

Eyes turn offshore

Pam Walkley checks out the tax breaks for foreign property



WITH THE AUSSIE DOLLAR still riding relatively high, some investors are considering offshore property. But Money reader Linsey wants to know if she can get the same generous tax breaks as she could if investing in Australian property?

Linsey wants to buy in her home country of Scotland, but first wants to understand the tax implications. Now an Australian citizen, Linsey will be able to claim the same expenses on her Scottish investment property as she could on an Australian one. And the same would apply if she was a resident for tax purposes.

If you invest in overseas property, you can negatively gear it just as you can in Australia. You must declare all offshore rental on your Australian tax return even if it's taxed outside Australia. If you have paid foreign tax on your real estate income, you may be entitled to a foreign income tax offset. For more details, see "Introduction for overseas property investors" on the ATO website (www.ato.gov.au).

Investors in offshore property can claim deductions such as rates, interest on borrowings, insurance, deductions for capital works and depreciation.

"The depreciation laws work exactly the same," says Tyron Hyde, of quantity surveyor Washington Brown. But finding someone to draw up your depreciation schedule may pose a problem, he says. And because of this a lot of deductions are probably unclaimed.

Washington Brown can provide some offshore services because it has links in the UK, Asia and New Zealand. "It can be costly, but if you're going to get \$100,000 in deductions over 10 years it's probably worth spending \$1000 or \$2000," says Hyde. "In areas where we don't have associations, such as the US, we save up about 10 inspections and send someone from here."



Scotland calling: Findochty Harbour on the Moray Firth shore.

If the tax deductions from your offshore property are greater than your overseas rental income, you will have a foreign income loss and you can use this to reduce your Australian income for tax purposes, thereby negatively gearing your offshore assets.

When you sell your foreign assets you will be up for capital gains tax if you make a profit. You need to include any capital gain or loss on your Australian return – even if it is taxed outside Australia. Those who pay foreign tax on their capital gain may be entitled to a foreign income tax offset.

And just as in Australia, if you have owned your property for more than 12 months, you are likely to be able to reduce the profit you include on your tax return by 50%.

Aside from the tax rules, people investing in foreign property must make sure they understand the peculiarities of the market they are buying into. If you don't, you can make costly mistakes, not to mention being taken for a ride by the locals.

Because Linsey comes from Scotland, she probably knows the market's peculiarities: for example, many properties are advertised asking for "offers over" a certain amount, which is likely to end in a blind auction.

Another quirk of the Scottish system is that you, as purchaser, sign no documents. Once "missives" (the offer, acceptance and further formal letters) have been concluded by the solicitors, both you and the sellers are locked into a contract and risk substantial penalties on default. Your solicitor signs the documents on your behalf, so find one you can trust.

PROPERTY FOCUS



With Lisa Montgomery*

Despite relatively subdued property market conditions, many people are looking to buy or sell for various reasons. To work out whether now is a good time to sell, consider some of the key issues.

Crunch the numbers on how selling will impact your financial situation. If you're selling to reduce your mortgage, be clever and sell before buying. And if you're contemplating upgrading, make sure you have your finances in order before you act.

When researching make sure you compare like with like. Weigh up how desperate you are to move. If it's simply a case of feeling you've outgrown your existing property, weigh your options and take your time.

If you've already bought elsewhere consider renting it out until the market for selling improves. Selling and buying are big decisions so don't rush.

*CEO Resi Mortgage Corporation