

Borrowing in your SMSF: what is changing



Self-managed super funds are generally not allowed to borrow money. A limited recourse borrowing arrangement, or LRBA, is one of the few exceptions. It lets a fund borrow to buy a single asset, with the lender's rights limited to that asset alone. If the loan goes bad, the lender can take the asset but cannot touch the rest of the fund. That protection is what makes the arrangement attractive to many trustees.

How an LRBA works

Under an LRBA, the borrowed money is used to buy one asset, which is held in a separate holding trust until the loan is repaid. The fund makes the repayments and, once the loan is paid off, takes full ownership of the asset.

The law allows a fund to borrow for a single acquirable asset, or for a parcel of identical assets that have the same market value. A common example is a parcel of shares. The fund can use an LRBA to buy shares, but they must all be in the same company. A bundle of different shares does not qualify, because that would be more than one asset.

What is changing

A new law will soon restrict what an SMSF can borrow to buy. Once it takes effect, a fund will no longer be able to use an LRBA to acquire residential property.

This is a significant change. Residential property has been one of the most popular uses of LRBAs, with many funds borrowing to buy a house or unit as a long-term investment. That door is closing for new arrangements.

What you can still borrow for

LRBAs are not being abolished. A fund will still be able to use one to buy business real property, broadly meaning land and buildings used wholly and exclusively in a business. This might include a commercial premise. A fund will also still be able to borrow to buy a parcel of identical shares or other listed securities, provided they are all the same. Units in a managed fund remain available too, again as long as the units are identical, being the same class in the same fund. So the change is targeted. It removes residential property from the list, while leaving genuine business premises, shares and managed fund investments available.

When the change starts

The restriction applies from 10 August 2026.

Importantly, arrangements already in place are protected. If your fund entered into a borrowing arrangement before the start date, it is not affected. Refinancing an existing loan is also allowed. And if your fund has signed a contract to acquire an asset before the start date, that arrangement is not impacted even if settlement happens afterwards.

What this means for you

If you are considering using an LRBA to buy residential property, timing matters. Once the change commences, that option is gone for new arrangements. If a commercial property or share investment is part of your plan borrowing will remain being available.

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