth in the value of their share portfolio while also seeking diversification beyond narrow domestic holdings. The average SMSF has 18 Australian shares in its portfolio.

He said investors were also looking at exchange-traded funds and listed investment companies to diversify their portfolio.

About 11 per cent of SMSFs had exposure to US equities already and around another 22 per cent would like exposure over the next year, according to research carried out for the SMSF Association. Funds with multi-region exposure were also gaining popularity, with 9 per cent of DIY funds already in multi-region plays and about 17 per

cent intending to invest this year.

A net 22 per cent of investors intend to increase their overseas share investments and a net 16 per cent of other investors were going global, according to research for the SMSF Association. The net figure subtracts those intending to reduce their exposure from those planning a hike.

Mr Peker said SMSF trustees looking overseas were increasingly seeking advice on how to do this, something also observed by superannuation strategist Peter Crump.

Australians were progressing beyond familiar household brands such as AMP, Telstra and Coles-owner Wesfarmers, Mr Crump said. "The ETF environment is the next step," he said.