

The DomaCom Fund – Case Study 6

SMSF and Rent to Own



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Case Study 6: SMSF and Rent to Own

- Peter and Caroline have a SMSF and are seeking a direct residential property investment
- They have a daughter, Fiona who is just about to leave university
- Their investment strategy allows for investment into residential property and managed funds
- They want flexibility around the tenant of the investment property including the option in the future for a related party

- Issues:
 - Peter and Caroline’s SMSF cannot own more than 50% of the equity in a Sub-Fund otherwise it may be considered a Related Trust and therefore a breach of the In-House Assets Test
 - Any future tenancing of the residential investment property by a related party would potentially be a breach of the Sole Purpose Test

Case Study 6: SMSF and Rent to Own

- Solution:
 - Peter and Caroline open an account for their SMSF in the DomaCom Fund and as a standard part of that process completed the Sole Purpose Test Declaration*
 - Peter and Caroline's SMSF provides 45% of the equity funding required to purchase the property
 - Fiona uses funds in her own name saved to purchase 5% of the value of the property
 - Like-minded investors (including other SMSF's) are found who also require residential property exposure to fund the remaining 50% of the equity (a loan may be also used to fund up to 60% of the investment as long as the Sub-Fund is positively geared)
 - Fiona may submit an application to become the tenant of the property

* Details of the declaration are available via DomaCom's website

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