

PETER VICKERS INVESTMENT SERVICES

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Signs of recovery from the Global Financial Crisis have led to growing confidence in the property market, with house prices in Australia, returning to their June 2008 levels. These reports of house price increases from Australian Property Monitors and others, are stimulating the market as a whole and encouraging investors in particular.

First-home buyers fuelled by the government grants have pushed up low-end housing prices but there has also been a recovery at the top end of the market. These trends look set to continue. Whilst the First Home Owner Grant begins to be reduced from September, demand is expected to grow due to the relatively low rates of interest; a shortage of supply in the buyers' market; a strong rental market due to low rental vacancy rates and rents rising at an average annual rate of 7% and the return of property investors to the market who feel that the conditions are now right to buy.

Whilst interest rates are currently at a 40 year low, making home loans appear very affordable right now, the cost of servicing these loans will go up as interest rates start to rise. This means it is **more important than ever not to over-extend** by borrowing too much. If you make a purchase now on a tight budget, even the slightest increase in interest rates will place too much unnecessary pressure on your cash flow. "Be sure to seek advice about whether you're better suited to a fixed or variable rate mortgage" advises Peter Vickers, Principal, Peter Vickers Business Group.

"If you're buying a property as an investment, it is important to use the taxation system to maximise the return that you can make" advises Peter Vickers who is a Chartered Accountant in Lindfield, "To do this, it is essential to keep good records of all your expenses as many of these can be offset against tax.

Immediate considerations should include:

- ❑ All the costs of running the property like council and water rates, agents' fees, insurance, strata levies and repairs are deductible.
- ❑ You can also claim depreciation on furniture and equipment like ovens, hot water systems and carpet but not kitchen cupboards and bathroom fittings.
- ❑ If the building has been built in the last 20 years you can also claim a capital allowance for the cost of the building.
- ❑ If you have borrowed to buy your property then the interest and borrowing expenses can also be claimed as a tax deduction.
- ❑ If all these expenses exceed your rental then this loss can be claimed against your other income. This is called negative gearing.

Your investment property will over time increase in value even if only equal to inflation. You do not pay tax on this increase until you sell the property. You can then claim all the transaction costs for both the purchase and sale off this capital gain. If you own the property for more than 12 months you only pay tax on half the capital gain.

This is a very simplified explanation of the tax consequences of owning property. Tax rules are very complex and you thus need professional advice to work out the details.