



# HOME LOANS NEWSLETTER

August 2015

## Reserve Bank interest rate announcement

Today the Reserve Bank of Australia met to review the official cash rate. They have decided to leave the rate steady at 2.00% again this month. We expect that most lenders will leave their rates unchanged, in line with the Reserve Bank's decision.

## SMSFs and buying property



We will often get enquiries from people asking if it would be a good idea to use their superannuation to invest in property. There certainly is a growing trend for people to set up SMSFs for the purpose of buying a property. If you are considering doing this, we would recommend that you equip yourself with the knowledge to make an informed decision.

Some advantages of buying property in your SMSF include

- A low tax rate of 15% (which is often much lower than most people's personal tax rates), or nil if in the pension phase.
- A discounted or nil Capital Gains Tax.
- Using your superannuation funds to give you access to a larger deposit.
- The ability for couples to pool their superannuation funds to purchase a property.

Some disadvantages of buying property in your SMSF include the

- Cost of setting up a SMSF and the cost of the LRBA (Limited Recourse Borrowing Arrangement).  
Cost range: \$3,000 to \$5,000.
- Upfront loan and legal costs.  
Cost range: \$2,000 to \$5,000.
- Loan interest rates are usually 0.5% to 1% higher than loans outside of super.
- Borrowing limit which is usually a maximum of 70% of the property value.
- Lack of diversification which can result in the majority of the superannuation fund being invested in one asset.
- Illiquidity during the pension phase where it is necessary to have adequate net income to meet pension payments.

As an aside, look carefully at who is prompting the idea of investing in property through your SMSF. Anyone with a vested interest in selling the property, or the peripheral services, may not be giving you objective advice. In order to make the best decision it is advisable to speak with an qualified, independent third party to give you their honest opinion.

Overall, we will generally suggest that our clients keep their superannuation in a diversified portfolio, and retain most assets in liquid investments. Particularly those that are getting closer to retirement and are looking to draw a pension income from their superannuation. In this scenario, the ability to fund pension payments becomes a more important consideration. In all scenarios, it is worthwhile taking into account the additional costs that come with buying a property within a SMSF.

## Our current best interest rates

The best home loan rates we currently have available:

- Variable rate of **4.13% pa**
- 1 year fixed rate of **4.14% pa**
- 2 year fixed rate of **4.04% pa**
- 3 year fixed rate of **4.14% pa**



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