



SMSF Finance Specialists

CASE STUDY 1

How Alex and Mark grow their business through clever borrowing in their super fund.

Alex and Mark own an architectural firm which has been operating for 8 years. They earn a comfortable living from it and would now like to expand by opening offices in other states. To be able to do this they need to invest in the business however do not have the additional cash on hand.

The business currently operates out of a property which Alex and Mark and their wives own through a unit trust of which their family trusts hold a 50/50 share. The property was acquired 3 years ago for \$1.2mill and is now worth \$1.4mill. There is a loan over the property for \$950,000. The business pays rent to the trust of \$9,300 per month.

Like most small business owners their other key assets are the family homes which are mortgaged to provide the business overdraft. They also have \$600,000 in super between them and their wives. They consult their accountant about funding the expansion and he suggests that they consider either taking on a partner or an investor, or think about the opportunity to set up a Self Managed Super Fund which could buy the property from them and release cash for them to expand the business.

Alex and Mark do not want to lose any control over their business by taking on a partner or investor and after checking out the option for them to set up a super fund they see that this is a fantastic opportunity for them.

They set up the Self Managed Super Fund and transfer the \$600,000 super into it. It then purchases the property from the trust for \$1.4million using about \$500,000 of the cash plus a loan of \$980,000 to cover the purchase price plus costs including stamp duty.

The unit trust receives \$1.4million and uses \$950,000 to repay the loan. The unit trust then invests the balance of \$450,000 into the business which provides Alex and Mark the funding needed to grow their business to the next level.

The business continues to pay the same deductible rent as before but it is now going into their super fund and building up their retirement savings in a tax effective environment.

All future gains in the property are concessionally taxed and they can now grow their business without diluting their interests in the company.