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## **MEDIA RELEASE**

# **Proposed ban on residential property LRBAs is the wrong call**

The Institute of Financial Professionals Australia (IFPA) opposes the Government's decision to ban new limited recourse borrowing arrangements (LRBAs) for residential property held inside SMSFs. IFPA notes that this was to get the Greens support for its tax reform package and according to the Government, help protect retirement savings.

"We do not think this reasoning supports a ban on new residential LRBAs," said Stuart Sheary, Head of Technical Services, IFPA.

"Borrowing through an LRBA is often less risky than borrowing in a personal name. The lender's recourse is limited to the single asset held in the bare trust. The fund's other assets are quarantined, so the fund cannot lose more than that one property that has been borrowed against," Sheary said.

"Also lenders typically apply more conservative loan to value ratios to SMSFs than to individual investors so the case for a blanket ban has not been made out," Sheary said.

IFPA does not agree with any suggestion that the ban will ease housing demand as the Government itself confirms that LRBAs make up less than 1 per cent of total residential property borrowing.

"A measure touching a fraction of 1 per cent of the market is unlikely to move house prices or change supply," Sheary said.

The Greens have framed this as closing a loophole for wealthy investors which IFPA rejects.

"Super is already a concessionally taxed environment. The value of any deduction for interest is therefore small, and far smaller than it would be for an investor on the top marginal rate." Sheary said.

"Superannuation is a long-term investment. It is reasonable for members to take a long-term view and to hold growth assets, including direct property, over that horizon. Direct property has long been a part of that mix," Sheary said.

IFPA noted that many SMSF balances are not large enough to buy property outright. For these members, an LRBA is the only practical way to hold direct property in super.

"Removing LRBA's will close off an asset class providing less choice for members" Sheary said.

"For these reasons, IFPA does not support the ban on new residential LRBA's. The structure is conservative by design and there is little tax advantage to remove. The ban will not move house prices or add to supply. What it will do is close off a legitimate asset class for the many SMSF members whose balances are not large enough to buy property outright." Sheary said.

**ENDS**

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