

KEEP IT OR SELL IT

Navigating the
the future
of your first
property purchase



Your first home, much like your first love, holds a special place in your heart. It represents a significant milestone, embodying memories and experiences. However, as life evolves—family dynamics change, and new needs emerge—you may find yourself contemplating a move. At this crossroads, the question arises: should you keep your first home as an investment property or sell it?

While retaining your first home might seem like an ideal solution for investment, it's not always the best choice. The following points will help you.

■ Key Considerations Before Making a Decision

1. Capital Gains Tax and the Six-Year Rule

When selling a property that has solely served as your principal place of residence, you typically face no capital gains tax (CGT). However, if you rent it out, CGT becomes applicable. Fortunately, the six-year rule allows a property to remain exempt from CGT if sold within six years of being rented out, provided you do not own another principal place of residence. Consulting with tax specialists can provide clarity on your specific CGT obligations.

2. Assessing Capital Growth Potential

Before deciding, it's crucial to evaluate the potential future value of your first home. Conduct research into sales of comparable properties in your area and look into any planned developments that may influence property values. A discussion with real estate and financial experts can help you weigh the pros and cons of potential capital growth against CGT and other expenses.

3. Considerations for Rentability

Your first home may have been purchased based on personal preferences rather than investment criteria. Before making a decision, assess whether your property will attract long-term renters. Just because you cherished the home doesn't guarantee that it will appeal to others. Engaging with local property managers to understand the rental market's demand and supply dynamics is advisable. Remember, rental income is taxable and, if it exceeds property costs, you'll pay the marginal tax rate.



4. Renovation Requirements

Will your home require renovations to meet rental standards? Ensuring compliance with safety regulations is mandatory for landlords. Standards may have evolved since your purchase, possibly leading to significant costs. Be aware that only certain improvements can be deducted on your tax return. If renovations occur before renting, they are considered home improvements and won't be tax-deductible. However, if done while rented, they may be deductible, contingent on you consulting with your accountant.

5. Home Loan Implications

Deciding to keep or sell your first home largely depends on your mortgage servicing capability.

Considerations include:

- Your existing equity in the property
- The total amount needed to be borrowed
- Your capacity to service both loans

Remember that investment financing criteria varies among lenders, often using only 70-80% of the expected rental income.

6. Utilising Your Equity

Your equity can significantly enhance your borrowing power when purchasing another home. If the value of your first home has increased since you bought it, you might have more equity than you realise, usable as a deposit for your next property. Note that using your current home's equity may classify your original loan as an investment loan, which typically offers interest-only repayment options and potential tax deductions.

Finally.....

Deciding whether to keep your first home as an investment property requires careful consideration of several factors, including capital gains tax, rental prospects, potential renovations, and loan responsibilities. Engaging with financial specialists can provide personalised insights tailored to your situation.

If you're unsure about the best course of action for your circumstances, we encourage you to reach out for tailored advice. Understanding your options can lead to a savvy and financially sound decision. What are your thoughts on potentially keeping your first home as an investment? Let's discuss how we can help you navigate this decision!



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1300 941 464

help@yourlendingexperts.com.au

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