ASK THE EXPERT

Storage & Relocation

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I have a house in Australia and want to buy another. Is it best to sell my current property to get the money to fund the second?

A

Many people do not realize that once you have substantial equity in a property, it can be access by other ways than just the sale.

There are substantial financial and tax benefits from deferring the sale and using appropriate lending to purchase your next property, as in most cases if there is enough equity in the existing property you may be able to borrow the full purchase price of the next property.

The downside of selling the property now is:

- Once a property is sold any potential future profit is lost,
- You will incur selling fees reducing the equity available,
- Any Capital Gains will become taxable at time of sale further reducing available funds.

Obviously if you borrow, you will incur additional interest expenses, but these will be fully tax deductible and may become very valuable in reducing the Capital gains tax on either property later on when a sale occurs, perhaps even eliminating the tax cost completely.

This will also allow you to accelerate the build up of valuable tax credits that can offset future Australian income if you return to Australia and have not sold the property.

Being able to act now rather than wait for the existing property to be sold can also enhance your negotiating power and allow you to act on a quality property immediately, without having to wait for yours to be sold and possibly miss the opportunity.

This is particularly true if you are trying to buy in a quiet market and take advantage of low prices, when selling is not as easy or lucrative. Simply buy the other one now, and then sell yours later in more favourable market conditions.

Perhaps the best reason to keep rather than sell is in the fact that you now have two properties growing in value rather than just the one.

If the second property had been more expensive than the first at time of purchase, it is likely that the original property will continue to grow in value, and that one day it can be sold for a higher price, hopefully equivalent or greater than the new property.

In doing so, you can pay out the mortgage on the second property with the greater proceeds available and have a greater equity now built up.

The tax savings alone can amount to many thousands of dollars and makes the cost of interest well worth the trouble.

Steve Douglas is the co-founder and Managing Director of Australasian Taxation Services (ATS), established in Singapore in 1995. ATS provides specialist taxation services to people of any nationality investing in Australian property, as well as Australian expatriates living overseas. Areas of specialisation include the Australian taxation aspects of property investment, as well as expatriate and migration planning.