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Nurturing nest eggs

Proposed new rules for self-managed super funds will allow investors to do more with their property, reports **Ben Hyde**.

A DRAFT ruling proposing new rules for property held in self-managed super funds is set to provide more flexibility for investors.

Financial experts also say the proposed changes will increase the popularity of real estate investment in self-managed super funds.

The ruling allows for renovations to properties held in self-managed super funds, as long as the money used for the improvements comes from within the fund and the renovations do not fundamentally alter the nature of the property.

Previously, the Australian Tax Office had ruled that self-managed super funds could not use money from any source to renovate property held in a fund.

Oracle Lending Solutions managing director Angelo Benedetti says the draft ruling allows investors to do more with their property.

As a result, he says established real estate that may require some work

will become more attractive.

"New properties have always been more attractive for SMSF holders because of the tax advantages and the generally lower maintenance costs,"

Mr Benedetti says. "However, property is usually held for a long period of time and therefore it's likely renovations such as a new kitchen or bathroom will be required over a 10 to 20 year period.

"The ability to maintain the property using assets within the fund without having to borrow from another source or dip into savings will be highly beneficial for investors."

The draft ruling also clarifies rules around borrowing to repair a property. Self-managed super funds can now borrow money for property repairs as long as they don't alter the character of the property.

Mr Benedetti says investors needed to be wary of the difference between a renovation and a repair.

"Investors will still need to be mindful of the very strict rules

and regulations governing SMSF and their fund will need to be audited annually," he says. The changes are set to further increase the popularity of self-managed super funds.

In the past eight years, self-managed super fund investment has grown from 15 per cent of the overall super industry to 32 per cent.

Currently, more than \$418 billion is held by 7500 self-managed funds.

The Self Managed Super Fund Professionals' Association of Australia also endorsed the draft ruling.

"We welcome the ATO's commonsense approach to the interpretation of these rules which, in our view, will greatly assist SMSF trustees and their advisers to plan with confidence," Association national technical director Peter Burgess says.

The ruling is expected to be finalised within the next month.

