

SMSF BARE/CUSTODY TRUSTS

What are Custody Trusts?

Find out how Custody Trusts can be used to leverage your SMSF to purchase an investment property.



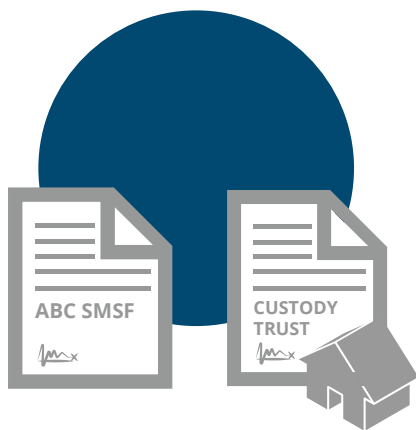
ASSURE
WEALTH

BARE/CUSTODY TRUSTS

What are Custody Trusts and why do we like them?

A Custody Trust is a legal document which is used to allow an SMSF to borrow money from a bank.

A CUSTODY TRUST ALLOWS YOU FINANCIAL LEVERAGE TO INVEST IN YOUR SMSF. IF THE INVESTMENT IS MADE WISELY, YOUR SMSF HAS THE POTENTIAL TO GROW SIGNIFICANTLY.



On 24 September 2007, Treasurer Wayne Swan amended the Superannuation Industry Act to allow Self-Managed Superannuation Funds to borrow money to purchase property. Custody Trusts were born!

A Custody Trust is known by several different names. You may be familiar with some of these... Bare trust, Custody Trust, custodian trust or property trust. These are all different names for what is, effectively, the same thing - a limited recourse borrowing arrangement. Simply put, establishing a Custody Trust enables you to borrow money to purchase property in your SMSF.

That's right: Your SMSF is not allowed to borrow money unless it complies with Superannuation legislation. A Custody Trust, however, can be established to facilitate a loan.

There are numerous advantages to establishing a Custody Trust, including:

- A Custody Trust allows you to borrow money to invest via your SMSF. If the investment is made wisely, your SMSF has the potential to grow significantly.

- A Custody Trust offers protection. In the event of a loan default, the bank does not have any recourse on other assets within the SMSF. Your nest egg is safe!
- All costs relating to the property can be paid by the SMSF. These costs include water, rates, maintenance and repairs. Likewise, rental income received by the property is deposited directly into the SMSF. The SMSF makes the loan repayments.
- The Custody Trust simply holds the property (or asset) for the beneficial owner (the SMSF). It does not require an ABN or TFN. When the loan is repaid, the property reverts back to the SMSF.

FREQUENTLY ASKED QUESTIONS

Some general info on custody trusts



Did you know the lender doesn't have to be a bank? The Trustees can borrow the money and then on-lend to the SMSF.



There is no CGT or stamp duty payable upon transfer of the asset from the Custodian Trust to the SMSF because there is no change in the beneficial ownership.



A residential property which is acquired through the SMSF must not be lived in by Trustees, members or any related parties. The asset is purely for investment purposes. And don't forget, all investments must pass the "sole purpose test". Sorry, but this means the property cannot be used as a holiday home!



Different rules apply for commercial property. This starts getting tricky, so please speak to your solicitor!

FREQUENTLY ASKED QUESTIONS

Clients always ask us: What name should appear on the contract of the property purchased in the SMSF? This is quite simple. **The purchaser of the property is the Trustee of the Custody Trust. So, if the Trustee is a company, the company's name will appear on the property contract.**

What structure should you use?

Another common query we get is: What structure do I use? A structure with individual Trustees or Corporate Trustees? Our advice is simple: Check with your lender!

Most lenders require a Corporate Trustee.

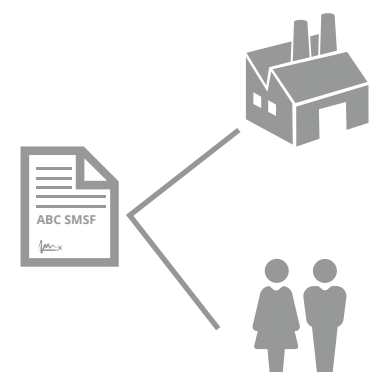
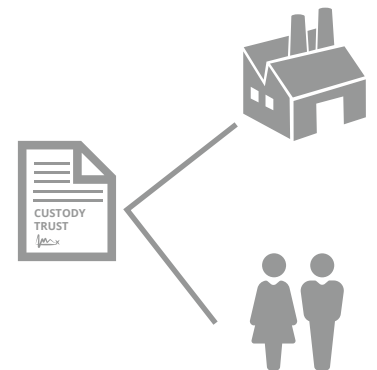
Establishing a company to act as a Corporate Trustee doesn't come cheap. The ASIC fee alone is over \$450.



Initially corporate trustees are more expensive to set up, however they allow for greater flexibility.



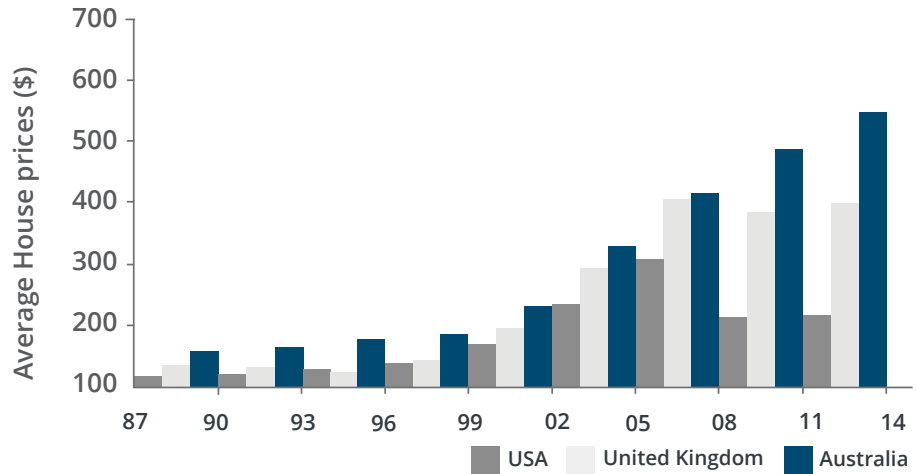
The death, divorce, or resignation of members or trustees can result in expensive legal and administrative issues for a fund with individual trustees.



FREQUENTLY ASKED QUESTIONS



Average Residential Property Value USA vs UK vs Australia.



YOU NEED TO SPEAK TO YOUR LENDER BEFORE BORROWING IN YOUR SMSF. THE LENDER WILL HAVE SPECIFIC REQUIREMENTS WHICH WILL NEED TO BE FOLLOWED.

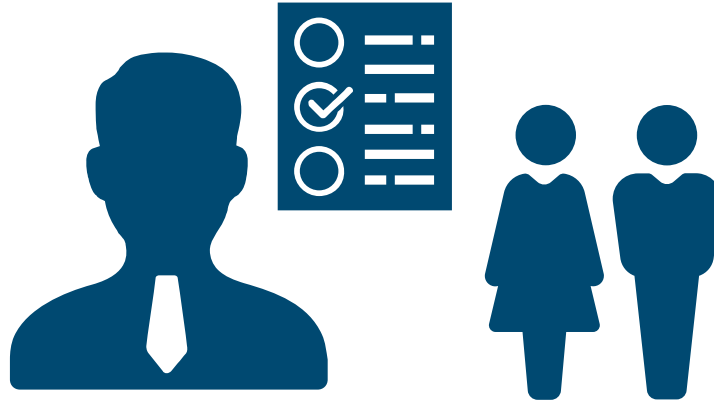
A RESIDENTIAL PROPERTY WHICH IS ACQUIRED THROUGH AN SMSF MUST NOT BE LIVED IN BY TRUSTEES, MEMBERS OR ANY RELATED PARTIES.

However, the advantage of establishing the Corporate Trustee can come in to play later on. The law requires the assets of an SMSF to be held in the names of the Trustees of the Fund. In the event of death, divorce, or resignations, there is no requirement to change the name in which the assets are held. This is because all assets are held in the name of the company. This is the simpler option. You see, a company is an indefinitely continuing entity, allowing multiple generations of a family to come and go from a Fund. There is much greater flexibility/fluidity, resulting in much easier administration.

For a fund which uses individual Trustees, the death, divorce, or resignation of members or Trustees can cause all sorts of costly legal and administration issues. This can be avoided by using a Corporate Trustee.

CHECKLISTS

CHECKLIST FOR ESTABLISHING A CUSTODY TRUST



Do you have an SMSF?

If so, how old is it? Does your Trust Deed need to be updated? Updating your SMSF Trust Deed will ensure it stays compliant with current law requirements. If your SMSF is more than three years old then you should enquire about having it updated.



If the bank requires Corporate Trustees,

register the companies with ASIC. Set up a 'special purpose company' to act as the Corporate Trustee for the SMSF. Set up a regular company to act as the Corporate Trustee for the Custody Trust.



When signing the property contracts the name of the Trustee of the Custody Trust

will appear on the documents. If the Trustee is a company, the company's name will appear on the contract.



SPEAK TO YOUR LENDER

to see what structure they require for your SMSF / Custody Trust setup. It's likely that they will require a Corporate Trustee.



If you already had an SMSF with individual Trustees

and the bank requires Corporate Trustees, now is the time to perform a 'change of trustees' on your SMSF. This will remove the individual Trustees and replace them with the Corporate Trustee (special purpose company).

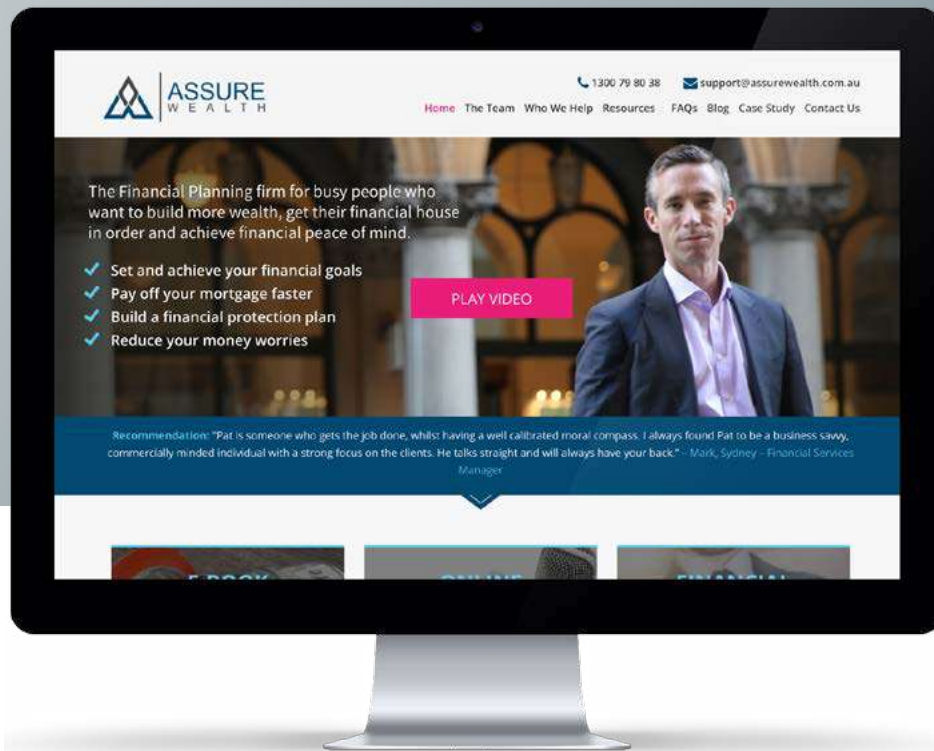


When the property has been purchased and the contracts signed,

you will need to visit the state revenue office to enquire about the stamping requirements for your deed. Each state has different rules and charges for stamping deeds.



CONTACT ASSURE WEALTH



GENERAL ADVICE WARNING

The advice may not be suitable for you because it contains general advice which does not take into consideration any of your personal circumstance. All strategies and information provided on this website are general advice only.



ASSURE WEALTH

Level 4, 20 Bond Street, Sydney 2000 | Suite 103/ 304 - 318 the Kingsway, Caringbah NSW 2229

P: 1300 79 80 38 | **E:** support@assurewealth.com.au | **W:** www.assurewealth.com.au

Assure Wealth Pty Ltd ABN 31 965 466 780 Corporate Authorised Representative no. 1244817, Patrick Casey Sub Authorised Representative no. 1244748 of Alliance Wealth Pty Ltd ABN 93 161 647 007, an AFSL holder No 449221. The information provided in this document has been provided as general advice only. We have not considered your financial circumstances, needs or objectives and you should seek the assistance of your Alliance Wealth Pty Ltd Adviser before you make any decision regarding any products mentioned in this communication. Whilst all care has been taken in the preparation of this material, no warranty is given in respect of the information provided and accordingly neither Alliance Wealth nor its related entities, employees or agents shall be liable on any ground whatsoever with respect to decisions or actions taken as a result of you acting upon such information.