Restrictions on SMSF investments

Revised Restrictions on SMSF investment assets and the consequences that can apply.

QC 23321

What are the SMSF investment restrictions?

Understand SMSF investment restrictions and who related parties are before making investment decisions.

Last updated 16 September 2025

Media: SMSF - Related party transactions.
https://tv.ato.gov.au/ato-tv/media?v=bd1bdiub8cjgsd (**Duration:** 3:01)

SMSF investment restrictions and exceptions

Before you make any decisions on self-managed super fund (SMSF) investments, you must ensure you understand any restrictions on SMSF investments.

There are some exceptions, however, generally your SMSF must not:

- lend or provide financial assistance to members or related parties
- acquire assets from members or related parties
- use collectables and personal use assets in a way that provides a present-day benefit
- allow trust distributions owing to the SMSF to remain unpaid
- breach the in-house asset rules
- borrow money.

No one associated with your SMSF should get a present-day benefit from its investments.

If you don't comply with the investment restrictions, we may take a range of actions, including:

- imposing penalties
- making the fund non-complying
- disqualifying you as a trustee
- prosecution of trustees.

Who are related parties?

A related party of your SMSF includes:

- all members of your fund
- associates of fund members, which include
  - the relatives of each member
  - the business partners of each member
  - any spouse or child of those business partners

  - any company or trust the member or their associates control or influence
- standard employer-sponsors (employers who contribute to your SMSF for the benefit of a member under an arrangement between the employer and a trustee of your fund)
- associates of standard employer-sponsors, which include
  - business partners and companies or trusts the employer controls (either alone or with their other associates)
  - companies and trusts that control the employer
  - relatives of an employer sponsor.

A relative is any of the following:

- a parent, grandparent, brother, sister, uncle, aunt, nephew, niece, lineal descendant or adopted child of the member or their spouse
- a spouse of the member and any individual already specified.

Loans and financial assistance

Your SMSF can't provide loans, or direct or indirect financial assistance, to a member or a member's relative. For example, you can't use your SMSF as guarantor for a loan for a member or a member's relative.

Loans must:

- be in the best interests of the members
- comply with the SMSF's investment strategy
- be conducted on a commercial arm's length basis.

If you run a business through your SMSF, you also can't overpay a member or relative of a member for their services. If you employ a member or a relative of a member, their salary or wage must not be higher than the standard salary for that type of role.

Media: SMSF - Loans and early access.
https://tv.ato.gov.au/ato-tv/media?v=bd1bdiubfi6z95 (**Duration:** 2:02)

Acquiring assets

Your SMSF can't acquire an asset from a related party unless the price reflects the market value and is:

- a listed security (for example, shares, units or bonds listed on an approved stock exchange)
- business real property
- an in-house asset where the acquisition doesn't result in the level of in-house assets exceeding 5% of total assets
- an asset that would be an in-house asset but is specifically excluded from being an in-house asset.

You must also ensure the market value of your fund's in-house assets doesn't exceed 5% of the total market value of your fund's assets.

Crypto assets and private company shares are not listed securities and can't be acquired from a related party.

If an asset is not acquired or sold at arm's length, all or part of any income from the transaction may be non-arm's length income and taxed at the highest marginal rate.

To help you comply with the requirements, use the valuation guidelines for self-managed super funds.

Media: SMSF - Arm's length.
https://tv.ato.gov.au/ato-tv/media?v=bd1bdiubfs46ei (**Duration:** 2:25)

Collectables and personal use assets

Where your fund invests in collectables and personal use assets, this must be for genuine retirement purposes, not to provide any present-day benefit.

Assets such as artwork, boats, jewellery, vintage cars and wine are described as collectables and personal use assets.

Natural diamonds (including pink diamonds), when held in loose form, are not considered collectable or personal use assets. As such, they don't have specific storage and insurance requirements. However, for these types of assets we recommend trustees:

- hold adequate insurance
- consider storage arrangements.

'Diamonds held in loose form' means they cannot be mounted, integrated into or used as an item for adornment or other purposes which would be inconsistent with the holding of the diamond in loose form for investment purposes.

Collectables and personal use assets can't be:

- used by or leased to a related party (if leased to an unrelated party it must be at arm's length)
- stored or displayed in the private residence of a related party (this includes all parts of the land the residence is situated on and all buildings on that land, such as garages or sheds)
- displayed in any other premises owned by a related party (they can be stored there provided they're not visible to clients and employees).

You must keep a written record of the reason for deciding where to store the assets.

Collectables and personal use assets must be insured. You should consider the availability and cost of insurance before investing in them. Items must be insured within 7 days of the fund acquiring them and the fund must be listed as the owner and beneficiary of the policy.

These assets can be sold to related parties provided the sale is at market value as determined by a qualified, independent valuer.

Unpaid trust distributions

If your SMSF is entitled to a distribution from a related trust but you allow it to remain unpaid, you may contravene the:

- in-house asset rules
- [arm's length rule]
- sole purpose test.

For more information on unpaid trust distributions, see [SMSFR 2009/3] *Self Managed Superannuation Funds: application of the*

Superannuation Industry (Supervision) Act 1993 to unpaid trust distributions payable to a Self Managed Superannuation Fund.

In-house assets

You are restricted from having in-house assets that comprise more than 5% of the market value of the SMSF's total assets.

An in-house asset is any of the following:

- a loan to a related party of your fund
- an investment in a related party of your fund
- an asset of your fund that is leased to a related party, such as business equipment or machinery.

Any lease must be made on an arm's length basis and reflect the market value.

If at the end of the financial year your SMSF's in-house assets exceed 5%, you must prepare a written plan to reduce in-house assets to 5% or below. This plan must be prepared before the end of the following financial year. Trustees must also ensure the plan is carried out.

There are some exceptions to in-house assets, including:

- business real property that is leased between your fund and a related party of your fund
- some investments in related non-geared trusts or companies.

The in-house asset rules for assets owned before 11 August 1999 were defined differently. If your SMSF owns assets that were acquired before this date, you should review your fund's investments to ensure you are complying with the current rules.

Decrease in asset values due to COVID-19

Some SMSFs may have experienced a decrease in asset values due to the economic impact of COVID-19. If this resulted in a breach of the in-house asset rules as at 30 June 2020, or the in-house assets being more than 5% of the total assets, the fund was required to prepare and implement a rectification plan by 30 June 2021.

For further information, definitions and examples about in-house assets, see Self Managed Superannuation Funds Ruling

SMSFR 2009/4 *Self Managed Superannuation Funds: the meaning of 'asset', 'loan', 'investment in', 'lease' and 'lease arrangement' in the definition of an 'in-house asset' in the Superannuation Industry (Supervision) Act 1993*.

Business real property

Business real property generally means land and buildings used wholly and exclusively in a business. It's an exception to the in-house asset and related party acquisition rules.

If business real property contains a dwelling for private or domestic purposes such as a farm, it can still meet the requirements of being used wholly and exclusively in a business if:

- any dwelling used for private or domestic purposes is in an area of land no more than 2 hectares, and
- the main use of the whole property is not for domestic or private purposes.

For detailed information, examples and our view on business real property, see Self Managed Superannuation Funds Ruling SMSFR 2009/1 *Self Managed Superannuation Funds: business real property for the purposes of the Superannuation Industry (Supervision) Act 1993*.

Media: SMSF - Business real property. https://tv.ato.gov.au/ato-tv/media?v=bd1bdiubfs46jy (**Duration:** 2:00)

Running a business in an SMSF

If running a business through an SMSF, it must be:

- allowed under the trust deed
- operated for the sole purpose of providing retirement benefits for fund members.

The rules governing SMSFs prohibit or limit some activities available to other businesses, such as entering into credit arrangements or having overdrafts.

You should get professional advice before running a business through your SMSF.

It is important to ensure the sole purpose test is not breached. Issues that attract our attention include those where:

- the trustee employs a family member (we look at things like the stated rationale for employing the family member and the salary or wages paid)
- the 'business' is an activity commonly performed as a hobby or pastime
- the business run by the fund has links to associated trading entities
- there are indications the fund's business assets are available for the private use and benefit of the trustee or related parties.

In-house asset rules for assets owned before 11 August 1999

Transitional rules applying to in-house assets owned before 11 August 1999 and how your SMSF meets them.

QC 42467

In-house asset rules for assets owned before 11 August 1999

Transitional rules applying to in-house assets owned before 11 August 1999 and how your SMSF meets them.

Last updated 2 April 2025

Assets owned before 11 August 1999

Before 11 August 1999, an in-house asset was defined as a loan to, or an investment in, either:

- a standard employer-sponsor of the fund

- an associate of a standard employer sponsor of the fund.

The meaning of in-house assets has since been expanded. However, exemptions apply to certain arrangements your self-managed super fund (SMSF) entered before 11 August 1999.

If your SMSF owns assets that were acquired before this date, you should review your fund's investments to ensure you are complying with the current rules.

For further in-depth information on the transitional rules and examples, see SMSFR 2009/4 *Self Managed Superannuation Funds: the meaning of 'asset', 'loan', 'investment in', 'lease' and 'lease arrangement' in the definition of an 'in-house asset' in the Superannuation Industry (Supervision) Act 1993*.

Assets treated as in-house assets

From 1 July 2009, if your SMSF had investments with related parties or related trusts, those assets will be treated as in-house assets if they were acquired before 11 August 1999 and you:

- reinvest any earnings or make additional investments in those assets
- pay up any partly paid shares or units.

Reinvesting earnings

If you continued to reinvest earnings or make additional investments or loans after 30 June 2009 on behalf of your SMSF, the additional investments or loans would be in-house assets that count towards the 5% in-house asset limit.

Partly paid shares or units

If you paid up partly paid shares or units after 30 June 2009 on behalf of your SMSF, a proportion of those shares or units would be treated as in-house assets.

To get the formula to work out the reduced value of in-house assets for payments on partly paid shares or units made after 30 June 2009, refer to subsection 71A(3) of the SIS Act.

Assets not treated as in-house assets

Assets won't be treated as in-house assets if they are:

- investments or loans you entered into on behalf of your SMSF before 11 August 1999 and were not in-house assets under the old rules
- additional investments or loans you made between 11 August 1999 and 30 June 2009 which were in line with transitional rules provided at the time
- fund assets subject to a continuous lease or an uninterrupted series of leases between the SMSF and a related party commencing before 11 August 1999.

QC 20275

SMSF borrowing restrictions

The limited circumstances where your self-managed super fund (SMSF) can borrow money.

Last updated 2 April 2025

Media: SMSF - Borrowing and limited recourse borrowing arrangements
https://tv.ato.gov.au/ato-tv/media?v=bd1bdiubfs46eh (**Duration:** 2:20)

Paying a member benefit that is due

Your SMSF can borrow money for a maximum of 90 days to meet benefit payments due to members.

The amount you borrow can't exceed 10% of your SMSF's total assets.

Meeting an outstanding contribution surcharge liability

Your SMSF can borrow money for a maximum of 90 days to meet an outstanding superannuation surcharge liability.

The amount you borrow can't exceed 10% of your SMSF's total assets.

Covering the settlement of security transactions

Your SMSF can borrow money for a maximum of 7 days to cover the settlement of security transactions if:

- at the time you entered the transaction, it was likely you did not need to borrow money
- the amount you borrow doesn’t exceed 10% of your fund's total assets.

Limited recourse borrowing arrangements

Your SMSF can use a limited recourse borrowing arrangement (LRBA) to fund the purchase of a:

- single asset
- collection of identical assets that have the same market value.

The asset is held in a separate trust outside of the SMSF. This keeps the other assets of the SMSF protected if the loan defaults.

Limited recourse borrowing arrangements

How to set up limited recourse borrowing arrangements, and the different superannuation laws and rules that apply.

QC 42461

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