Minimise tax on the sale of your investment property

Why you need a valid will

DECEMBER 2014 CLIENT NEWSLETTER

Welcome…to The Enterprise Sanctuary's last newsletter for the 2014 calendar year. It's been a busy year and we're looking forward to another exciting year of helping you and your business achieve its 'new year's resolutions'. Today, I'm excited to talk about lowering your taxes on the sale of investment properties, and why you should have a will.

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MINIMISE TAX ON SALE OF INVESTMENT PROPERTY

"Buy in gloom, sell in boom!" Some methods to minimize tax when it comes to selling property:

1. Live in it, or let someone else live in it, but still claim it as your principal place of residence for up to six years for the purpose of avoiding capital gains tax, under the Capital Gains Tax Residence Exemption. For a period of six years, you can treat your property as your main residence (without living in it) if you satisfy the eligibility criterias.
2. Keep your investment property for more than 12 months to reduce the capital gains tax by 50%. Do not forget that your 12-month ownership is from the date of contract for both the purchase and sale of a property.
3. Make the most of a low-income year. As capital gains tax is linked with yearly income tax and so the timing of when you incurred a capital gain can affect the outcome. Prima facie, it is better to sell during a low-income earning year.
4. Delay the sale contract. If contracts are signed on July 1, rather than June 30, the tax liability is pushed out by 12 months. Holding onto your money is almost as good as a tax deduction.
5. Buy the property but not just 100% of it. Why not go in on the purchase of the property with a partner? If you own 100% of the property, you get 100% of the deductions but also 100% of the capital gains tax. If it's a long-term investment, buy the property in the name of the person where it's most tax advantageous now. That means if the property is positively geared, purchase in the name of the person on the lower income. If the property is likely to be negatively geared, purchase in the name of the person on the higher income.
6. Sell a non performing investment property. The loss on the sale of the non performing property and the profit from the sale of the performing property will reduce the overall tax rate.
7. Purchase the property in a trust. A discretionary trust allows you to decide which of the members of the trust will receive the profit from the asset sale. It means you can direct the profits to the most tax-effective person at that time.
8. Claim deductions. There are certain things that you can claim such as your visit to your rental property (once a year) where you pay for accommodation while you stayed there visiting that property. Paying your accountant, paying your real estate agent, ongoing repairs and maintenance, quantity surveyor reports are all deductible costs.

Please contact us at The Enterprise Sanctuary if you would like to talk about this topic in more detail.

WHY YOU NEED A VALID WILL

It is surprising to learn that almost half of Australians die without a valid will. Dying without a valid will means that any assets that you own when you die are distributed in accordance with a set formula rather than in accordance with your wishes.

Most people have a fair idea of who they want to leave their assets to when they die. The key benefit of having good estate-planning measures in place is to ensure that when you die your assets actually go to who you want them to. A proper estate plan will also help ensure that assets are distributed in a tax-effective manner.

Death itself does not trigger a tax payment, but it can give rise to many tax consequences for your beneficiaries.

There are a whole host of other benefits in having a well-thought-through and well-documented estate plan. These include:

- Assets being passed to your beneficiaries with an element of asset protection. A well structured estate plan can help ensure that your assets are protected from any legal and personal issues of the beneficiaries who are receiving those assets.
- Minimising the likelihood of litigation against your estate, from a disgruntled beneficiary.

Jointly owned assets are an important consideration. It is not always understood that jointly owned assets automatically go to the surviving joint owner, irrespective of what the will might say. This includes a jointly owned property, joint bank accounts and jointly held share portfolios.

Trusts can be another area of confusion. Assets held for you in trust are not yours to directly pass on via your will. This includes assets owned by a discretionary family trust and your superannuation fund balance.

Thinking about your estate plan also provides an opportunity to think about your legacy. Are there particular things you want to be remembered for such as providing for education costs for grandchildren, or charities that you wish to support?

Those without a valid will would typically not have other key estate planning documents in place such as a power of attorney, power of enduring guardianship and superannuation fund beneficiary nominations.

In short, sound estate planning will result in you having a suite of documents in place for use upon your death. Importantly, the process will require you to think through your financial position and cause you to determine how you would like that wealth to be ultimately distributed, and provide you with the means to do so.

Please contact us at The Enterprise Sanctuary if you would like to talk about this topic in more detail.