

Tax-effective gearing for SMSFs

Give your SMSF clients a great start to the financial year, with geared solutions that could multiply their returns

New legislative changes could make gearing (or borrowing to invest) within self managed super an attractive value proposition and further emphasise the importance of the 30 June contribution deadline. The Commonwealth Bank offers two limited recourse lending packages for SMSFs: SuperGear for property investments and the Protected Loan for Australian share investments.

The changes

Two important changes were announced in the 2009 federal budget, which limit an individual's ability to grow their super and potentially impact their plans for retirement:

Change	Current rules	New rules from 1/7/09
Pre-tax contribution limits halved	Investors receive tax concessions for salary-sacrificed super contributions and other employee contributions, up to these limits: <ul style="list-style-type: none"> Under 50 years of age: \$50,000 a year Over 50 years of age: \$100,000 a year 	Limits reduced to: <ul style="list-style-type: none"> Under 50 years of age: \$25,000 a year Over 50 years of age: \$50,000 a year
Co-contributions decreased	The government makes a 150% co-contribution when eligible investors make personal contributions, up to a \$1,500 annual limit.	<ul style="list-style-type: none"> Co-contribution temporarily reduced to 100% Limit reduced to \$1,000

These changes suggest that now could be a good time to start discussing new strategies with your clients, such as gearing.

The benefits of borrowing to invest

Gearing has the potential to magnify any rise in the value of your investments. That could make it an ideal strategy in a market where asset prices have fallen, with the potential to rise again when the economy recovers. Gearing also offers many other benefits:

- Tax deductions
- The ability to diversify across more asset classes
- Increased capital gains
- Increased yield
- Reduced investing costs

Of course, just as borrowing can heighten returns, it can also heighten losses, so you should be aware of the risks associated with gearing.

Our geared super solutions

	SuperGear	Protected Loan
At a glance	<ul style="list-style-type: none"> Borrow to invest in an investment property through your SMSF Currently available under the SuperGear lending facility 	<ul style="list-style-type: none"> Borrow to invest in shares through your SMSF Currently available under the Options and Lending Facility
Asset class	<ul style="list-style-type: none"> Real property – Residential, Commercial or Rural 	Listed Australian shares
Term	<ul style="list-style-type: none"> Residential: up to 30 years Commercial and rural: up to 15 years 	Up to 5 years
Gearing level (LVR)	<ul style="list-style-type: none"> Residential: up to 80% value Commercial and Rural: up to 65% value 	Up to 100%
Minimum loan amount	\$200,000	\$25,000
Interest rate	Carded Better Business Loan interest rates, fixed or variable	Fixed or variable. A reduced rate is available.
Loan payments	Principle and interest monthly in arrears	Annually in advance* or monthly in arrears
Benefits	<ul style="list-style-type: none"> Buy better quality assets Diversify your portfolio Accelerate wealth creation Maximise superannuation taxation advantages 	<ul style="list-style-type: none"> Choose your LVR Potential interest deductions Receive dividends and potential franking credits Potential for enhanced income and capital growth due to nature of gearing

* Fixed rate loans only.

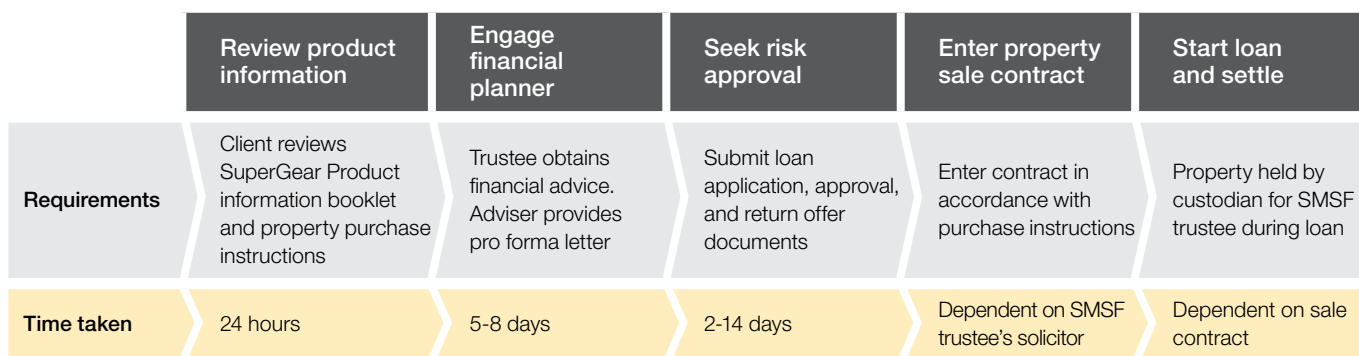


	SuperGear	Protected Loan
Margin calls	No	No
Serviceability requirements	<ul style="list-style-type: none"> Interest cover: 125% of the SMSF's estimated annual interest payment required Investment property rental income directed toward servicing the loan Individual indemnities are required above specific LVR thresholds: <ul style="list-style-type: none"> Residential: 50% Commercial and Rural: 40% Minimum SMSF net assets of \$300,000 (including the proposed geared investment property) 	<ul style="list-style-type: none"> Supporting documentation, as outlined in the PDS (including Terms and Conditions) will be required to determine serviceability. Loans are subject to credit approval For corporate trustees, charge to be registered with ASIC using Form 309
Application Process	<ul style="list-style-type: none"> Provide details on checklist for loan application On receipt of approval, follow property purchase instructions 	<ul style="list-style-type: none"> Complete the application form in the PDS

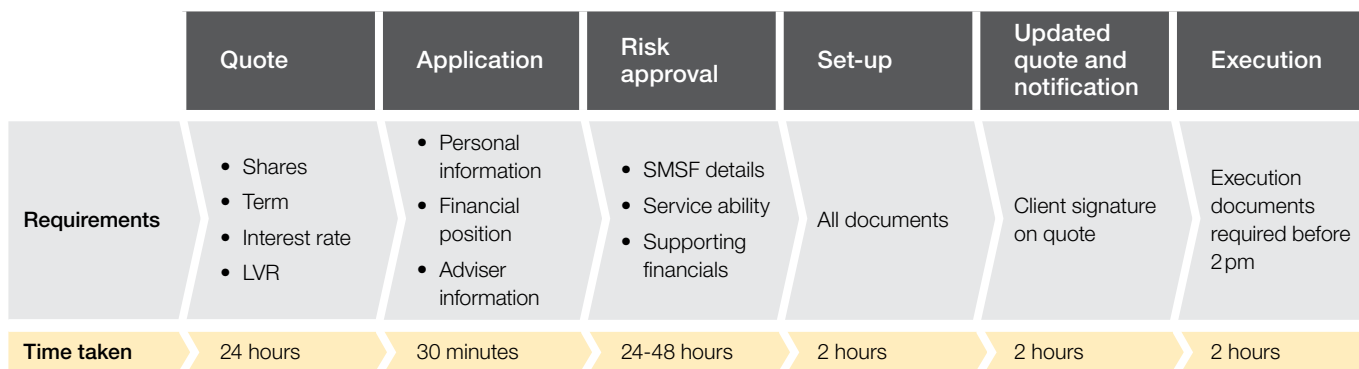
Process and timeframes

These are indicative timeframes only.

SuperGear



Protected loan



Contacts

	SuperGear	Protected Loan
Intermediaries and referral partners	Contact a Commonwealth Bank Relationship Manager, email supergearbroker@cba.com.au or visit commbankbrokers.com.au	Contact Commonwealth Bank Structured Investments on 1300 786 039 or email structuredproductsdirect@cba.com.au

Important Information: This document is intended for the use of financial advisers only.

In relation to SuperGear: customers should be provided with a Product Information Booklet (PIB) which covers the main risks and benefits of SuperGear. The PIB itself is not an offer or invitation in relation to a loan. Full terms and conditions are included in the Loan offer. The latest version of this Product Information Booklet (PIB) can be found on the Commonwealth Bank website at www.commbank.com.au/supergear. Any updated PIB versions will be published on the Commonwealth Bank website. All applications for the SuperGear lending facility are subject to the Commonwealth Bank's credit approval process. Fees and charges apply. Customers should read the PIB in full before deciding whether to use the arrangements offered by SuperGear to invest in real property having regard to amongst other things investment objectives and financial circumstances, and the merits and risks involved in the investment. Professional advice in assessing the appropriateness of using the arrangements offered by SuperGear to invest in real property should be sought. Applications for finance are subject to the Commonwealth Bank's normal credit approval.

In relation to the Protected Loan: All features of the Protected Loan are outlined in the Product Disclosure Statement (PDS) for the Commonwealth Bank Options and Lending Facility and the associated Terms and Conditions. A copy of the PDS can be downloaded from commsec.com.au or requested by calling the Structured Investments Team on 1300 786 039. Clients should consider the PDS before making any investment decision on the Protected Loan. The Options and Lending Facility is provided by Commonwealth Bank and administered by its wholly owned but non-guaranteed subsidiary Commonwealth Securities Limited ABN 60 067 254 399 (CommSec), a Participant of the ASX Group. Bank and Government charges apply. Applications for Protected Loans are subject to Commonwealth Bank's normal credit approval. The Options and Lending Facility provides sophisticated financial products which may involve dealing in derivatives. Unless an investor is familiar with derivative dealings and such products, these products may not be suitable for them.