

Think twice before playing landlord game

GOOD news for those hanging on for a property price recovery with the latest round of housing figures suggesting investors are returning to real estate markets.

But before you rush out and buy something off the plan, hold fire and learn a thing or two.

I always recall a friend of mine who bought a unit off the plan ahead of an engagement. Guess what? The marriage didn't go ahead and the property play ended being a drawn-out disaster.

I grilled Sydney chartered accountant Joe Kaleb, who is from www.Australianbiz.com, and here's a lot of the stuff you should know if you are trying to be a landlord as the property is built.



When you buy off the plan, generally upon exchange of contracts a deposit of 10 per cent is paid along with legal fees and other incidental costs, which is recorded on a capital account and added to the eventual cost base.

When the property is sold this is deducted from capital gains to cut capital gains tax. There is also an adjustment for inflation.

Mr Kaleb said the interest on

the deposit would be deductible if the taxpayer could prove there was a sole intention to rent out the entire property upon settlement.

Then the taxpayer could claim depreciation on fixtures and fittings, a capital allowance on the building, interest paid on the entire amount financed, council rates, repairs and so on.

If you move into a newly built property for three months, you get a six-year exemption before capital gains tax applies but lose your tax deduction on your 10 per cent deposit. (There is no time period to move in for existing properties, so long as you have no other principal residence.)

This could also affect a first

homebuyer grant and there can be land tax issues being a landlord.

If you become a landlord and later move in, an amended tax return could be necessary for the relevant years. You are only entitled to claim deductions for the time the property was rented.

If this is a speculative play and you have done this before the ATO may treat it as a business deal with the entire proceeds seen as income, so you lose the 50 per cent capital gains tax discount.

Exotic investment plays need good advice or DIY homework.

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