DIY super a balm for business costs

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Pharmacy king Terry White … "We'd have to cut back the hours to 8am to 11pm if the property was not in our super fund."
Photo: Glenn Hunt

BY AGNES KING

Pharmacy king pin Terry White said his Coorparoo chemist shop in Brisbane couldn't stay open from 7am to 11pm, 365 days a year, if the property wasn't owned by his self-managed superannuation fund.

"We'd have to cut back the hours to 8am to 6pm if the property was not in our super fund," said Mr White, who has been in the industry for 50 years.

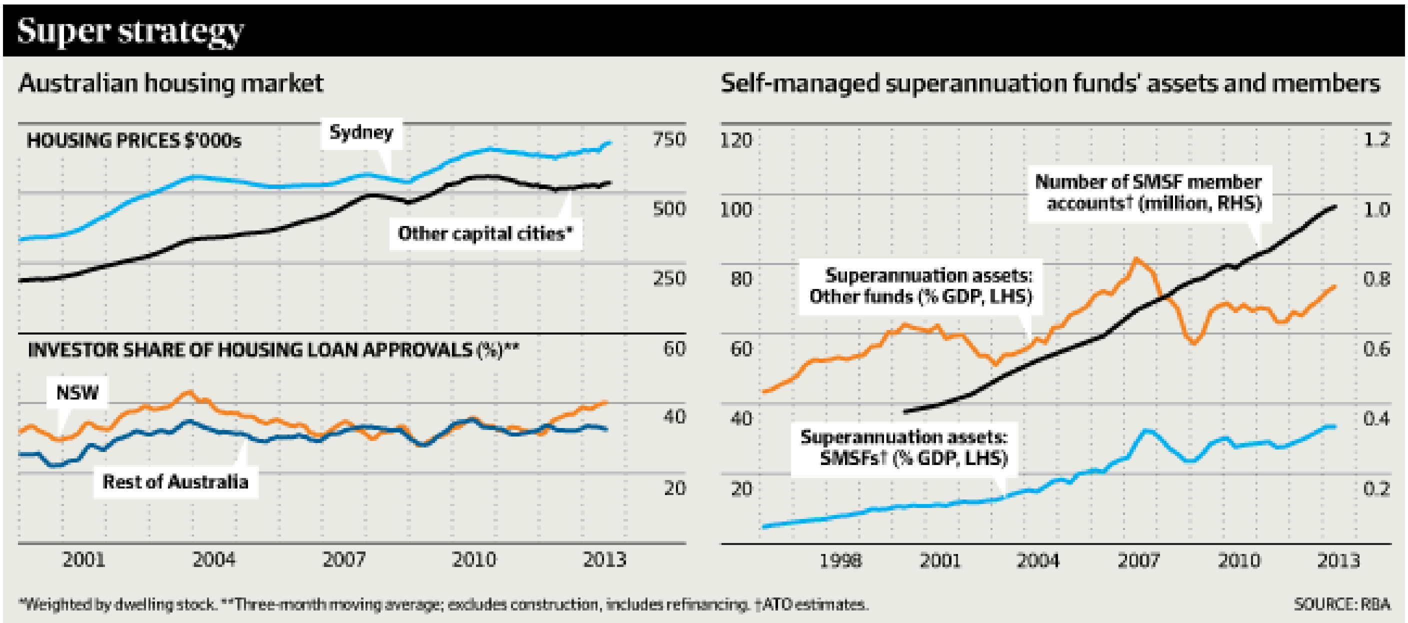
A growing number of families and small business operators are using self-managed super funds – and their low 15 per cent tax rate – to help manage the rising cost of rent and labour, including imposts such as penalty rates, as well as to minimise tax and protect assets.

Self-managed super funds own $80 billion of property, and 77 per cent is commercial, largely due to the range of incentives for small businesses to hold property through their super fund.

The Reserve Bank of Australia warned in September that the big rise in property investment by self-managed super funds could overheat the market.

Mr White said he'd put more stores into super if he could, but most of the 165 Terry White franchises lease and don't own their premises.

Steel fabricator Mark O'Neill is another business owner making the most of self-managed super.



ACCOUNTANT ADVISED BUYING A NEW FACTORY THROUGH SMSF

When he outgrew his western Sydney premises, his accountant, Peter Ristevski, advised buying a bigger factory via a self-managed super fund.

Mr O'Neill used $300,000 he had tied up in super as a deposit on a $1 million facility. The balance is debt-funded. He pays rent to the self-managed super fund, which is tax deductible, and income earned in the fund is taxed at 15 per cent, instead of 30 per cent for a company.

"It's boosted his super returns from 4 per cent to 5 per cent growth per annum, to around 10 per cent because of the rental returns, capital growth and the security of the investment in industrial property," Mr Ristevski said.

Mr O'Neill also saves $6000 a year in land tax since, unlike trusts, self-managed super funds qualify for state land tax exemptions.

Mr White said owning the building his business is housed in lets him keep rent low for the three years it generally takes for a pharmacy to become profitable.

"No landlord would see the long-term vision," he said. "It gives us wider usage clause and sub-leasing rights."

Advisers said self-managed funds were growing in popularity as a business vehicle and might challenge the family trust.

"Trusts are still seen as the best structure for the preservation of capital and the intergenerational transfer of assets," says Chan & Naylor financial planner David Hasib.

ESTATE PLANNING BENEFITS ATTRACTING ATTENTION

"But certain aspects of self-managed super funds, such as estate planning opportunities and antidetriment benefits, are attracting attention."

The ability to pay minors and the prudential regulator's definition of "adult dependents" income taxed at 15 per cent is a big inducement.

It's one reason Class Super chief executive Rajarshi Ray owns his vineyard and alpaca farm through his self-managed super fund.

"In a trust, income distributions to a minor are taxed at horrific rates; they're treated as adults," Mr Hasib said.

There is also growing awareness of its benefits as an asset protection vehicle.

"Case law to date protects super from attacks by creditors," said Mike Fitzpatrick, PwC partner in charge of estate planning.

This makes it more robust than trusts as an asset protection vehicle "so long as it's done fair dinkum and not to dud creditors", he said.

With more blended families around, Mr Hasib said people like the fact that super is not considered part of the estate. However, advisers caution that self-managed super is not the panacea to cure all ills.

Deloitte super expert Russell Mason said that although he's seeing some intergenerational transfer through SMSFs, "it still very early days" and he didn't believe it was widespread.

Kel Fitzalan, a partner in PwC's private client practice, finds it hard to believe they will ever supersede trusts.

"Super funds broadly are not designed for intergenerational wealth transfer. They are not a meaningful vehicle a wealthy family will employ because there are limits to what you can do.

"The requirements of SMSFs limit capital investment and the movement of assets between generations."

The RBA's September financial stability review states the share of property assets held by self-managed funds has increased over the past six years, partly driven by changes to legislation that made direct property investment both more appealing and more accessible.

These include changes that mean any property-related retirement benefits would be tax-free for members over 60 years of age. In addition, a small business owner is able to transfer business property (and other business assets) into an SMSF and receive a capital gains tax exemption up to a lifetime limit of $500,000.

The Australian Financial Review