



# Case Study for Purchasing a Property within a Self Managed Super Fund (SMSF); Unit 210 / 657 Pacific Highway KILLARA NSW 2071

Date: 20<sup>th</sup> December 2010

Prepared for: Mr James Smith

**Disclaimer and Disclosure** - All forecasts and estimates are based on certain assumptions which may change. If those assumptions change, our forecasts and estimates may also change. The examples provided should be read with the detailed supporting calculations. The examples include assumptions based on an individual earning a 2011 gross income of \$200,000 pa, buying an investment property for \$495,000, the property was held for over 15 years and had an average capital growth rate of 6% compounding pa plus an average rental growth rate of 6% compounding per annum. For the period the investors unrealised capital gain was \$750,719, total income inflow of \$405,584 and total outflow of \$179,893. The example comparisons were based on a personal tax rate of 46.5% and the SMSF tax rate of 15%. The applicant borrowed \$356,400 and had drawn \$160,192 from cash equity in their SMSF. The interest rate on the loan was 7.8% variable. The performance of your investment is likely to be different and you could potentially lose your capital. Different loan interest rates and terms may be applicable to SMSF and individual borrowers. The examples are general in nature and are based on certain investment costs and cash flow assumptions, that will not be applicable to all individuals. If those assumptions change, our forecasts, estimated outcomes may also change. While the information contained herein has been prepared with all reasonable care no responsibility or liability is accepted for any errors or misstatement however caused. Before making an investment interested parties are strongly advised to seek independent financial and legal advice. Fee terms and conditions apply.

This document sets out the investor costing and cash flows based on the assumptions detailed in this document. Please read it carefully. If you have any concerns, please contact us 1300 305 767.

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**Assumptions**



**Case study**



**Supporting calculations**



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## Assumptions

This model has been prepared using the following assumptions

Property	Unit 210 / Pacific Highway KILLARA NSW 2071
Property value	\$495,000.00
Total purchase cost	\$516,592.00 (Purchase Price + Stamp Duty + Loan App Fee + Legals)
Interest rate for loan	7.8%
Loan term	30 Years
Loan Type	Super Fund Home Loan
Super Fund Application Fee	\$1,500.00
Settlement Fee	\$100.00
Monthly Loan Fee	\$12.00
Deductable	100%
Annualised property growth	6.00%
Annualised rental growth	6.00%
Strata Levies (per annum)	\$2,468.00
Council Rates (per annum)	\$1,500.00
Stamp Duty	\$19,742.00
Property Management fee	7.70%pa
Agent Sale fee	2.0%
Legal's	\$1,500.00
SMSF Security Trust Set Up Fee	\$2,500.00
Rental income weekly (year 1)	\$500.00
SMSF tax rate	15%
Personal Tax rate	46.5% (including Medicare Levy)
Asset held for	Greater than 15 years
Depreciation Schedule method	Prime Cost Method



## Case study

Mr. Smith is 50 years old and is in the market to purchase a new investment property to a value of \$495,000.00 in the Killara area and has found Unit 210 at 657 Pacific Hwy, Killara.

He currently is employed as a merchant Banker and earns a gross salary of \$200,000.00 pa.

Mr. Smith has a investment property to the value of \$1M with a debt of \$300,000.00. Mr Smith has also advised that he currently has a SMSF with \$250,000.00 in cash.

He has informed us that he is interested in purchasing the new property in his SMSF.

## Option

Mr. Smith has an option to purchase the investment property within his SMSF via a new SIS Act compliant loan with a 72% LVR (\$356,400.00). The 28% balance plus purchase costs (including stamp duty) is to be drawn from the cash equity within his SMSF (\$160,192.00).

Mr Smith will need to establish a Security Trust to hold the investment property, recognising the beneficial interest of the SMSF and the rights of the lender.

## Outcome

Below is a comparison for Mr Smith to show the benefits of investing through his SMSF

	Investment as Individual	Investment in SMSF
<b>Rental Income (15 Years)</b>	\$605,174.00	\$605,174.00
<b>Expenses (15 Years)</b>	(\$540,807.00)	(\$560,554.00)
<b>Rental Tax Liabilities</b>	(\$277,987.00)*	(\$16,123.00)
<b>Capital Growth</b>	\$750,719.00	\$750,719.00
<b>Capital Gain after 15 years</b>	(\$174,542.00)	\$0.00
<b>Total Return</b>	\$362,557.00	\$779,216.00
Benefit		\$416,659.00

As detailed above the benefits of investing through a SMSF are compelling. Mr Smith can also improve this position as he approached retirement via a Transition to Retirement arrangement.

\*The effect of negative gearing have not been taken into account as the cash flow position from the existing property have not been disclosed. The tax assessment on the rental income is based on Mr Smith paying full tax based on his assessable income tax rate at 46.5%. The effects of negative gearing have been detailed in the following tables.



## Supporting calculations

### Cash flow – Individual

Date	1-Jul-10	1-Jul-11	1-Jul-12	1-Jul-13	1-Jul-14	1-Jul-15	1-Jul-16	1-Jul-17	1-Jul-18	1-Jul-19	1-Jul-20	1-Jul-21	1-Jul-22	1-Jul-23	1-Jul-24
Age	50.29	51.29	52.29	53.29	54.29	55.29	56.29	57.29	58.29	59.29	60.29	61.29	62.29	63.29	64.29
<b>Inflow</b>															
<b>Earned Income</b>															
James	200,000	208,000	216,400	225,000	234,000	243,400	253,200	263,400	274,000	285,000	296,400	308,200	320,600	333,400	346,800
Gross Salary	200,000	208,000	216,400	225,000	234,000	243,400	253,200	263,400	274,000	285,000	296,400	308,200	320,600	333,400	346,800
Other Non Taxable Income	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
<b>Investment</b>															
Rental Income	26,000	27,560	29,214	30,966	32,824	34,794	36,881	39,094	41,440	43,926	46,562	49,356	52,317	55,456	58,784
Unit 10 Killara	26,000	27,560	29,214	30,966	32,824	34,794	36,881	39,094	41,440	43,926	46,562	49,356	52,317	55,456	58,784
<b>Total Inflow</b>	<b>226,000</b>	<b>235,560</b>	<b>245,614</b>	<b>255,966</b>	<b>266,824</b>	<b>278,194</b>	<b>290,081</b>	<b>302,494</b>	<b>315,440</b>	<b>328,926</b>	<b>342,962</b>	<b>357,556</b>	<b>372,917</b>	<b>388,856</b>	<b>405,584</b>
<b>Outflow</b>															
<b>Expenditure</b>															
Other Pre Tax (James)	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Other Expenditure (Post Tax)	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
<b>Taxation</b>															
James	58,650	63,420	68,291	73,188	78,250	83,503	88,967	94,656	100,579	106,744	113,429	120,092	127,106	134,385	142,027
<b>Investment</b>															
Expenses (Property)	6,631	6,830	7,035	7,248	7,467	7,692	7,924	8,163	8,408	8,660	8,919	9,184	9,462	9,748	10,039
<b>Financing</b>															
Repayment of Borrowings	27,827	27,827	27,827	27,827	27,827	27,827	27,827	27,827	27,827	27,827	27,827	27,827	27,827	27,827	27,827
<b>Total Outflow</b>	<b>93,108</b>	<b>98,077</b>	<b>103,153</b>	<b>108,263</b>	<b>113,543</b>	<b>119,021</b>	<b>124,718</b>	<b>130,645</b>	<b>136,814</b>	<b>143,230</b>	<b>150,175</b>	<b>157,103</b>	<b>164,395</b>	<b>171,959</b>	<b>179,893</b>
<b>Net Cashflow</b>															
Total Inflow	226,000	235,560	245,614	255,966	266,824	278,194	290,081	302,494	315,440	328,926	342,962	357,556	372,917	388,856	405,584
Total Outflow	93,108	98,077	103,153	108,263	113,543	119,021	124,718	130,645	136,814	143,230	150,175	157,103	164,395	171,959	179,893
Net Cashflow	132,892	137,483	142,461	147,704	153,282	159,173	165,364	171,850	178,627	185,696	192,787	200,453	208,523	216,897	225,690

## Cash flow – SMSF

Date	1-Jul-10	1-Jul-11	1-Jul-12	1-Jul-13	1-Jul-14	1-Jul-15	1-Jul-16	1-Jul-17	1-Jul-18	1-Jul-19	1-Jul-20	1-Jul-21	1-Jul-22	1-Jul-23	1-Jul-24
Age	50.3	51.3	52.3	53.3	54.3	55.3	56.3	57.3	58.3	59.3	60.3	61.3	62.3	63.3	64.3
<b>Inflow</b>															
<b>Investment</b>															
Rental Income	26,000	27,560	29,214	30,966	32,824	34,794	36,881	39,094	41,440	43,926	46,562	49,356	52,317	55,456	58,784
Unit 10 Killarar	26,000	27,560	29,214	30,966	32,824	34,794	36,881	39,094	41,440	43,926	46,562	49,356	52,317	55,456	58,784
<b>Total Inflow</b>	<b>26,000</b>	<b>27,560</b>	<b>29,214</b>	<b>30,966</b>	<b>32,824</b>	<b>34,794</b>	<b>36,881</b>	<b>39,094</b>	<b>41,440</b>	<b>43,926</b>	<b>46,562</b>	<b>49,356</b>	<b>52,317</b>	<b>55,456</b>	<b>58,784</b>
<b>Outflow</b>															
<b>Expenditure</b>															
Other Expenses	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Benefits Paid	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
<b>Taxation</b>															
Income Tax	0	0	0	0	0	0	0	0	0	0	0	0	3,576	6,046	6,501
Contributions Tax	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Excess Contributions Tax	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
<b>Investment</b>															
Expenses (Property)	6,631	6,830	7,035	7,248	7,467	7,692	7,924	8,163	8,408	8,660	8,919	9,184	9,462	9,748	10,039
<b>Financing</b>															
Repayment of Borrowings	28,068	28,068	28,068	28,068	28,068	28,068	28,068	28,068	28,068	28,068	28,068	28,068	28,068	28,068	28,068
<b>Total Outflow</b>	<b>34,699</b>	<b>34,898</b>	<b>35,103</b>	<b>35,316</b>	<b>35,535</b>	<b>35,760</b>	<b>35,992</b>	<b>36,231</b>	<b>36,476</b>	<b>36,728</b>	<b>36,987</b>	<b>37,252</b>	<b>41,106</b>	<b>43,862</b>	<b>44,609</b>
<b>Net Cashflow</b>															
Total Inflow	26,000	27,560	29,214	30,966	32,824	34,794	36,881	39,094	41,440	43,926	46,562	49,356	52,317	55,456	58,784
Total Outflow	34,699	34,898	35,103	35,316	35,535	35,760	35,992	36,231	36,476	36,728	36,987	37,252	41,106	43,862	44,609
Net Cashflow	-8,699	-7,338	-5,890	-4,349	-2,710	-966	889	2,864	4,964	7,198	9,575	12,104	11,211	11,594	14,175

**Property Value**

Date	1-Jul-10	1-Jul-11	1-Jul-12	1-Jul-13	1-Jul-14	1-Jul-15	1-Jul-16	1-Jul-17	1-Jul-18	1-Jul-19	1-Jul-20	1-Jul-21	1-Jul-22	1-Jul-23	1-Jul-24
Age	50.3	51.3	52.3	53.3	54.3	55.3	56.3	57.3	58.3	59.3	60.3	61.3	62.3	63.3	64.3
Opening Value	495,000	524,700	556,182	589,553	624,926	662,422	702,167	744,297	788,955	836,292	886,470	939,658	996,037	1,055,799	1,119,147
Capital Improvements	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Capital Growth	29,700	31,482	33,371	35,373	37,496	39,745	42,130	44,658	47,337	50,178	53,188	56,379	59,762	63,348	67,149
Sale Proceeds	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Closing Value	524,700	556,182	589,553	624,926	662,422	702,167	744,297	788,955	836,292	886,470	939,658	996,037	1,055,799	1,119,147	1,186,296
<b>Unrealised Capital Gain</b>	<b>13,509</b>	<b>50,392</b>	<b>89,164</b>	<b>129,938</b>	<b>172,835</b>	<b>217,981</b>	<b>265,512</b>	<b>315,571</b>	<b>368,309</b>	<b>423,888</b>	<b>482,477</b>	<b>544,257</b>	<b>609,420</b>	<b>678,169</b>	<b>750,719</b>
Realised Capital Gain	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Rental Income	26,000	27,560	29,214	30,966	32,824	34,794	36,881	39,094	41,440	43,926	46,562	49,356	52,317	55,456	58,784
Expenses	6,631	6,830	7,035	7,248	7,467	7,692	7,924	8,163	8,408	8,660	8,919	9,184	9,462	9,748	10,039
Deductible Expenses	6,631	6,830	7,035	7,248	7,467	7,692	7,924	8,163	8,408	8,660	8,919	9,184	9,462	9,748	10,039
Other Deductible Expenses	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Other Non-deductible Expenses	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Depreciation	5,401	5,401	5,401	5,401	5,401	5,401	5,401	5,401	5,401	5,401	5,401	5,401	5,401	5,401	5,401

**Taxation – Individual**

Date	1-Jul-10	1-Jul-11	1-Jul-12	1-Jul-13	1-Jul-14	1-Jul-15	1-Jul-16	1-Jul-17	1-Jul-18	1-Jul-19	1-Jul-20	1-Jul-21	1-Jul-22	1-Jul-23	1-Jul-24
Age	50.29	51.29	52.29	53.29	54.29	55.29	56.29	57.29	58.29	59.29	60.29	61.29	62.29	63.29	64.29
Income															
Earned Income	200,000	208,000	216,400	225,000	234,000	243,400	253,200	263,400	274,000	285,000	296,400	308,200	320,600	333,400	346,800
Gross Salary	200,000	208,000	216,400	225,000	234,000	243,400	253,200	263,400	274,000	285,000	296,400	308,200	320,600	333,400	346,800
Income Support - Pension	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Income Support - Allowance	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Rental Income	26,000	27,560	29,214	30,966	32,824	34,794	36,881	39,094	41,440	43,926	46,562	49,356	52,317	55,456	58,784
Other Taxable (Non Cash)	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Total Assessable Income	226,000	235,560	245,614	255,966	266,824	278,194	290,081	302,494	315,440	328,926	342,962	357,556	372,917	388,856	405,584
Deductions															
Accrued Interest/Fees	27,827	27,827	27,827	27,827	27,827	27,827	27,827	27,827	27,827	27,827	27,827	27,827	27,827	27,827	27,827
Property Expenses/Depreciation	12,032	12,231	12,436	12,649	12,868	13,093	13,325	13,564	13,809	14,061	14,320	14,585	14,863	15,149	15,440
Other Deductions	3,130	2,233	1,607	1,215	970	817	721	662	624	601	0	0	0	0	0
Taxable Income	183,012	193,270	203,744	214,276	225,160	236,457	248,209	260,442	273,180	286,438	300,816	315,144	330,227	345,881	362,317
Loss Generated	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Loss Used	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Carry Forward Loss	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Gross Tax Payable	55,905	60,521	65,235	69,974	74,872	79,956	85,244	90,749	96,481	102,447	108,917	115,365	122,152	129,196	136,593
Tax Payable (Calculated)	55,905	60,521	65,235	69,974	74,872	79,956	85,244	90,749	96,481	102,447	108,917	115,365	122,152	129,196	136,593
Tax Adjustment	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Tax Offsets															
Other Imputation Credits	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Enter Imputation Credits Description ..	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Enter Imputation Credits Description ..	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Enter Imputation Credits Description ..	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Low Income Tax Offset	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Senior Australians Tax Offset (SATO)	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Income Assessed	191,469	200,366	209,392	218,384	227,629	237,182	248,209	260,442	273,180	286,438	300,816	315,144	330,227	345,881	362,317

Calculated Rebate	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Unused Portion	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Max Adjusted Rebate	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Adjusted Rebate Threshold	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Transfer Rebate Payable	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Other Offsets	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Ordinary Tax Payable	55,905	60,521	65,235	69,974	74,872	79,956	85,244	90,749	96,481	102,447	108,917	115,365	122,152	129,196	136,593
Medicare Levy	2,745	2,899	3,056	3,214	3,377	3,547	3,723	3,907	4,098	4,297	4,512	4,727	4,953	5,188	5,435
Medicare Surcharge	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Tax Payable	58,650	63,420	68,291	73,188	78,250	83,503	88,967	94,656	100,579	106,744	113,429	120,092	127,106	134,385	142,027
Average Tax Rate	26.00%	26.90%	27.80%	28.60%	29.30%	30.00%	30.70%	31.30%	31.90%	32.50%	33.10%	33.60%	34.10%	34.60%	35.00%
Marginal Rate (excl Medicare)	45.00%	45.00%	45.00%	45.00%	45.00%	45.00%	45.00%	45.00%	45.00%	45.00%	45.00%	45.00%	45.00%	45.00%	45.00%
Reportable Fringe Benefits	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Other	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0

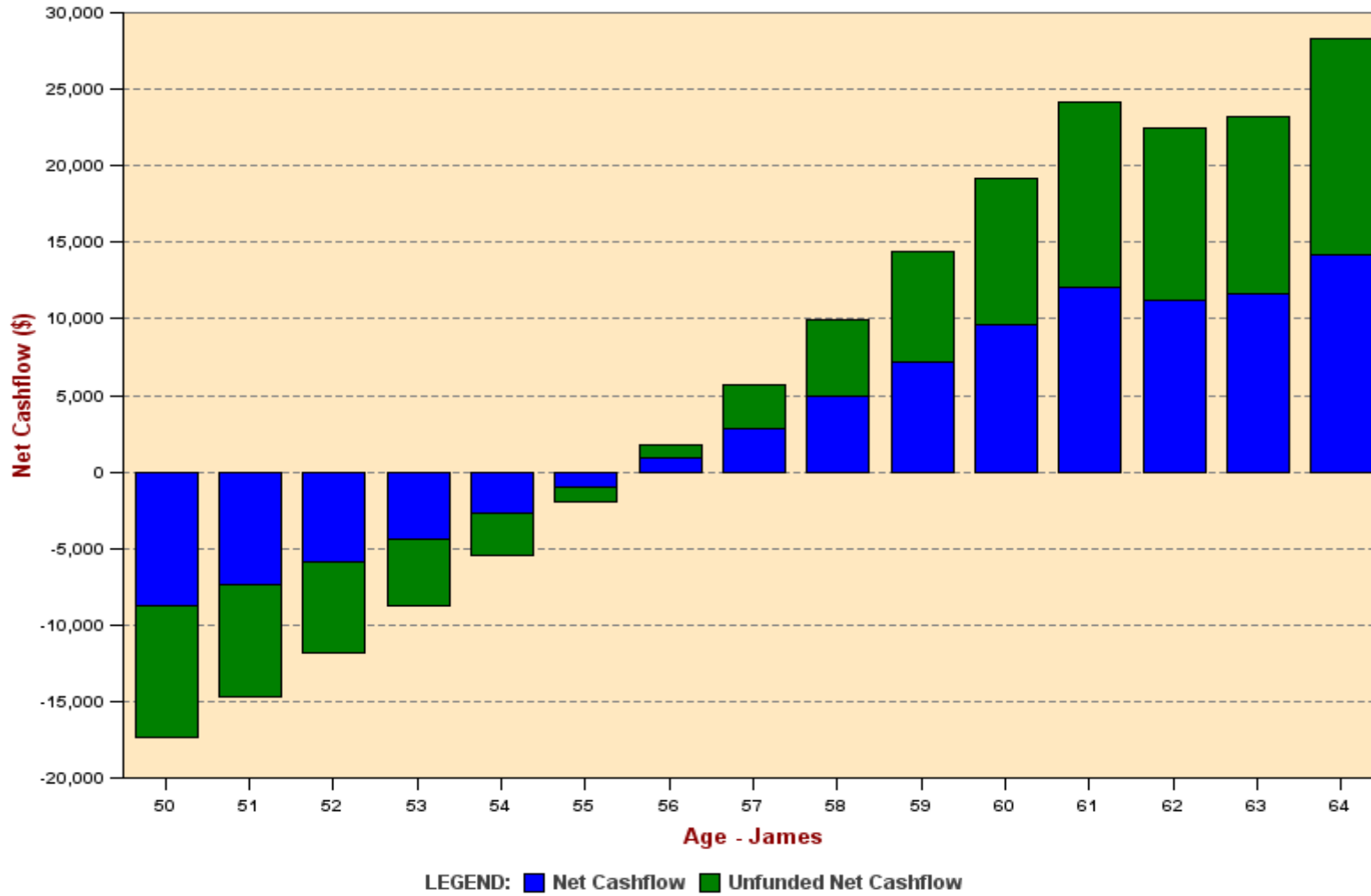
**Taxation - SMSF**

Date	1-Jul-10	1-Jul-11	1-Jul-12	1-Jul-13	1-Jul-14	1-Jul-15	1-Jul-16	1-Jul-17	1-Jul-18	1-Jul-19	1-Jul-20	1-Jul-21	1-Jul-22	1-Jul-23	1-Jul-24
Age	50.3	51.3	52.3	53.3	54.3	55.3	56.3	57.3	58.3	59.3	60.3	61.3	62.3	63.3	64.3
Assessable Portion of Total Assets	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%
Income															
Rental Income	26,000	27,560	29,214	30,966	32,824	34,794	36,881	39,094	41,440	43,926	46,562	49,356	52,317	55,456	58,784
Total Assessable Income	26,000	27,560	29,214	30,966	32,824	34,794	36,881	39,094	41,440	43,926	46,562	49,356	52,317	55,456	58,784
Deductions															
Property Expenses/Depreciation	12,032	12,231	12,436	12,649	12,868	13,093	13,325	13,564	13,809	14,061	14,320	14,585	14,863	15,149	15,440
Accrued Interest/Fees	28,068	28,068	28,068	28,068	28,068	28,068	28,068	28,068	28,068	28,068	0	0	0	0	0
Other Deductions	3,130	2,233	1,607	1,215	970	817	721	662	624	601	0	0	0	0	0
Taxable Income	0	0	0	0	0	0	0	0	0	0	0	0	23,840	40,308	43,343
Loss Generated	17,230	14,972	12,898	10,965	9,081	7,184	5,233	3,199	1,061	0	0	0	0	0	0
Loss Used	0	0	0	0	0	0	0	0	0	1,196	32,242	34,771	13,614	0	0
Carry Forward Loss	17,230	32,202	45,100	56,065	65,146	72,330	77,563	80,762	81,823	80,627	48,385	13,614	0	0	0
Gross Tax Payable	0	0	0	0	0	0	0	0	0	0	0	0	3,576	6,046	6,501
Tax Payable (Calculated)	0	0	0	0	0	0	0	0	0	0	0	0	3,576	6,046	6,501
Tax Offsets															
Other Offsets	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Tax Payable	0	0	0	0	0	0	0	0	0	0	0	0	3,576	6,046	6,501
Contributions Tax															
Taxable Contributions	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Gross Tax Payable	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Imputation Credits Applied	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Loss Applied	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Tax Payable/Excess Credits	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0

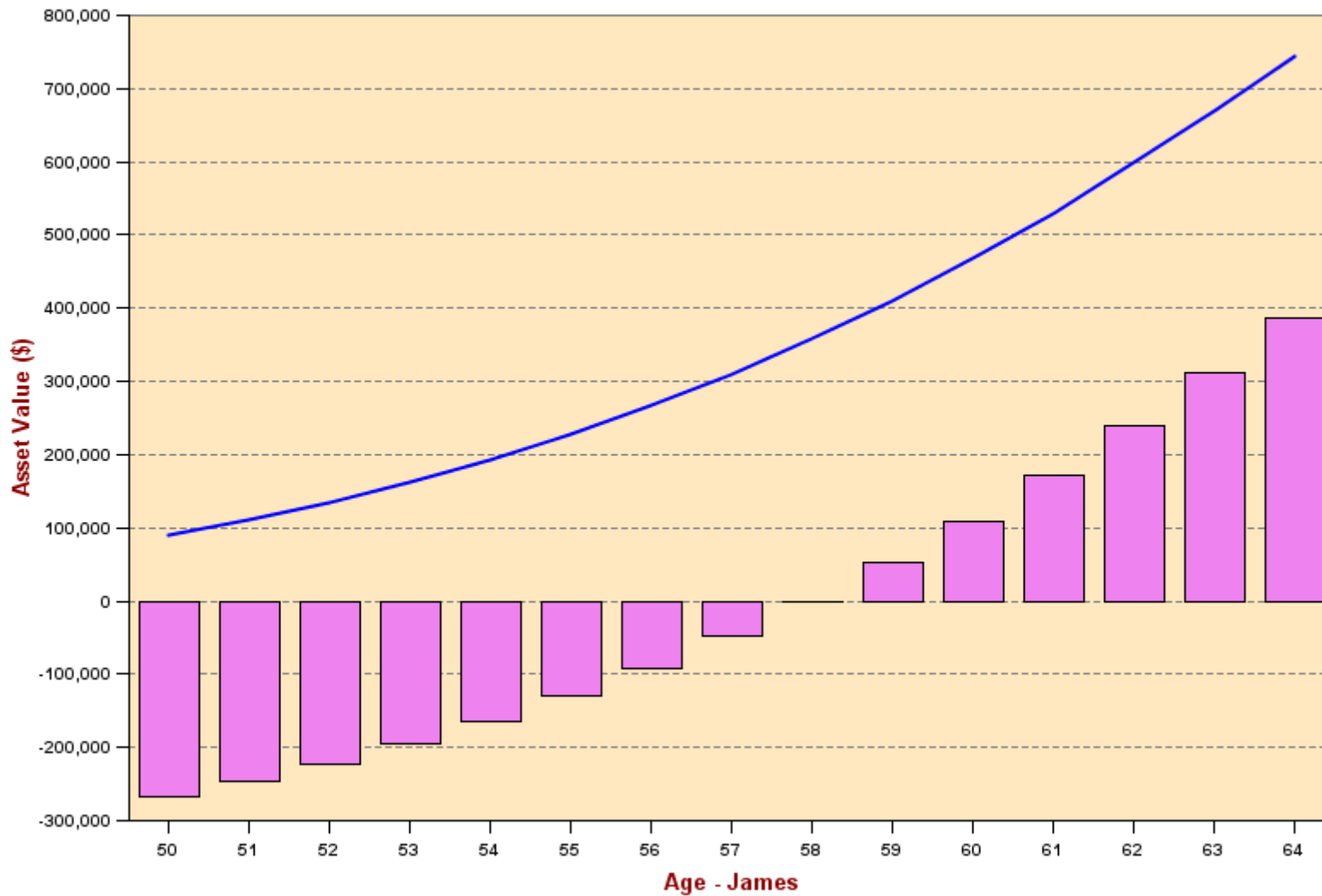


# Charts

### Net Cashflow Analysis - Smith Family Super Fund



### Net Assets (Segregated)



LEGEND: ■ Net Assets - Smith Family Super Fund — Total Assets