# Self managed superannuation funds for medical practitioners

**Medical practitioners owning or planning to own their own practice rooms should consider holding this asset in their Self Managed Superannuation Fund.**

Although a Self Managed Superannuation Fund is prohibited from acquiring assets from 'related parties' of the fund, there is an exception to this rule if the asset is business real property (such as a medical practitioner's practice room).

To highlight the potential for tax savings by using this structure, a simplified example follows.

## Example

*A doctor currently owns his practice rooms outright, and from his business activity earns a net profit of $100,000 per annum (before tax).*

*This profit will be taxed at the individual's marginal tax rate, meaning a tax bill of $34,212 and an after tax profit of $65,788.*

*The doctor's Self Managed Superannuation Fund may purchase the existing practicing rooms (at market value) as an investment and charge the practice commercial rent.*

*Assume the **market** value of the practice rooms is $300,000, and the market rent is $30,000 per annum. The practice will have the obligation to pay this rent to the SMSF for the use of the property. (This will obviously increase the balance in the superannuation fund.)*

*This annual rent payment will give rise to a $30,000 tax deduction for the doctor, and it will be taxable income to the SMSF.*

*The doctor will now have taxable net income of $70,000 per annum (ie. the $100,000 minus the rent deduction of $30,000). This income will attract a tax bill of $19,662, leaving net after tax income of $50,338.*

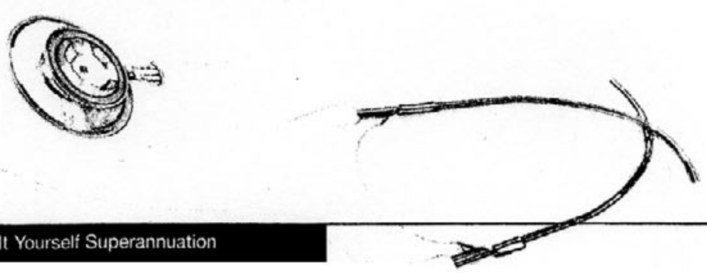
*The SMSF will have taxable net income of $30,000 (the SMSF will also be entitled to claim deductions on the property expenses), and be subject to a maximum 15% tax rate. This means a tax bill of $4,500.*

*Further still, the doctor may employ his spouse at his practice to fulfil administrative duties, and then make sizable deductible employer contributions to them. If the doctor used his SMSF to own the practice rooms, as outlined above, then made a $35,000 employer contribution to his spouse into his SMSF every year, the resulting tax will be further reduced.*

*The doctor will now have taxable income of $35,000 (ie. the $70,000 minus a $35,000 deductible contribution). This level of income will result in a tax bill of $7,197, leaving $27,803 of net after tax income.*

*The SMSF will now have to pay 15% contributions tax on the $35,000 employer contribution and 15% income tax on the $30,000 rent, total income of $65,000 and a tax bill of $9,750.*

*Below is a table summarising the tax benefits of the three different outcomes.*



| | No SMSF | SMSF owns property | SMSF owns property, makes large contributions |
|---|---|---|---|
| *Individual net income (before tax)* | $100,000 | $70,000 | $35,000 |
| *Super fund income and contributions (before tax)* | $0 | $30,000 | $65,000 |
| **Total income** | **$100,000** | **$100,000** | **$100,000** |
| *Individual tax (marginal rates)* | $34,212 | $19,662 | $7,197 |
| *SMSF tax (@15%)* | $0 | $4,500 | $9,750 |
| **Total tax** | **$34,212** | **$24,162** | **$16,947** |
| *Individual net after tax income* | $65,788 | $50,338 | $27,803 |
| *SMSF net after tax income* | $0 | $25,500 | $55,250 |
| **Total net after tax income** | **$65,788** | **$75,838** | **$83,053** |

From this simplified example, it is clear that the tax benefits can be significant for medical practitioners with the use of a self managed superannuation fund.

Before adopting such a strategy, be aware that there will be tax implications upon accessing the accumulated superannuation benefits from the SMSF, and may be other implications with executing the strategy in general. The accumulated superannuation balances will also have restrictions on when the benefits may be accessed from the fund.

Before deciding to set up a SMSF, make investments from a SMSF, or access benefits from a SMSF, you should first obtain professional advice.

## Further information

If there are any aspects of this article you would like to discuss, please call Phil Jaquillard or Ed Bernard on 1300 787 576.