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August 2024 newsletter

TIPS AND INSPIRATION FOR SAVVY PROPERTY INVESTORS

Three common property investing myths busted

Property investing can be a great way to build wealth. Not only can you derive income from your properties, but over time, capital growth means you're holding an asset that will ideally be worth more than you originally paid for it when it comes time to sell. Despite all the information available to people interested or already invested in property, common myths remain. Keep reading below for some misconceptions about property investing and how they can be busted.

Property investing is only for wealthy people
Obviously, having some capital available to provide a decent-sized deposit and optimise your loan-to-value ratio is ideal. This is the case whether you're investing or buying a primary residence. But it's important to remember that you don't need hordes of money to invest in property. Most Australian property investors own one or a small number of properties. These "mum and dad investors" often use the capital they have sitting idle, or some may even refinance their mortgage and use the equity in their family home to fund the purchase of an investment property. It's possible to invest in property even if you don't have lots of wealth behind you.

You should only buy in familiar locations
A common myth in property investing is that you should only buy in areas you know.

While the area you buy in should meet your specific investment criteria and have some of the key things residents look for in an area – proximity to the CBD, access to public transport, infrastructure growth, good schools, and local amenities such as shops and cafes. These things exist in many suburbs, so it's worth doing your research to see if perhaps there are other areas interstate that may suit what you're looking for in an investment.

Claiming depreciation raises the property's cost base
Property investment, like other investment options, is often a long-term strategy. Therefore, it's important that you take advantage of things like claiming deductions for depreciation and other expenses throughout the time that you hold your investment property. There isn't always a guarantee that your property's capital growth will be positive when it comes time to sell, so you should claim deductions to optimise your cash flow while you have the property.

Owning investment properties takes a lot of research, planning and commitment to a long time horizon in most cases. Keep these myths in mind when it comes time to buying or selling your investment properties, and always make sure you seek advice from qualified legal and financial professionals. Tailored advice is critical as you need to make decisions that are best for your unique situations and long-term goals.

Remember, this article is general in nature and is not financial or legal advice. Please consult your professional financial and legal advisors before making any decisions for yourself.

Capital Gains Tax: Key things you should know as a property investor

Just like death and taxes are guaranteed for all humans, capital gains tax (CGT) is typically a guaranteed levy you'll pay when you sell an investment property. There's lots to remember about CGT, and making sure you do things the right way starts with the advice you get before and during the purchase and sale process. Keep reading below for the key things you should know about CGT on investment properties.

What is Capital Gains Tax?
The levy you pay on the sale of an asset is CGT. The capital gain will be the difference between what you paid for the asset and what it sells for, less any fees incurred for the purchase. A loss can also occur if you sell the asset for less than what you paid.

How is CGT calculated?
CGT gets added to your income tax for the year you sold the property. If you bought and sold a property within 12 months, the net capital gain will be added to your taxable income for that financial year. As a result, this increases the income tax you'll pay that year. If you held the property for more than 12 months, you can use the CGT discount or indexation method to calculate the CGT you owe.

CGT discount method
If you owned your property for more than 12 months and you're an Australian resident, you can use the CGT discount method. This allows for a 50% discount on your capital gain. So, if you sold a property and made a capital gain of $150,000, you would only need to add $75,000 to your taxable income.

Indexation method
The indexation method applies to properties purchased before 21 September 1999. The method applies a multiplier to the initial cost of buying the property. This is to account for inflation and increases your initial purchase price, reducing your capital gain. The multiplier is calculated by dividing the consumer price index (CPI) at the time you sold the property by the CPI at the time the property was purchased. The figure is rounded to three decimal places.

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Can you avoid paying CGT?
You likely won't be able to avoid paying CGT altogether on an investment property, but some exemptions and discounts can apply. You can invest using your superannuation. There is only a one-third CGT discount for properties bought and held in an SMSF, but the tax rate is 15%, taking your maximum CGT rate to 10%.

You can also time the capital gain or loss to occur in a year when your income may be lower. To do this, you could delay selling the property until a future financial year.

CGT is an inevitable part of selling an investment property. Taking advantage of any applicable exemptions and timing the sale of your property to reduce your taxable income can reduce the amount of CGT payable. The outcome will always depend on your unique situation. Seek tailored advice when it comes time to buying and selling property to make sure you structure everything suitably.

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