12 Mistakes When Buying A Home To Live In

Educating yourself and seeking advice is something you associate with property investing but not buying a home to live in. Well, it didn't take long at all for me to come up with 12 mistakes I have seen people make when buying a property to use as their home. I list them below, here is where you can educate yourself on when to seek advice. A few minutes reading just to be aware of the traps could save your tens of thousands of dollars so if any of these could apply to you, it is well worth paying for the right advice.

1) Make sure you obtain vacant possession at settlement. If you do not move in as soon as possible after settlement you will not be able to cover the property with your main residence exemption until you do. Even if you do move in, it will not count unless you are also a resident of Australia for tax purposes. Not covering your property right from the start leaves a festering CGT nightmare waiting when you sell and the need to keep records for the whole time you own the property. Further, you may end up having to pay investor stamp duty.

2) Do not buy your home in a trust or company. For a property to be covered by your main residence CGT exemption, it needs to be owned by you and/or your spouse personally.

3) Do not take in flatmates who pay you more than their share of food and electricity If your home is being used to produce income at the same time as you live there then it will only qualify for a partial main residence exemption, proportionate to the percentage of the house used by you. The 6 year absence rule (section 118-145 1977 ITAA) cannot apply in these circumstances because you are not absent.

4) Just because you live in a property that you own does not mean it is covered by your main residence exemption. If you purchased it with the intention of resale at a profit, for example renovators, then you are in business so the profit is taxed as normal business income. That means no main residence exemption and no 50% CGT discount.

5) Take advice if you purchased a property to live in but want to subdivide and sell off part of the block. This separate block will not be covered by your main residence exemption. The profit on the sale will be taxable and GST may be payable. In the case of GST a

margin scheme clause in the contract will reduce the GST considerably but you first need to know whether GST is going to apply at all.

6) If you are helping your children buy a home the bank may encourage you to include your name on the deed. This means that your share of the home will not be covered by the main residence exemption, leading to a CGT bill based on the market value when you finally sign your share of the property over to your children. If the bank will not let you avoid this then make sure you enter into a contract to sell the property to your children the same day as the property is purchased, even though it may not settle for a few years.

7) If the property you purchase is larger than 2 hectares, it will not be fully covered by your main residence exemption. Accordingly, it is important that you keep receipts for everything right from day one. Including but not limited to interest, rates, insurance, fencing, trees, lawn mower fuel …..

8) Make sure you are in it for the long term. Transaction costs with property are so high it will take a lot of capital growth just to recover the stamp duty and real estate agent's fees if you end up selling. These may well be more than the rent you would pay for a couple of years if you are only in an area temporarily. Allow for the fact if you are renting you will not have to pay interest, rates and insurance. Rent is not always dead money.

9) Avoid off the plan purchases. You can't see what you are going to get. You could be waiting years and if there is a lot of capital growth in that time the seller will probably use the sunset clause to just refund your deposit and keep the property themselves anyway. There is also the possibility that the developer will go broke during construction. You may be better off to wait and see the quality of the finished product. If the development is large enough there are bound to be a few people needing to get out quick due to circumstances that arose while the property was being built. They will be competing against each other to sell you their property without the advertising budget the developer had.

10) Check the contract for a going concern or farm land clause. This can happen when a residential property has been used in a business, for example professional offices or health care. If you change back to using it as a home, yours or a tenant's, then you have to pay the ATO an extra 10% on top of the purchase price.

11) If the home comes with a granny flat there may be capital gains tax consequences. If you intend to rent out the granny flat then part of the property will not be covered by your main residence exemption. You need to keep records for the whole property right from the start, including rates, insurance, interest, repairs, maintenance right down to cleaning materials and light globes, for the whole property for the whole period of ownership. If granny is going to live there, do not charge her rent and make sure she regularly dines

with you and send the children out to the granny flat to annoy her frequently reference TR 1999/69.

12) Joint tenancy is normally the simplest way to hold a property between spouses and is fine if there is no CGT liability when one of them dies. But if there is some CGT exposure the survivor would be better inheriting the property through the deceased's will instead. This would allow the cost base to be reset at market value on that portion of the house, so the CGT liability disappears, reference section128-50 and 128-15 ITAA 1997. Fortunately, you can change from joint tenancy to tenants in common after purchase with no CGT or stamp duty consequences.

In many of these cases it is too late after you signed the contract, too late by the time you casually mention it when doing your tax return. We pride ourselves in being proactive accountants, please help us by being proactive by asking the question.