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Your investment property

A guide to understanding your investment property

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Understanding your investment property

Like any financial decision, purchasing an investment property has its challenges and complexities. Therefore, it's crucial that you understand every aspect of your decision.

Choosing the right property to invest in can take time and research, but being well-informed will increase your chances of a wise investment that reaps significant financial reward – both in short-term rental income and long-term capital growth.
When choosing a suitable investment property, it's important to remember that you're making a business decision, rather than an emotional one.

Rather than looking for an emotional connection with the properties you view, consider aspects that will appeal to the rental market. These might include accessible transport links, local amenities, schools and off-street parking in busy areas. These are all fixed factors that should outweigh the importance of internal aesthetics and décor.

But of course, there's so much more to consider. This ebook has been developed as a comprehensive guide to help you properly understand the financial and tax implications of buying an investment property. It's designed to ensure you benefit from peace of mind and a rewarding investment that produces great financial return.

Investing in property: what you need to know

Choosing a loan

Property investment loans are, in essence, the same as any other type of home loan, although many investors prefer an interest-only loan or line of credit loan. With an interest-only loan, the principal remains the same and the repayments cover the interest component only. However, if you already own a property, a line of credit loan may be the better option, as it will allow you to use the equity in your existing property as security for your investment property loan.

Interest rates

Over the course of your loan's lifespan, interest rates will naturally fluctuate, so you'll need to allow room in your budget for potential rate increases. Bear in mind that when interest rates are low, maintaining the same loan repayments is a great way to accelerate paying off your loan.

Positive vs negative gearing

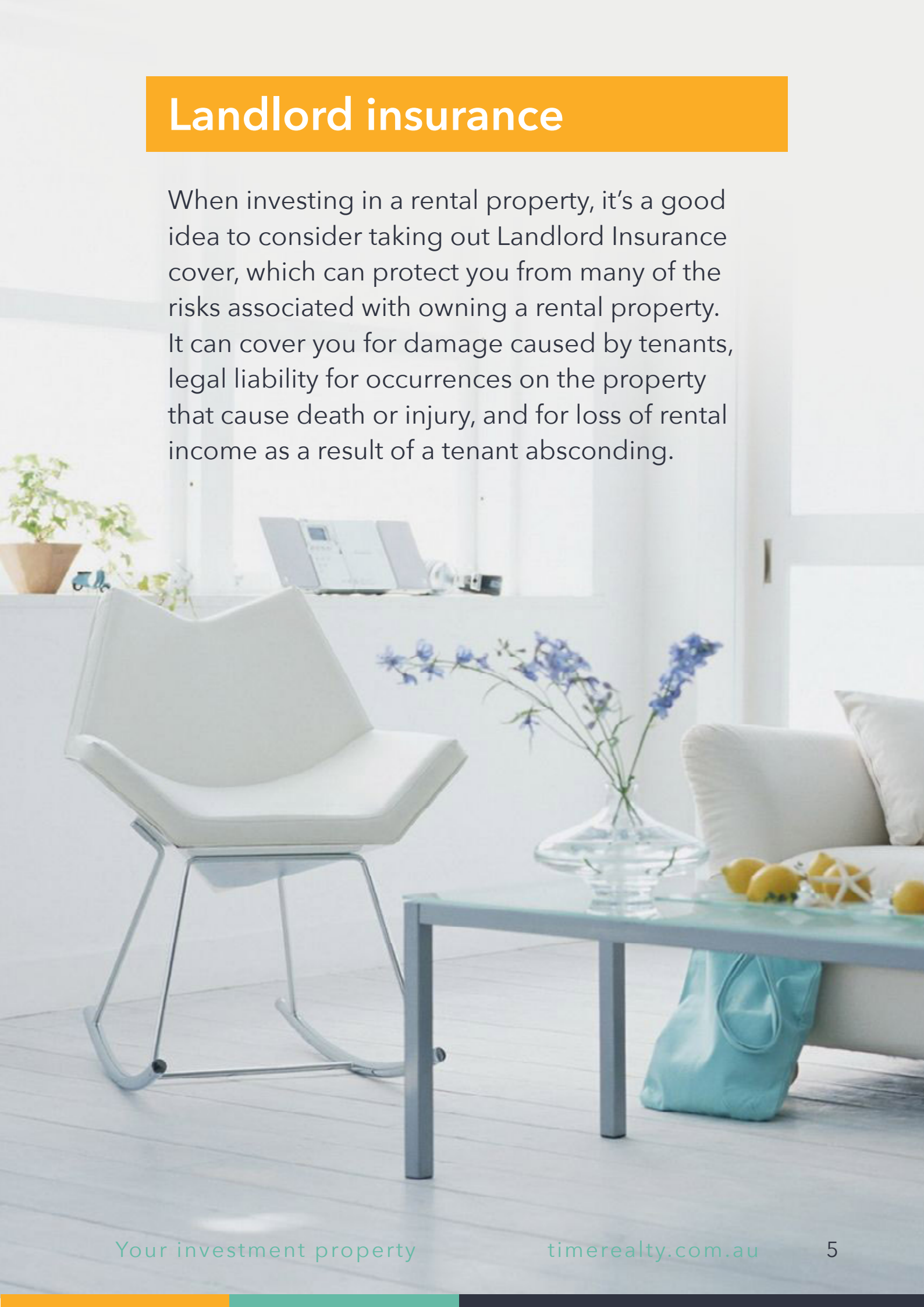
You'll need to decide whether a negative gearing or positive gearing strategy best suits your circumstances. Negative gearing is when annual rental return is less than your loan repayments and outgoings -placing you in an income loss position.

However, it's not all negative news. A negatively geared property could provide you with tax benefits - the government will allow the loss on your property to be deducted from your gross annual income, therefore you'll ultimately have less tax to pay.

Positive gearing is when rental return is higher than your loan repayments and outgoings. One thing you'll need to bear in mind with positive gearing, is that tax may be payable on your net income, after depreciation and other tax deductions have been taken into account.

Landlord insurance

When investing in a rental property, it's a good idea to consider taking out Landlord Insurance cover, which can protect you from many of the risks associated with owning a rental property. It can cover you for damage caused by tenants, legal liability for occurrences on the property that cause death or injury, and for loss of rental income as a result of a tenant absconding.



Income tax

While property investment brings certain tax benefits, you'll also incur additional taxes, such as income tax, which you'll be required to pay on any rental income you receive from your property. This might however, be offset by deductions for expenses relating to your property, such as building and landlord insurance, agent management fees and repairs or maintenance.

Your rights & responsibilities

As a landlord, it's your right to request that your property manager takes a bond from your tenants (usually four weeks rent) as a security measure against property damage. In the case of damage, abandonment of the premises by the tenant, outstanding bills, loss of goods and unpaid rent, you're eligible to claim part of, or the entire bond back, once the tenancy is over.

In the case of maintenance and repairs of the property, it's up to you to have them fixed as soon as possible, or you may be legally responsible for any injury caused to the tenant.

Tenant & landlord disputes

When renting out your property, there are a number of things that need to be considered and knowing your rights and responsibilities from the outset will help you to avoid, or resolve, any differences you come across with your tenant.

In NSW, the Department of Fair Trading's free dispute resolution service can help resolve common residential tenancy disputes. However, if this process cannot get you and your tenant to form a resolution, a claim with the NSW Civil and Administrative Tribunal can be lodged by either party.

CGT (Capital Gains Tax)

When it's time to sell your investment property, it's important to keep in mind that you're obligated to pay Capital Gains Tax on any profit made from the sale. However, if you've owned the property for more than 12 months, you're entitled to a 50% discount on the tax you need to pay.

Whether you're looking to generate capital growth, rental income or potential tax advantages, property investment can be a financially rewarding decision, when approached with caution and a proper understanding of your rights and responsibilities.

For more property investment advice, visit **www.timerealty.com.au** or contact our friendly team on 02 9712 1188.

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