

canberra times: q&a

Q 1: I'll be going overseas with work on a three year posting next year, and have recently bought our first home with a mortgage of \$435,000. We plan to rent it out at \$475 a week and engage a property manager. Could you please offer some advice on issues such as negative-gearing and what tax essentials we should be aware of?

P.A., Canberra

A 1: Heading overseas for a period of time does present some financial planning opportunities to be aware of and your situation seems to apply well to this strategy. In simple terms, you have a principal place of residence which you can rent out while living overseas and depending upon your specific circumstances, this may well be able to attract some negative gearing tax benefits while away.

The opportunity here is that where you have a principal place of residence which you have been living in, and you rent it out as an investment property while you are overseas, then the broad rule is that you are able to rent this out for up to six years and not lose the capital gains tax exemption on this principal place of residence should it eventually be sold.

While renting the property out, you will likely have very little if any, other sources of income which is taxable in Australia, other than the rent received on this Australian based property. So while the rent is taxable, you can also claim all associated expenses as an allowable tax deduction aswell including interest incurred on the mortgage, property management fees, insurances, repairs and maintenance and depreciation.

The real strength in this strategy is that where all expenses are greater than the income received, then you may find you are in a negatively geared position. While this does not help you reduce tax on other income in each year while away (as you likely have very little if any other income such as wages), the overall tax loss each year can be accumulated and eventually used upon your return to Australia, thereby effectively giving you some tax free income in your first year back. Depending upon how long you are away and the size of the accumulated losses, some people can end up receiving their whole salary tax free in the year of return.

To maximize the potential losses while away with negative gearing, it is worthwhile to have an accurate and comprehensive depreciation schedule prepared by a quantity surveyor for a very reasonable cost. In many cases you may find that you are entitled to claim more depreciation expenses than you initially realise.

As with all tax related matters it is a good idea to have a relationship with a Registered Tax Agent who can make sure you understand the rules around renting out the property – ie how long you can rent it out for and whether you need to move back into the property upon your return – and also make sure that you are claiming all the available expenses associated with the property. In addition, they can help you understand any other opportunities available to

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you when going overseas to maximize your tax position such as how to manage existing share and managed fund investments and superannuation. A Certified Financial Planner with experience in this area can help you plan financial strategies around this aswell in light of your longer term plans.

Phil Thompson is a certified financial planner and authorized representative of Rise Financial Pty Ltd (ABN 86350987645), AFSL 311718, an Approved Financial Planning Association Professional Practice. Answers should be used as a general guide only and professional advice should be sought before making investment decisions.

Send your financial questions to phil@risefinancial.com.au