



CAVENDISH

LIMITED RECOURSE BORROWING THE GOOD, THE BAD & THE OPPORTUNITY

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National Head of Education

DISCLAIMER

Don't do this at home.



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LIMITED RECOURSE BORROWINGS



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- Used to acquire a new asset (can't finance existing assets)
 - Only business real property from yourself or related parties
- The asset is held on trust (not directly by the Fund) even though the Fund is the borrower
 - Buy the property in the correct name
- The Fund will acquire title to the asset when it's paid off
- The lender can only sell up the Fund asset that has been acquired if there is a default though the lender may also take personal guarantees or security over non-Fund assets
- A licensed financial planner must sign off on the suitability of the arrangement (not yet legislated) but generally required by the lender

LIMITED RECOURSE BORROWINGS



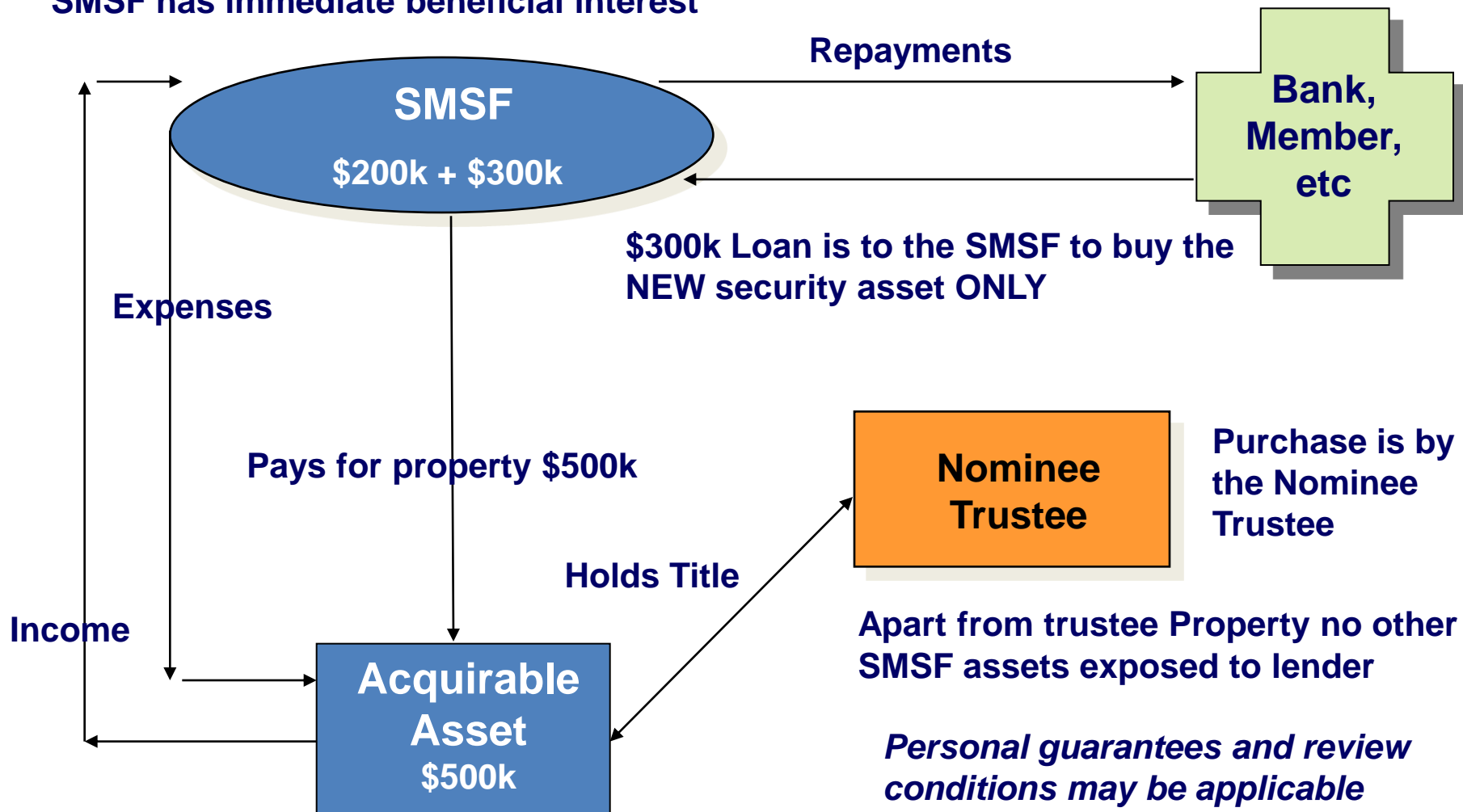
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- Different from 7th July 2010
- Only a single property can be held per Limited Recourse Borrowing arrangement
- Borrowing can include expenses incurred in connection with the borrowing, acquisition, maintenance or repair of the asset and accrued interest **but not improvements**
 - Construction & off the plan purchases are a problem
- Improvements cannot occur even if borrowed monies are not used as this is regarded as a replacement asset
- Refinancing is allowable
 - Issues if using bank's custodial trust
- Assets can't be replaced (limited exceptions)



THE STRUCTURE

SMSF has immediate beneficial interest



LIMITED RECOURSE BORROWINGS



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- Source of Finance
- Set Up Cost & Running Costs
- Cash Flow (Negative Gearing)
- Future contributions
- Appropriate asset types
- Acquirable assets
- Trading the asset
- Personal Guarantees
- Loan Review Risk
- Death

BORROWING ISSUES ON DEATH



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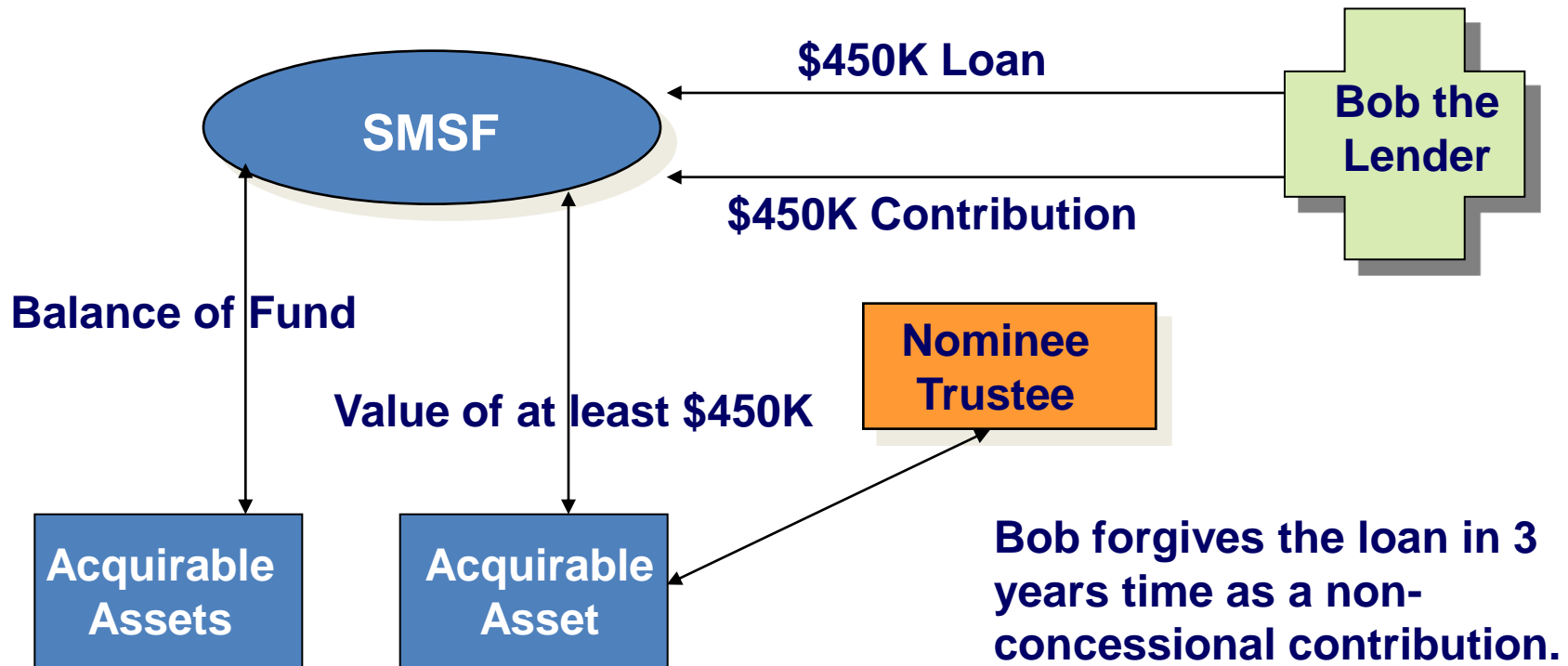
- Lender may call up loan
- Asset may need to be liquidated/paid out of the Fund
- Can beneficiaries refinance
- CGT in the Fund
- Tax payable by adult independent children
- Life Insurance
- Reserves
- Deed wording

LIMITED RECOURSE BORROWINGS TIP



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Bob is single, employed, 55, with a \$900K inheritance from his Mum's estate. He wants to put it into Super but is caught by the non-concessional contribution caps.



DIRECT PROPERTY



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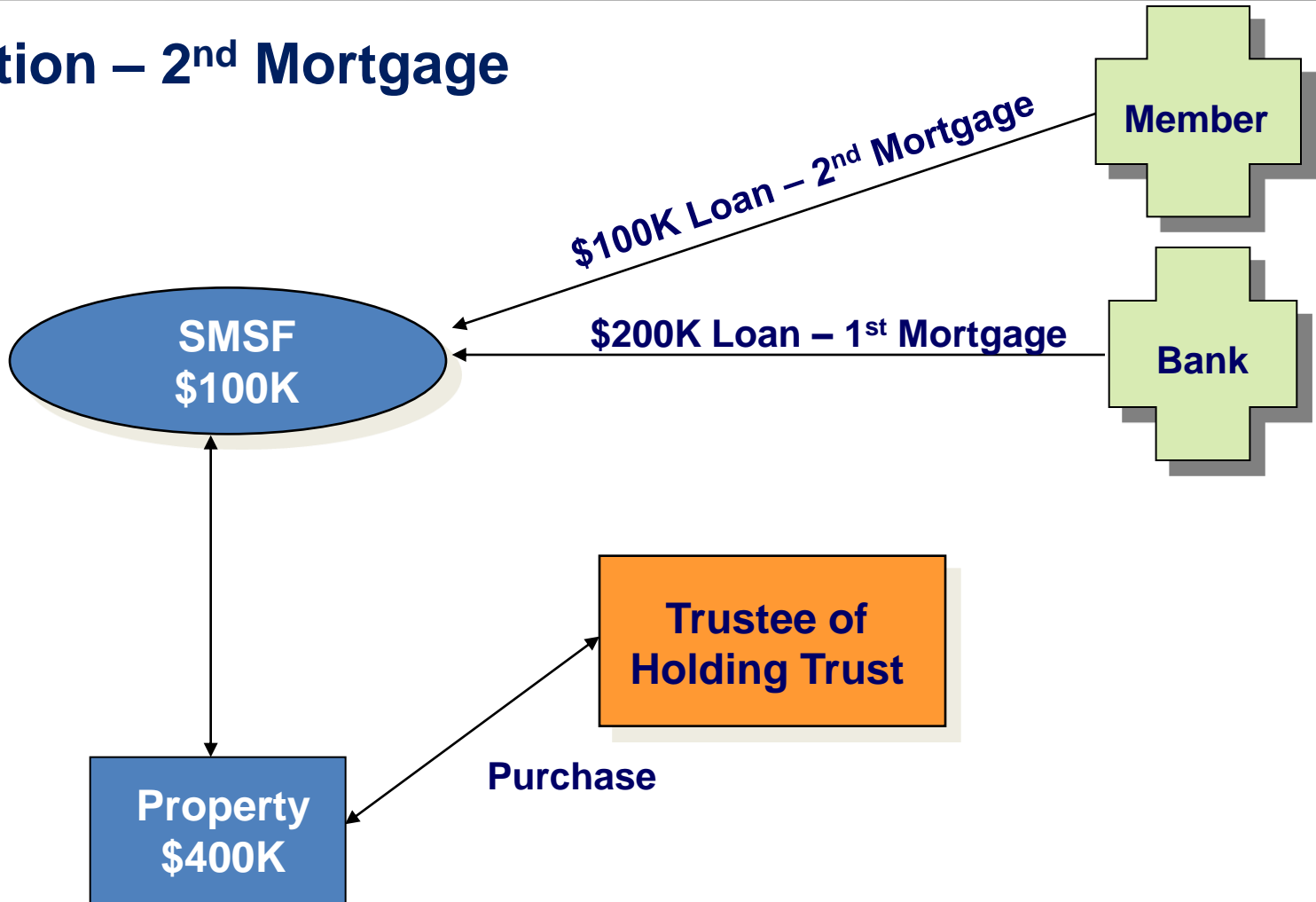
VARIATIONS

LIMITED RECOURSE BORROWINGS



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Variation – 2nd Mortgage

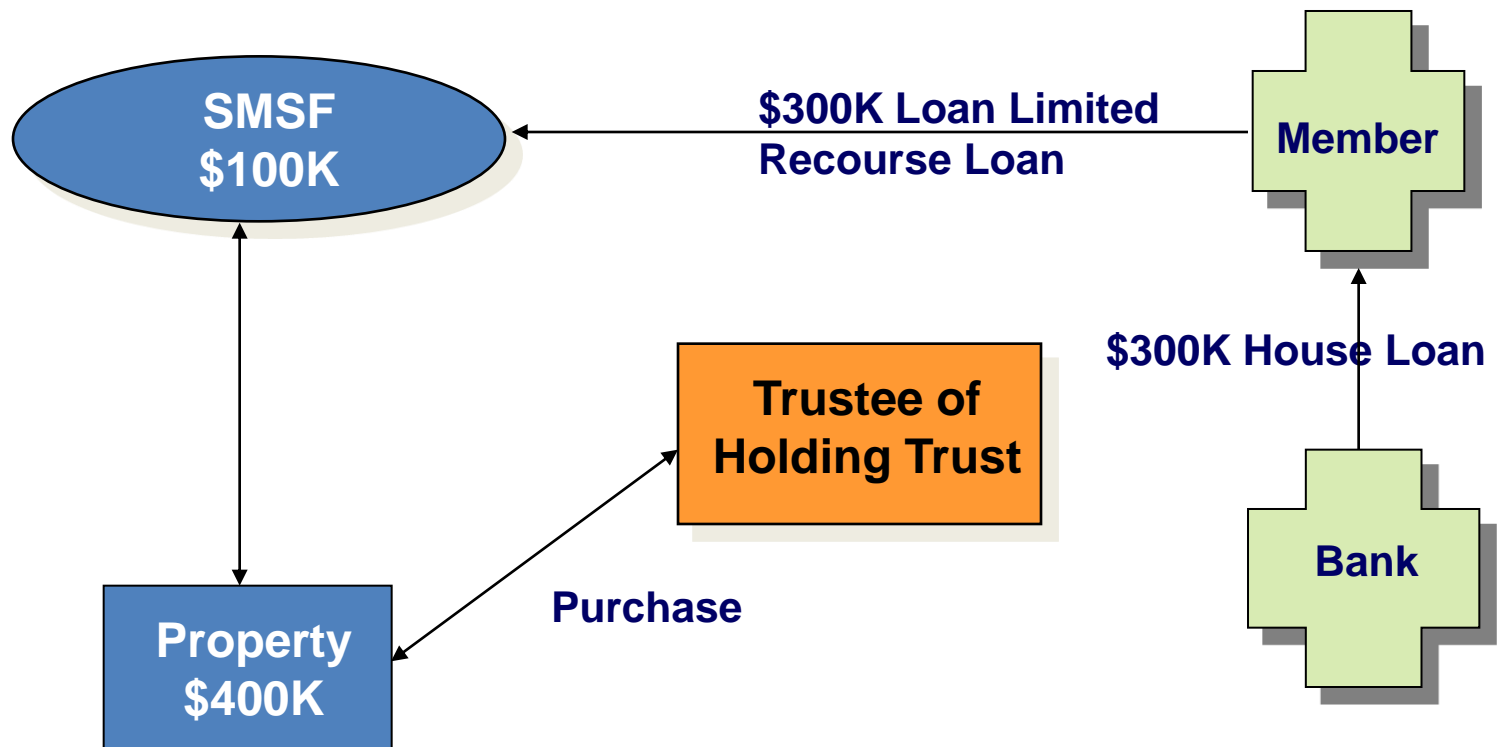


LIMITED RECOURSE BORROWINGS



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Variation – Back to Back Loans

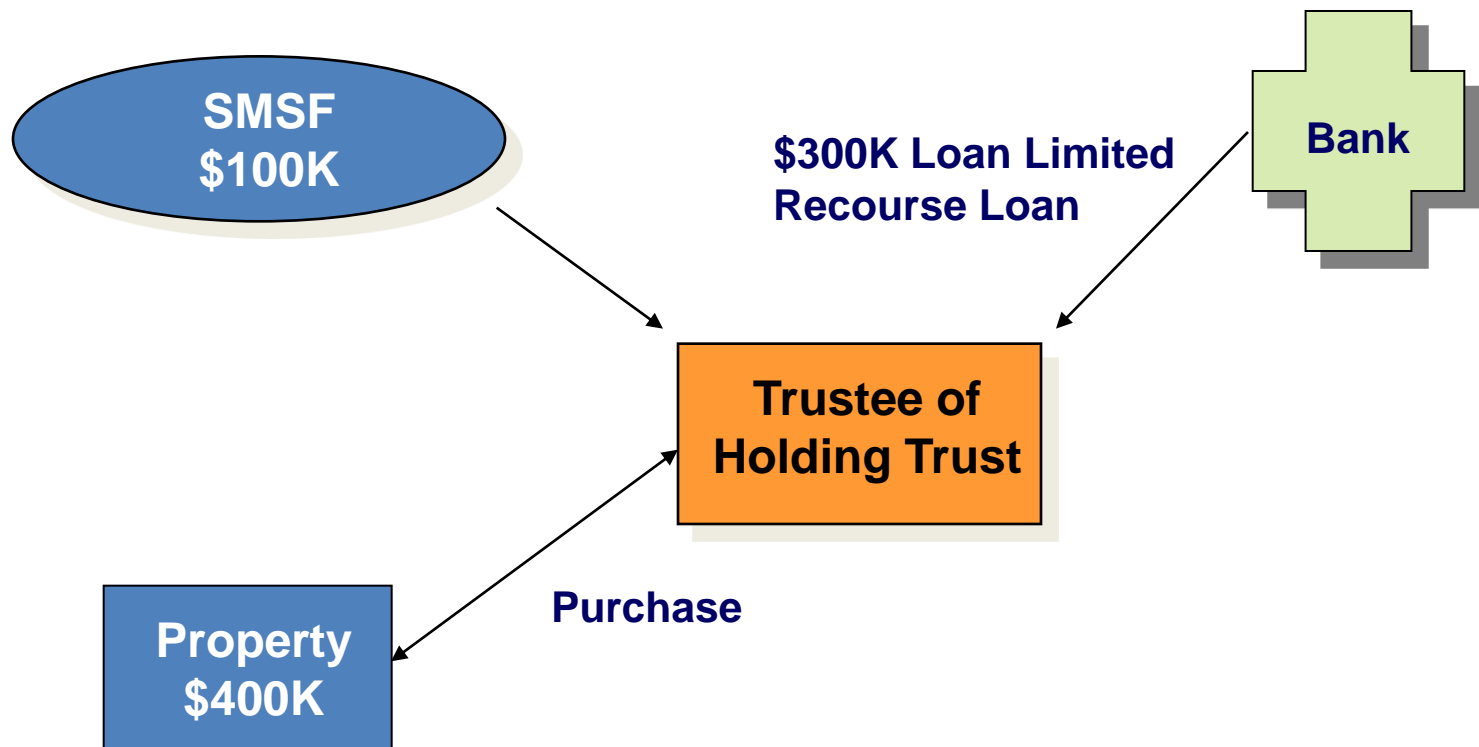


LIMITED RECOURSE BORROWINGS



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Variation - Custodial Arrangement



LRB PROCESS



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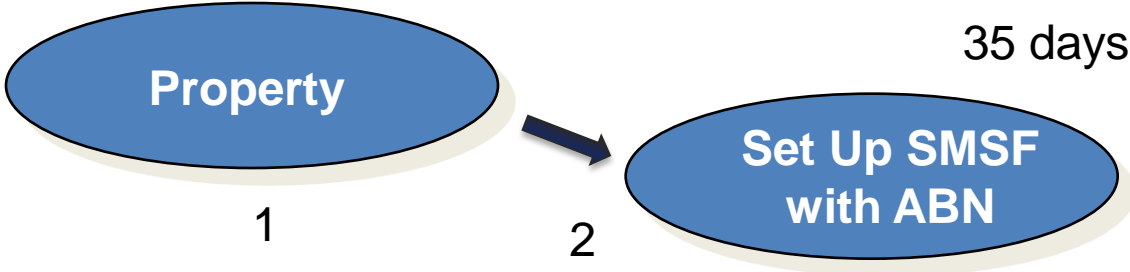
Property

1

LRB PROCESS



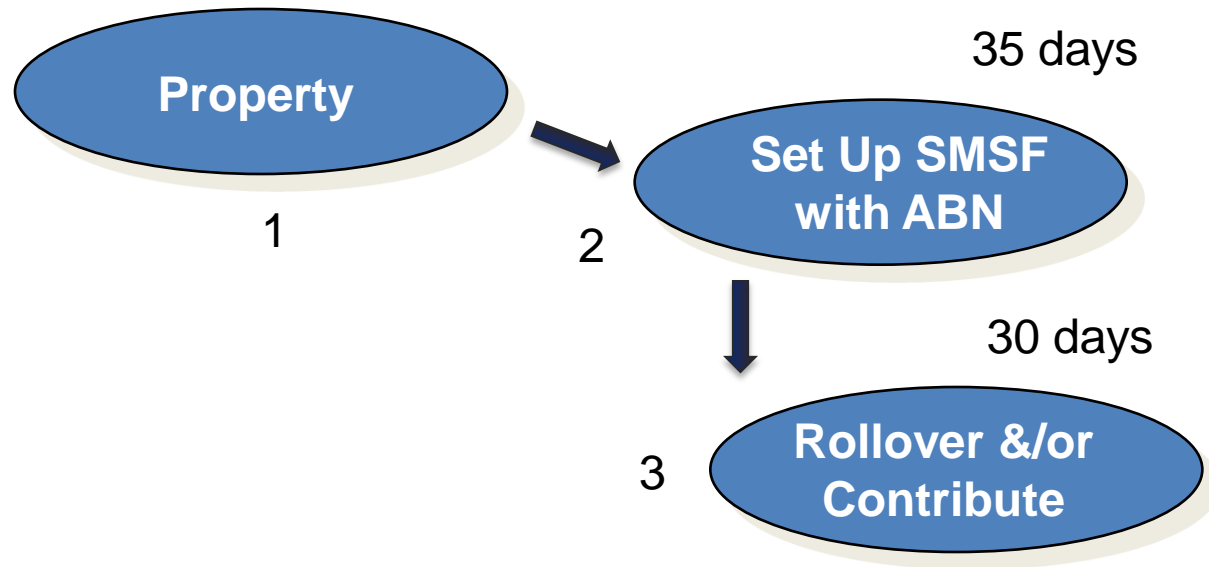
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LRB PROCESS



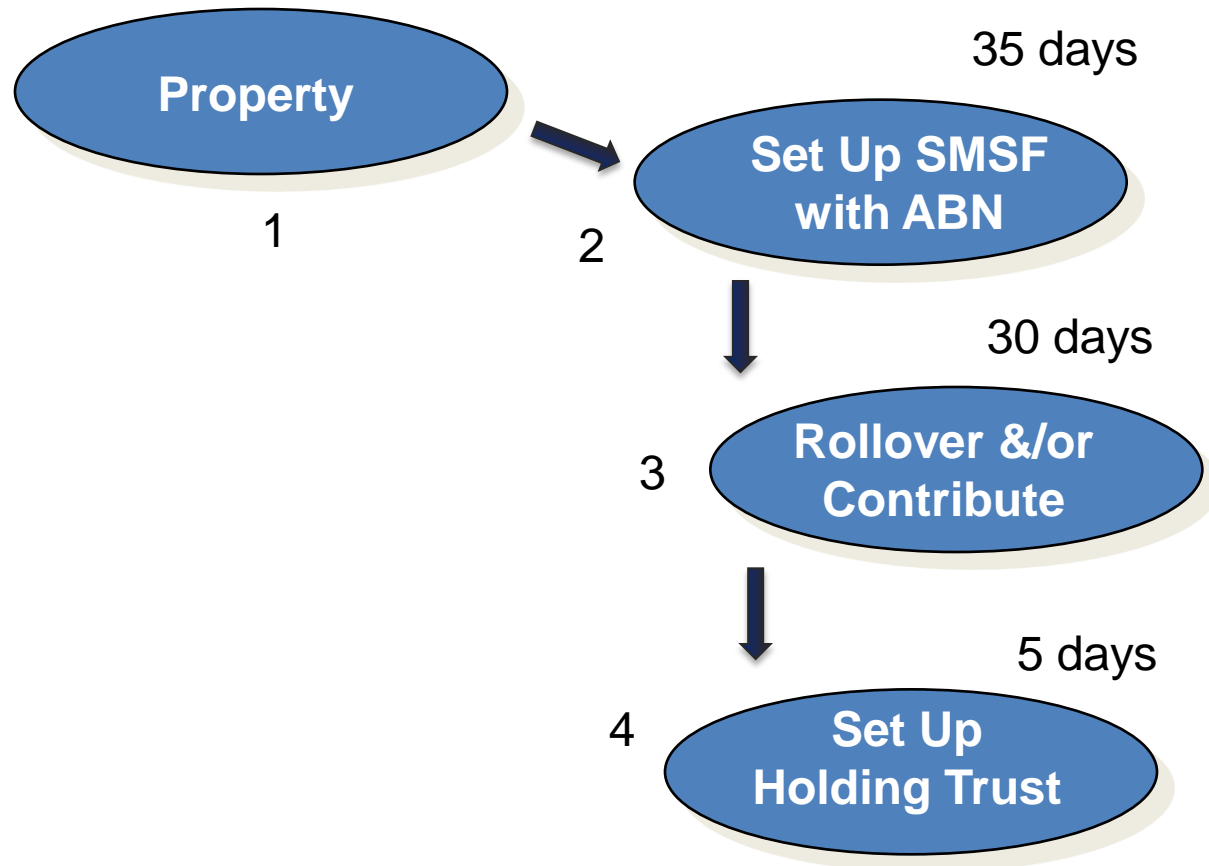
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LRB PROCESS



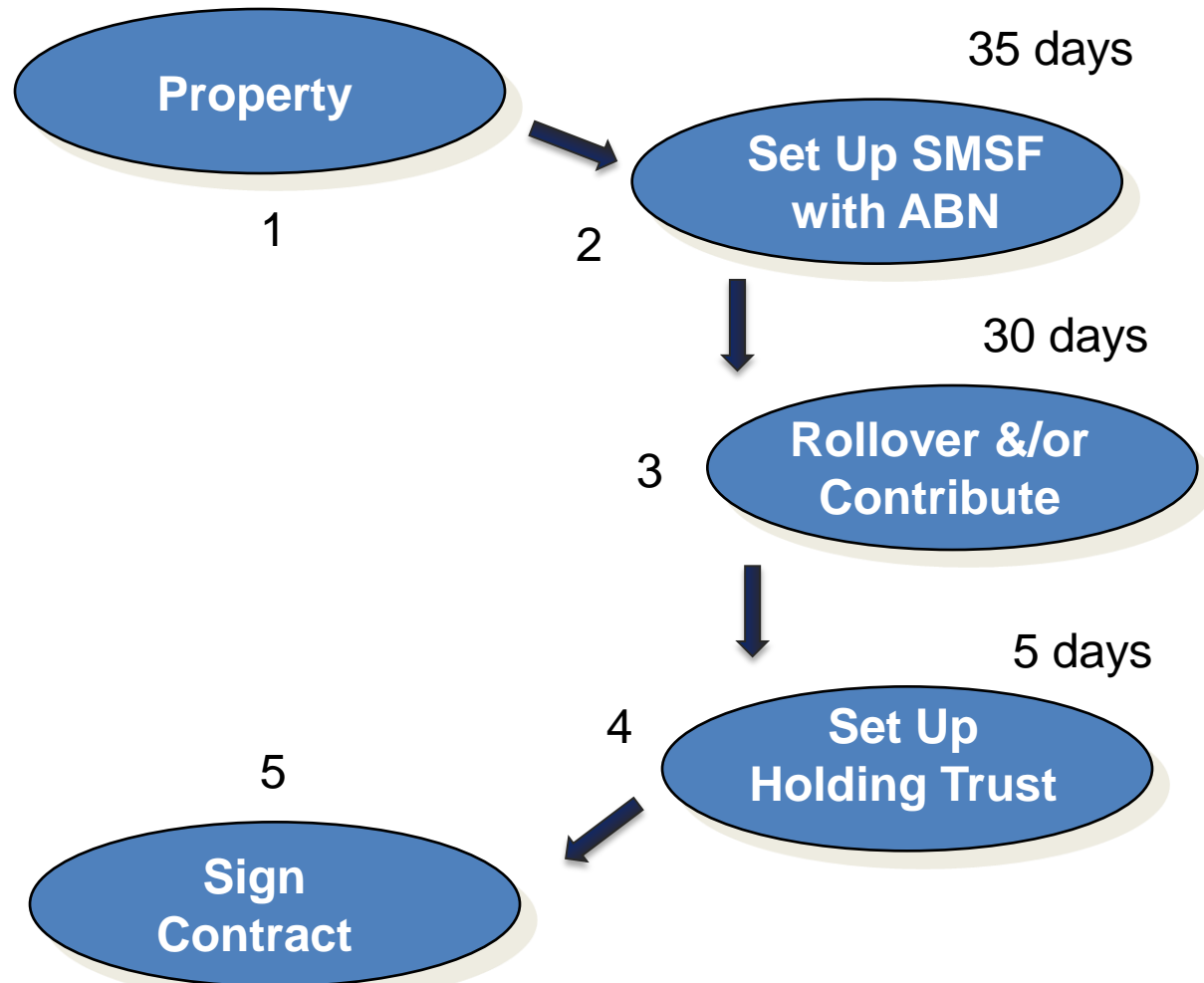
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LRB PROCESS



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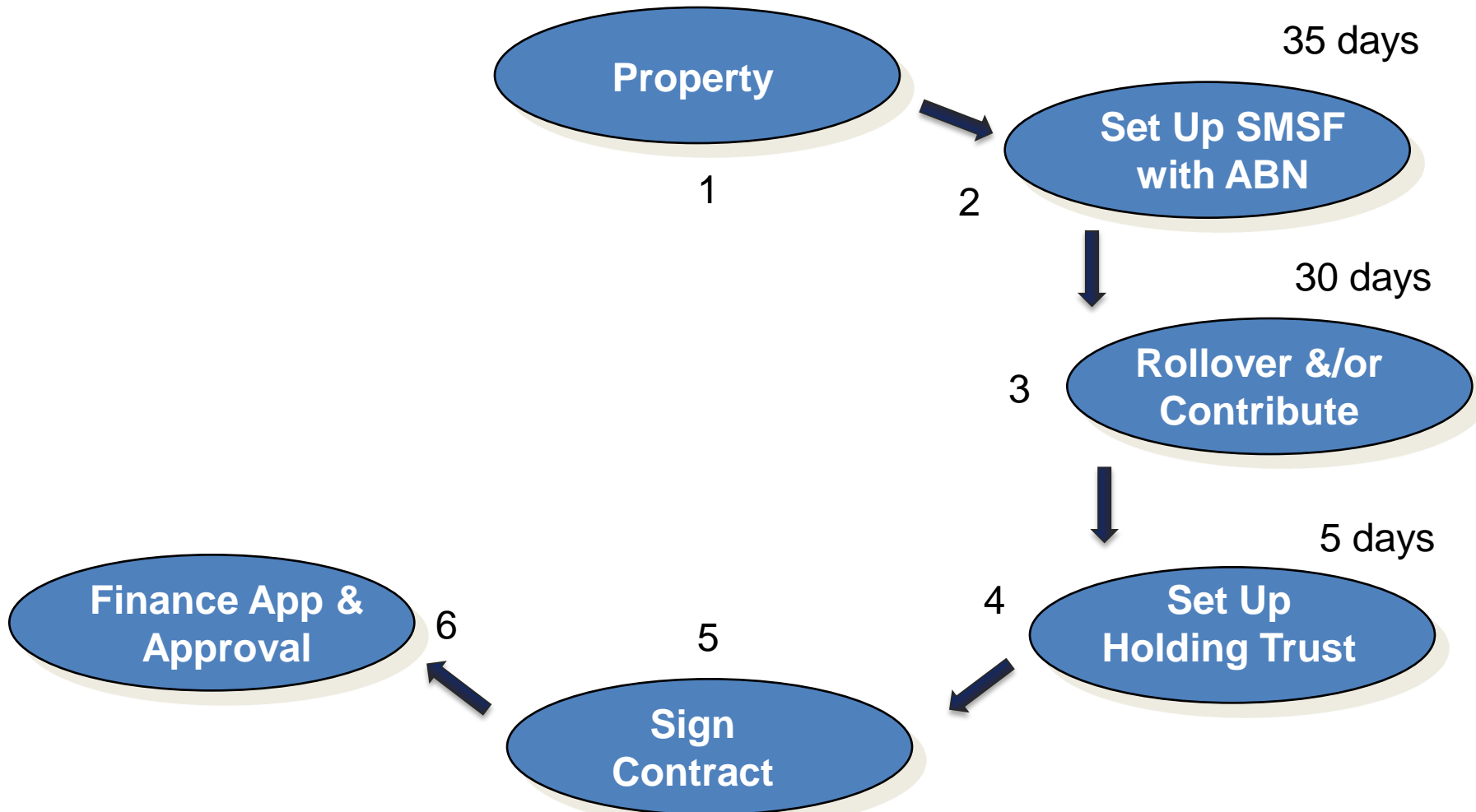


Trustees as Trustees For the XYZ Holding Trust

LRB PROCESS



CAVENDISH

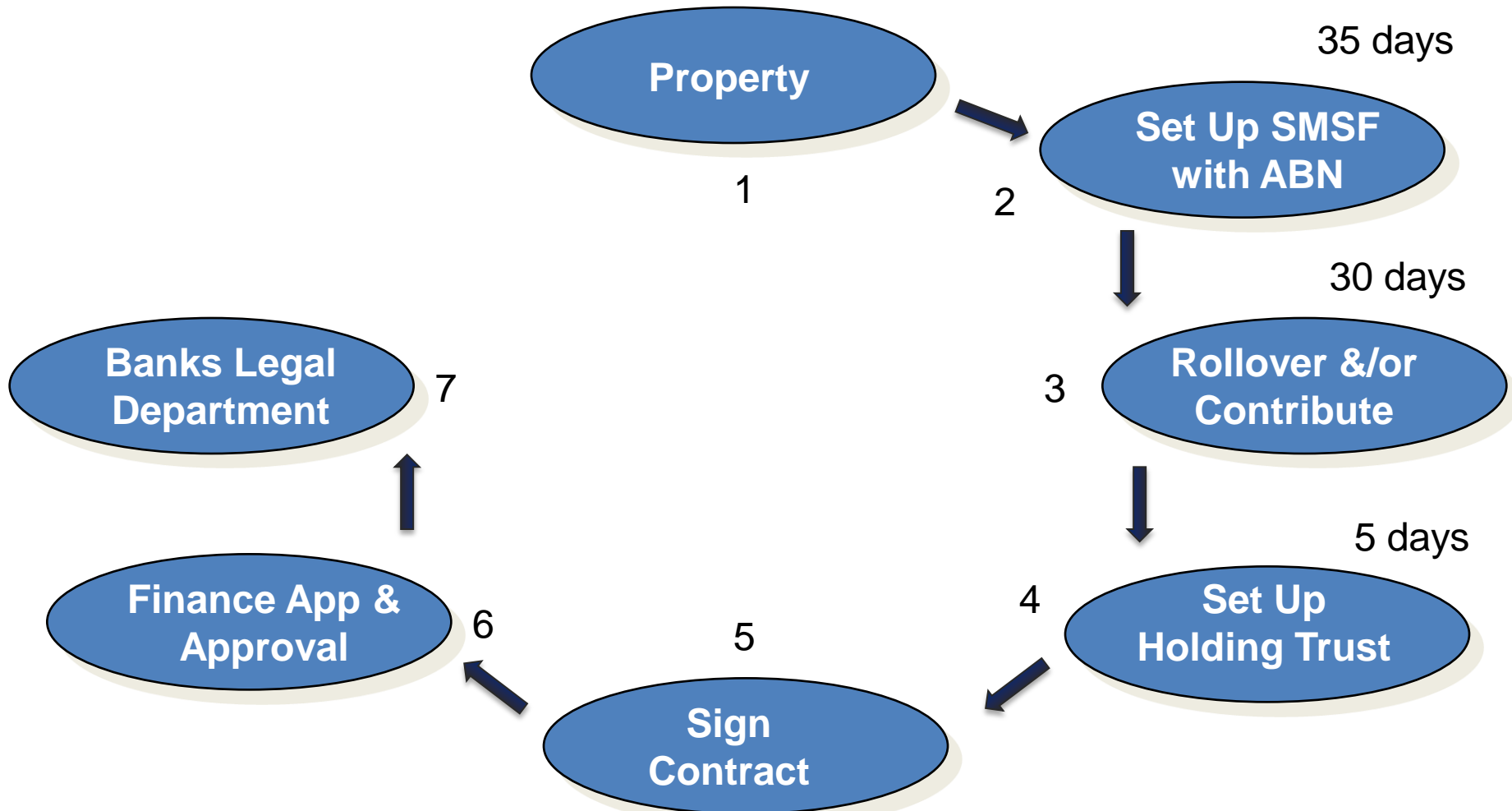


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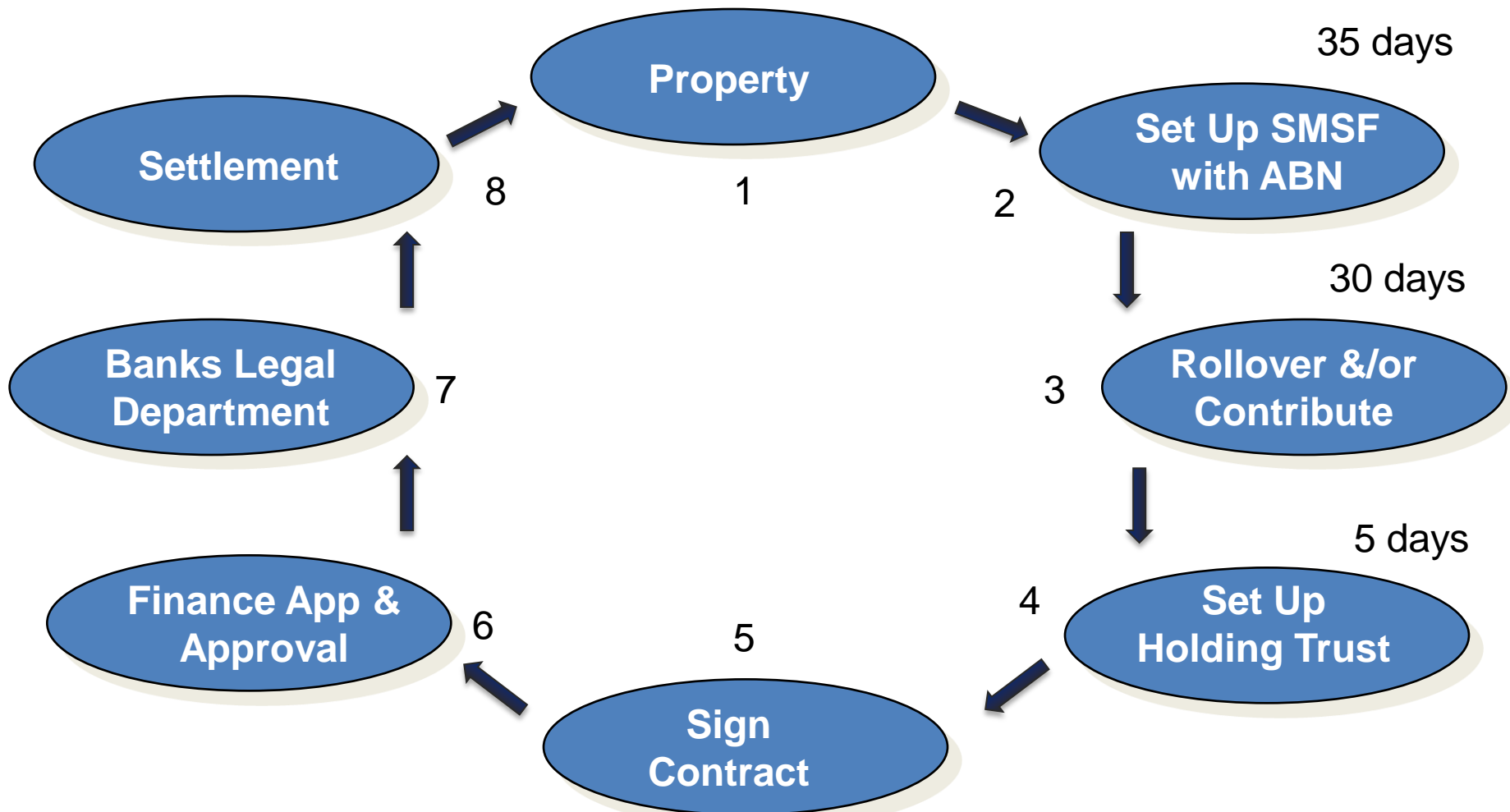


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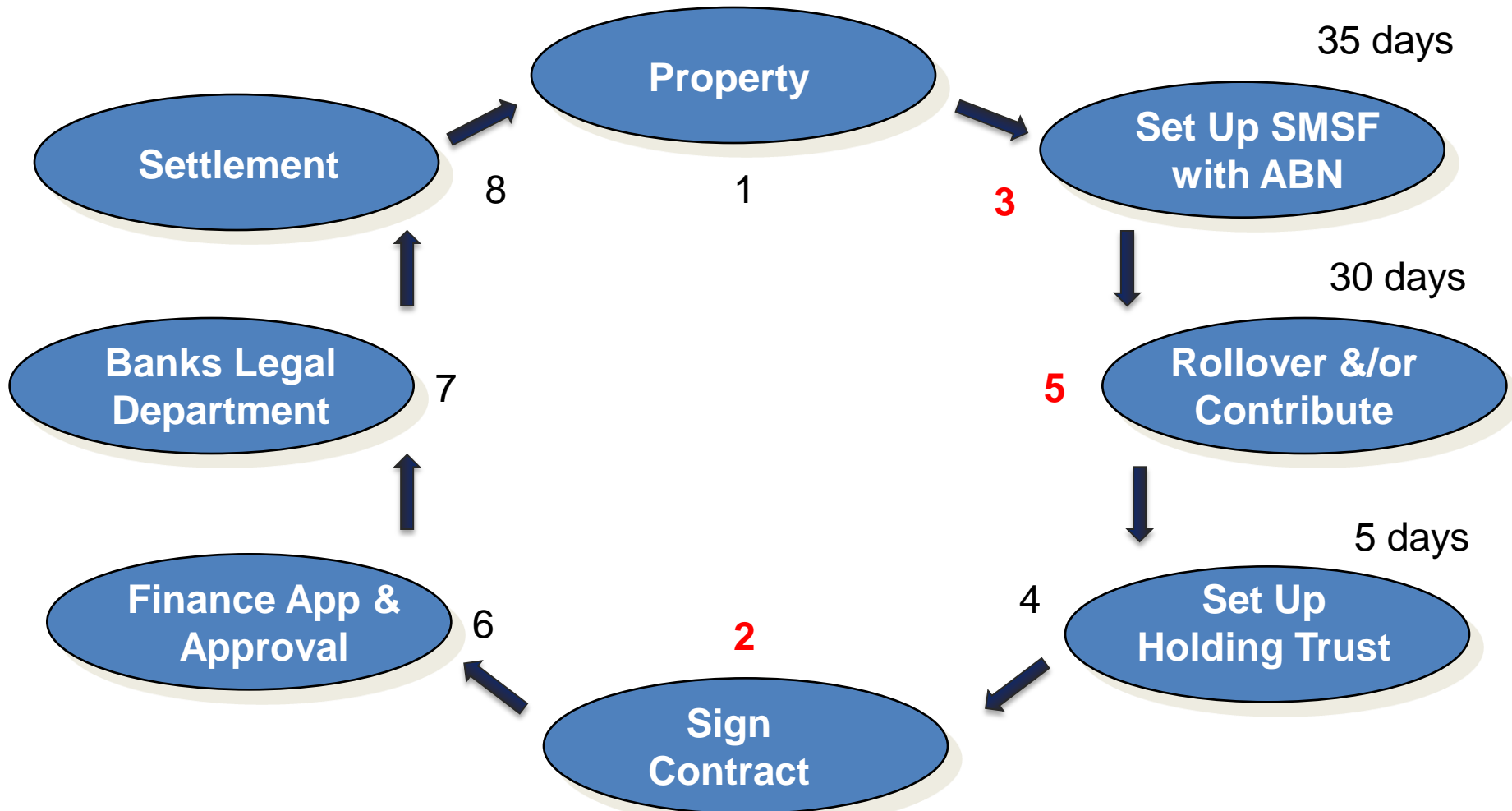


Trustees as Trustees For the XYZ Holding Trust

LRB PROCESS MOST COMMONLY ADOPTED



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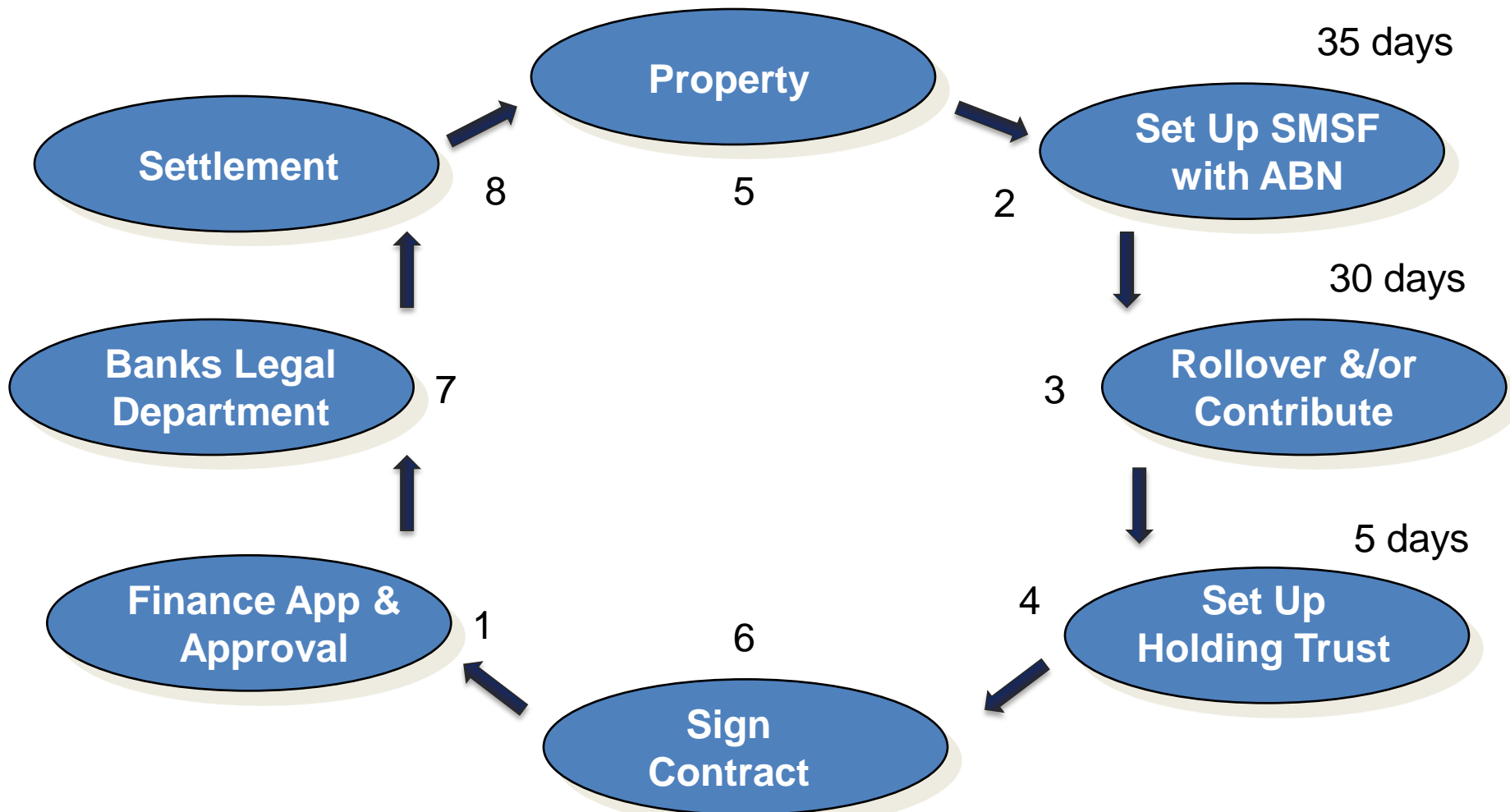


Trustees as Trustees For the XYZ Holding Trust

BEST PRACTICE LRB PROCESS



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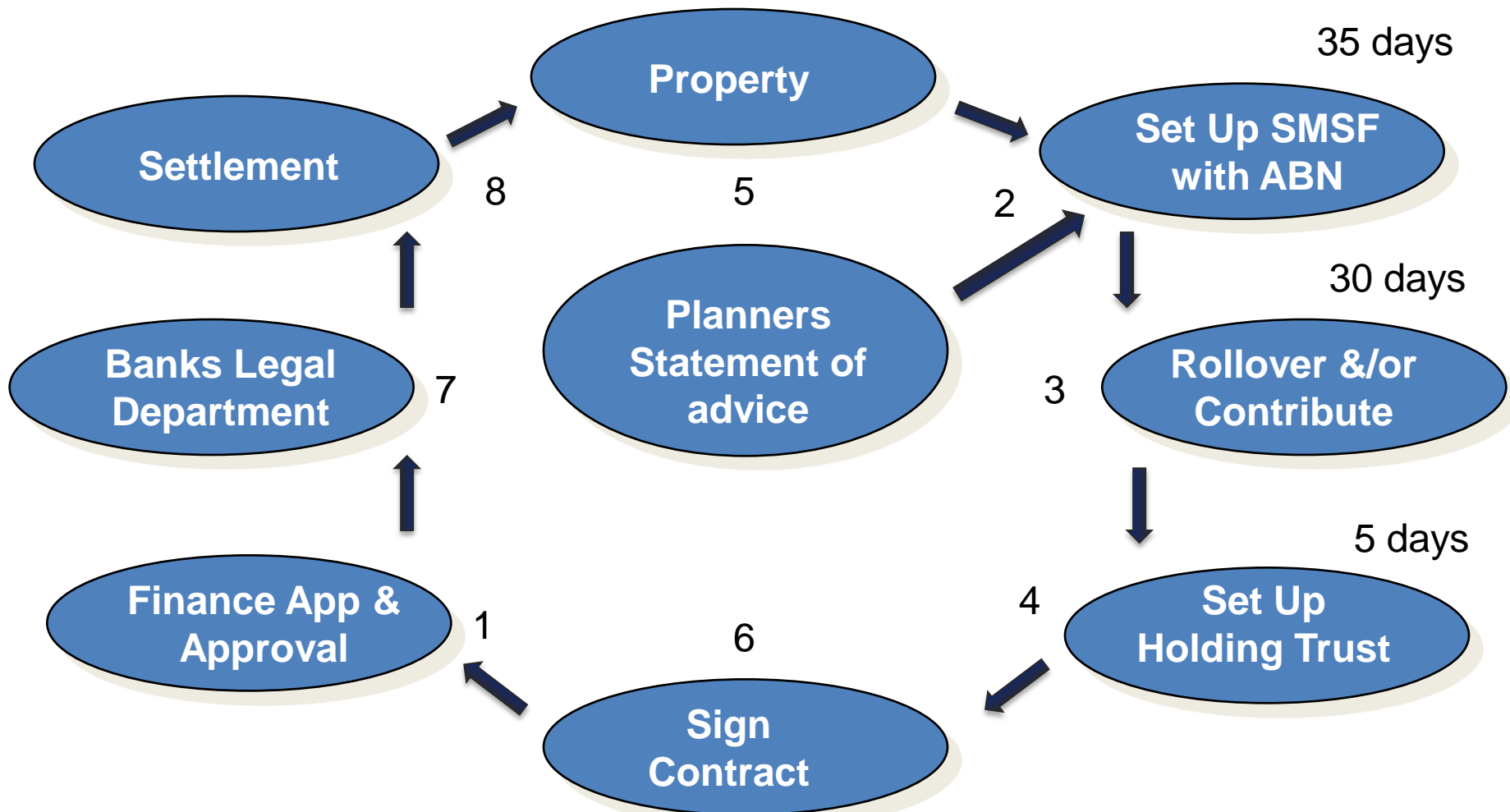


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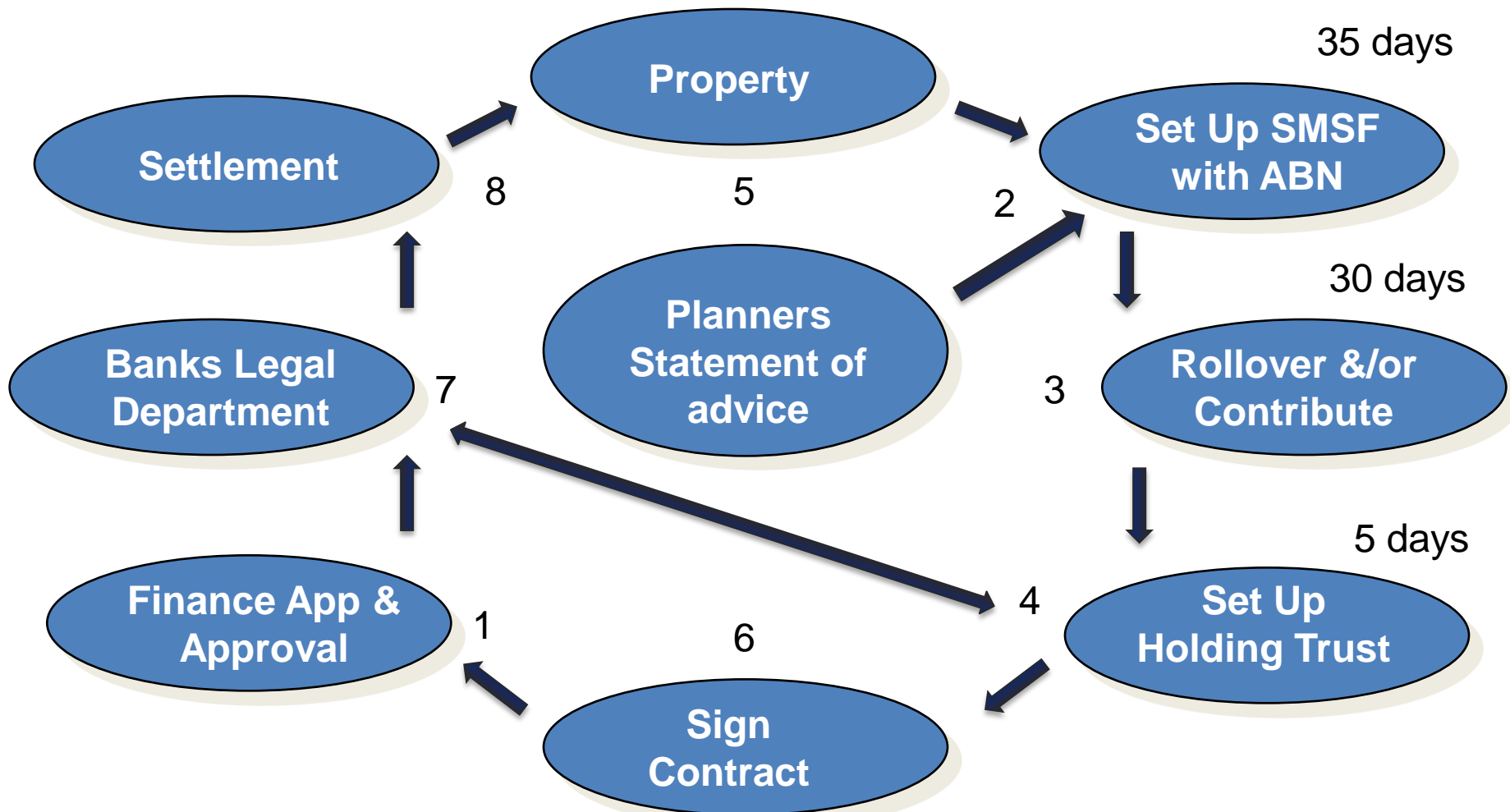


Trustees as Trustees For the XYZ Holding Trust

BEST PRACTICE LRB PROCESS



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Trustees as Trustees For the XYZ Holding Trust

ANALYSIS OF 7 LENDERS AS AT JULY 2011



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LVR	Term	Rates	App Fee	Servicability

Construct.	Extras	SMSF/HT Trustee	HT Set Up	HT Ongoing

ANALYSIS OF 7 LENDERS AS AT JULY 2011



CAVENDISH

LVR	Term	Rates	App Fee	Servicability
Max 80% Residential and 65% Comm.				

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Construct.	Extras	SMSF/HT Trustee	HT Set Up	HT Ongoing
If yes then 1 draw & 1 title	Offset Account	Generally Corp	To \$2,750	\$380 (Cavendish as a part of the SMSF Admin Service) to 0.88% of property

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Most will NOT check the trustees'/directors' CRAA

DIRECT PROPERTY



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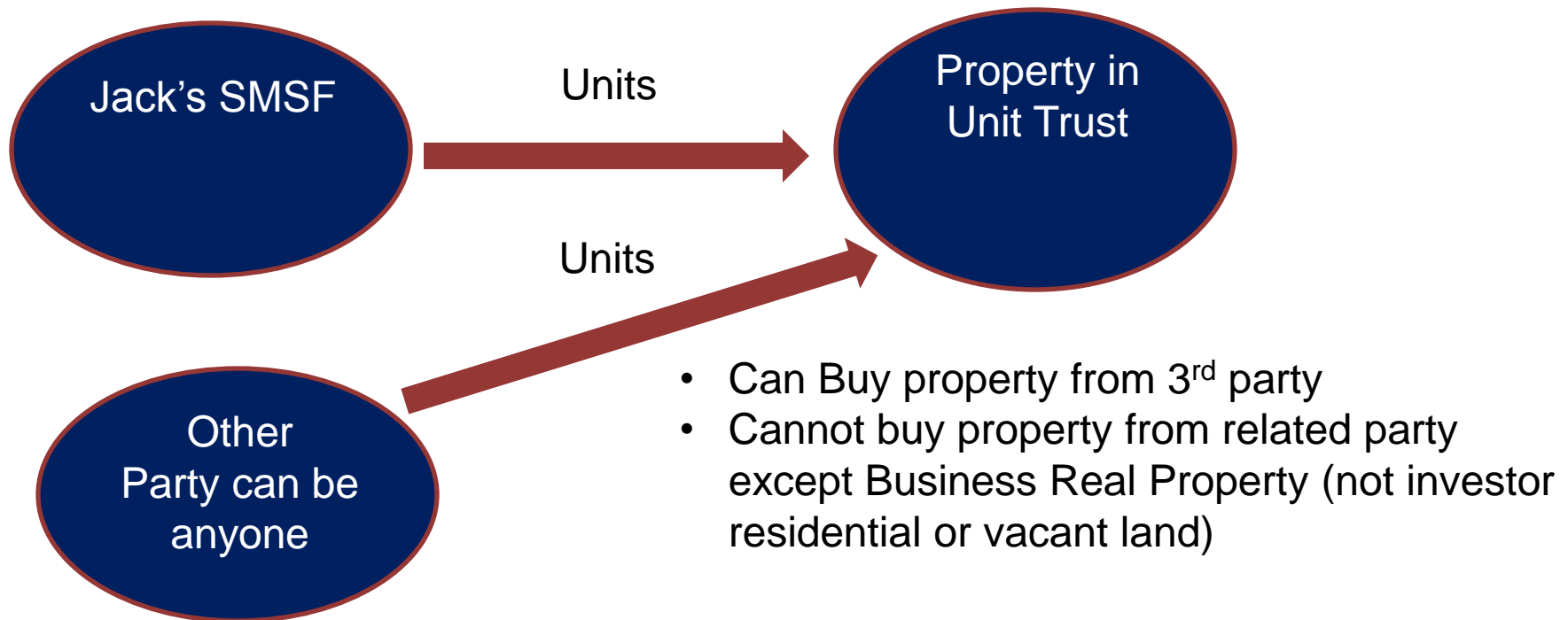
**ACQUIRED
BY THE FUND
VIA
A CONTROLLED 13.22C
UNIT TRUST**

PROPERTY VIA UNIT TRUST (CONTROLLED)



CAVENDISH

Jack's Fund buys a property via a Unit trust that Jack's Fund owns units in.
Other parties can own units also.

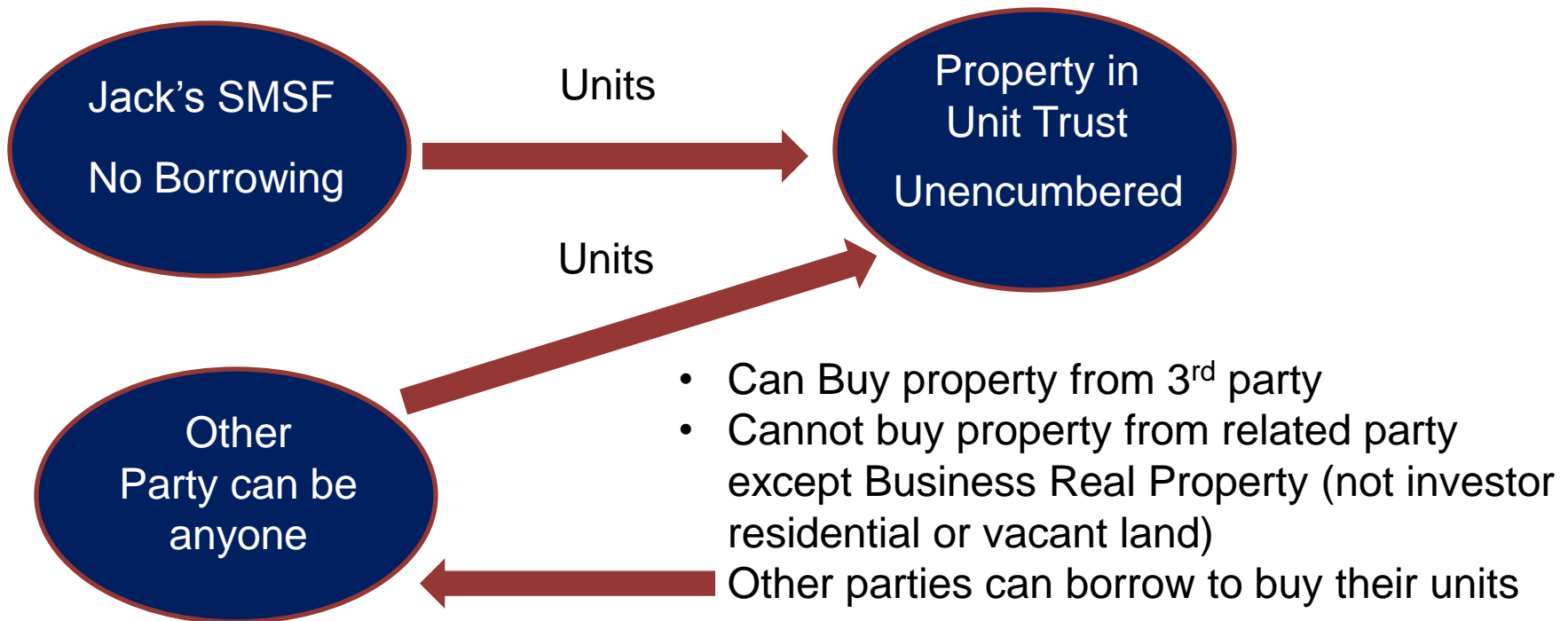


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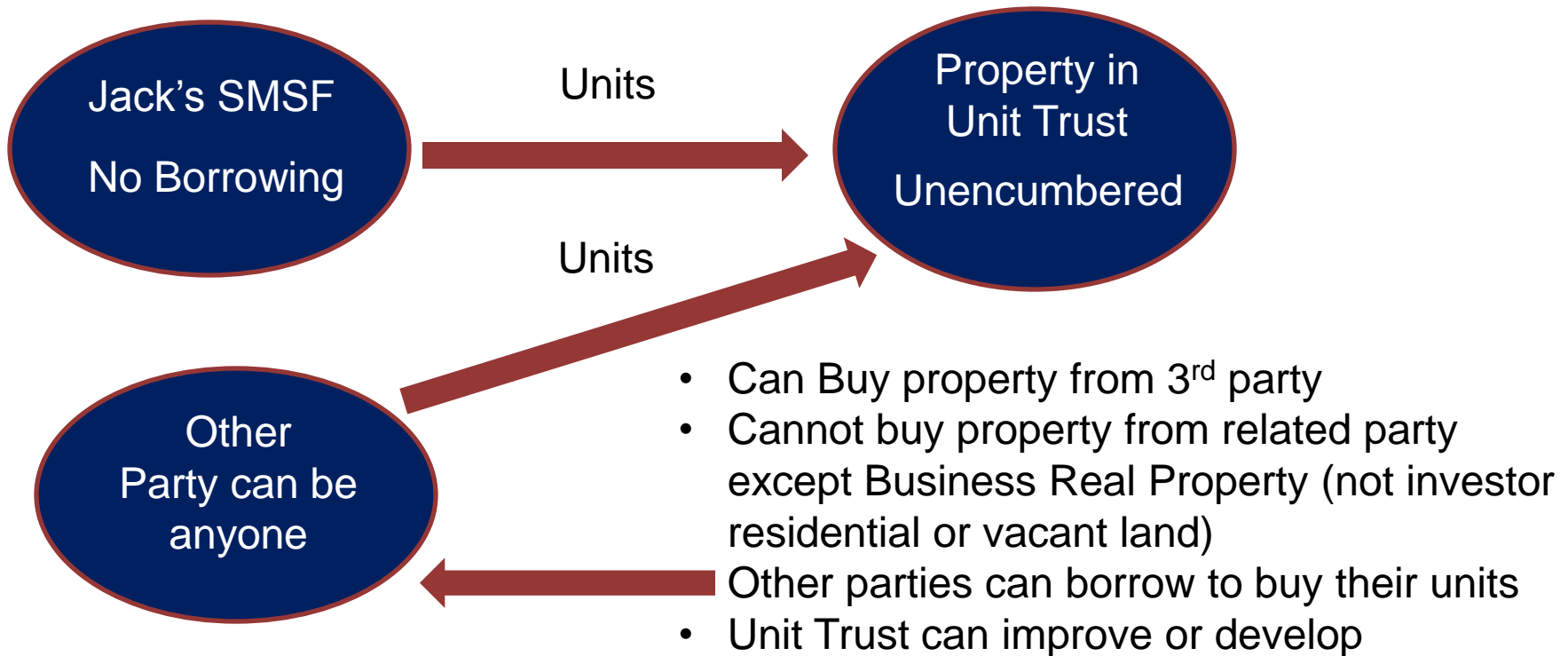


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PROPERTY VIA UNIT TRUST (CONTROLLED)



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Note that the Unit Trust must hold **nothing** but real estate and cash – no shares, businesses, etc



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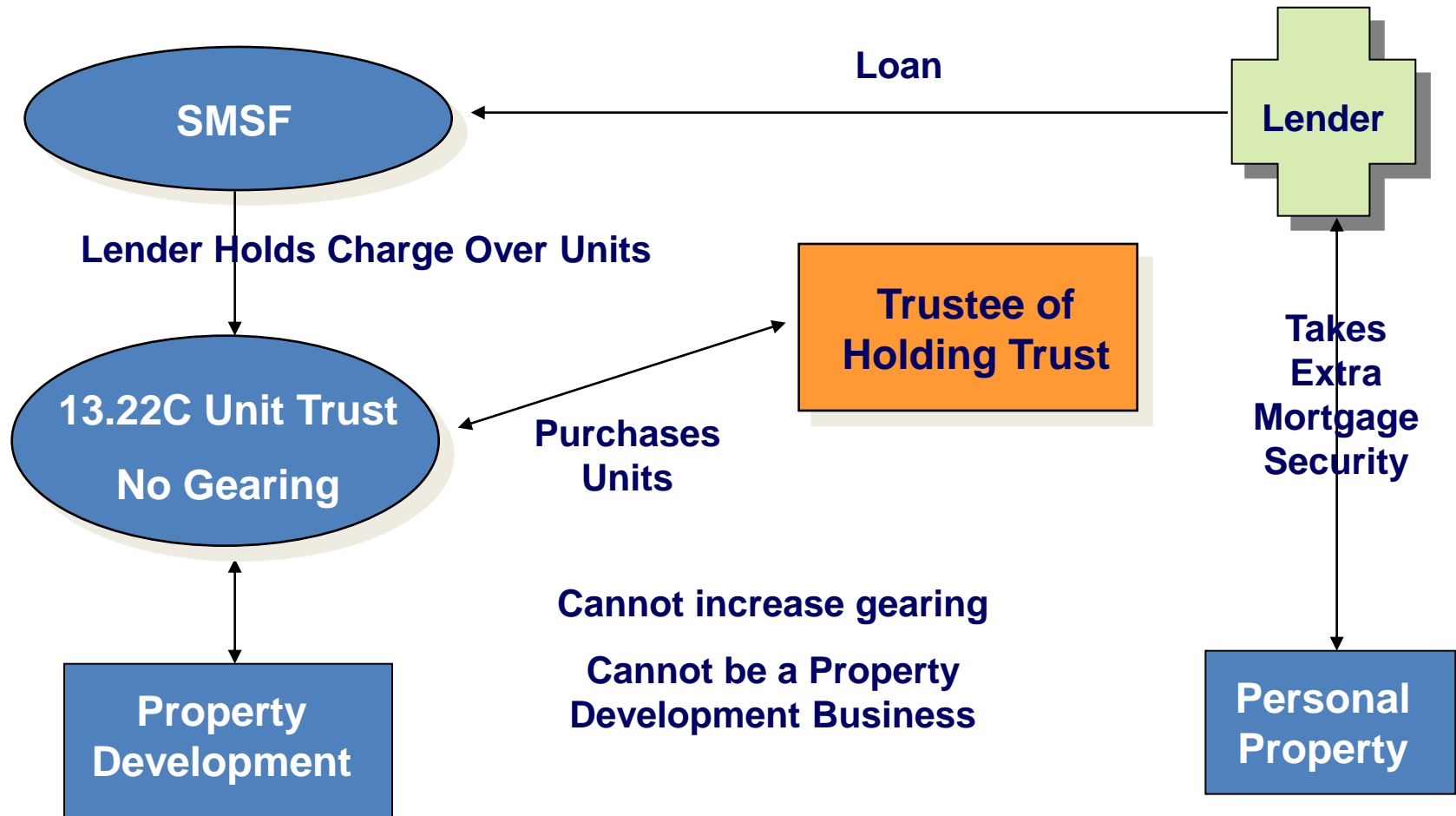
**COMBINING BORROWING
WITH A CONTROLLED 13.22C
UNIT TRUST
(IF YOU WANT TO BUILD OR
DEVELOP)**

LIMITED RECOURSE BORROWINGS



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Variation – 13.22 C



QUESTIONS



CAVENDISH

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