SPECIALREPORT

TAX EFFECTIVE PROPERTY STRATEGIES FOR AUSTRALIAN CITIZENS LIVING ABROAD

NOT investing in property back home BEFORE you return can mean you could pay twice the amount of tax you have to after your return.

WHY YOU SHOULD CONSIDER INVESTING IN NEW RESIDENTIAL PROPERTY IF YOU WILL BE RETURNING TO LIVE IN AUSTRALIA IN THE NEXT 2 TO 10 YEARS.

THE SOONER YOU START, THE GREATER THE POTENTIAL BENEFIT.

How does buying a property back home before I return help me?

Here's how it works: (simplified)

Let’s say you will be working after you arrive in Australia, with either joint or single incomes of say a total of AUD$15,000 per month, or AUD$180,000 per annum.

To keep the figures simple, we will assume it is a single income.

<u>EXPAT “A”: They invest in NO property.</u>

	AUD
▪ SALARY AFTER ARRIVING:	$180,000
▪ APPROX TAX PAYABLE:	(54,550)
▪ NET INCOME	$125,450

This is the situation with many expats.

COMPARE THE SITUATION WITH EXPAT “B” WHO PURCHASED 2 BRAND NEW INVESTMENT PROPERTIES. WHAT A DIFFERENCE!

Expat “B” purchases 2 new apartments in Australia for say AUD$500,000 each using AUD$100,000 as deposit, borrowing $400,000, around 3 years before migrating.

<u>YEAR ONE AFTER ARRIVING</u>: (all figures AUD$)

	INCOME	$180k
Plus	RENT on 2 apartments	52k
Less	TAX DEDUCTIONS* THIS YEAR 2 apartments ($45 X2)	(90)
Less	TAX BENEFITS Accumulated ($19 x 3 years x 2 apartments) see last page	(114)
=	Taxable income	28
Therefore	**APPROX. TAX PAID**	**1,862**

YEAR TWO:

INCOME	$180k
RENT	52k
TAX DEDUCTIONS* THIS YEAR	(90)
TAXABLE INCOME	**142**
TAX PAID APPROX.	**40,487**

YEAR THREE AS PER YEAR TWO

SUMMARY:

Expat "A" (no property) pays *$163,650 tax in the first three years* after arrival.

Expat "B" (property investor) pays AROUND HALF THAT AMOUNT, approx *$82,836 in tax*.

But what if I buy a property for investment AFTER I arrive, but NOT before?

If you buy a new apartment in Australia for say AUD$500,000, using:

AUD$100,000, as deposit, borrowing $400,000 AFTER you have arrived in Australia, it is STILL good, but nowhere near as good as buying BEFORE you arrive:

AFTER ARRIVAL IN AUSTRALIA:	**With 1 Prop.**	**Two Prop.**
SALARY AFTER ARRIVING:	$180k	$180k
RENT FROM PROPERTY	26	52
TOTAL TAXABLE INCOME:	206	232
Less Tax deductions	(45)	(90)
New taxable income	$161	$142
Tax payable approx	($47,547)	($40,487)
Net income approx	$132,453	$139,513

SUMMARY:

	NO PROPERTY	**ONE PROPERTY**	**TWO PROPERTIES**
Net income	**$125,450**	**$132,453**	**$139,513**

The investor with two properties pays less tax, has higher disposable income, and can also enjoy the potential growth on $1 million dollars worth of assets. No wonder the "rich get richer."

SUMMARY OF BUYING BEFORE MIGRATING (INCLUDING 6 % CAPITAL GROWTH AFTER SIX YEARS- 3 years before migrating, 3 year after migrating)

	NO PROPERTY	**TWO PROPERTIES**	**DIFFERENCE**
TAX PAID	($163,650)	($82,836)	+$80,814 (163,650-82,836)
PLUS CAPITAL GROWTH @6%*	NIL	$418,518	+$418,518
TOTAL DIFFERENCE			**+$499,332**

*Even if capital growth is 5%, or 4%, there remains a huge difference.

EXECUTIVE SUMMARY:

This simplified summary can show you the tremendous potential benefits (little understood by many expats) that may be possible by simply taking action before returning and acquiring some prime located, brand new investment property.

Of course, you should NEVER buy just because of tax planning, BUT if you think it is a good investment, you get the ADDED benefits of tax relief.
This strategy has been used by expats for years, with many returning to Australia to work and live tax free for a long period. It is fully transparent, does not need complicated company structures, and is fully legal. As always, check with your own advisors before making tax or investment decisions.

HOW TO DETERMINE THE TAX BENEFITS ON A NEW PROPERTY:

Example:

Unit Price/Value		$500,000
Mortgage @	80%	400,000
Cash Equity Invested:		
1st Deposit (Now)	10%	50,000
2nd Deposit (Due on completion)	10%	50,000
Plus Costs:		
Stamp Duty:		1,520
Legal’s:		2,000
Bank Fees:		2,500
Others		0
Total Cash outlay:		106,020
Investment Loan Repayment @6%	6%	24,000

How to calculate the Tax Benefits	
Weekly rental income:	500
Annual rental income (weeks)	26,000
Expenses/Tax benefits	
Rates/Body Corporate/Agents fee and Management	(4,390)
Interest on Mortgage	(24,000)

Depreciation	(12,800)
Others, expenses, Stationery, etc	(3,500)
Tax Agents Fee	(350)
Total tax deductions*	(**45,000)**
Tax credit available this Year (rent less deductions)	**(19,040)**

NOTES FOR INVESTORS: The rent $26,000 less expenses ($4,390 + $350) and bank interest ($24,000) comes to just ($2,740) per year. (Your actual yearly cash outlay holding cost)

NEW PROPERTY benefits from the large depreciation benefits, will eventually age so you can then add value, PLUS OVER THE PAST FEW YEARS during the Federal

Elections there has been a lot of talk of removing investors negative gearing benefits on those buying old properties for investment. It seems highly UNLIKLEY any Government would dare take away tax benefits on new properties, as Australia is in desperate need of more new projects for the massive population increase planned.

So it makes sense to de-risk and buy new.