

back to about the 10 per cent level within five years as part of its strategy to regain a strong footing in the

SANTOS \$13.12
The gas and petroleum exploration company said this week the coal seam gas industry needed to lift its game when dealing with community concerns.



all ordinaries index

4342.5

One year ago **4817.5**
Five years ago **5396.9**
Ten years ago **3164.2**



as possible.
Some people may say the only good debt is no debt, but Australia's tax system can help make a property planned and structured property loan a valuable tool for building wealth.
We asked a range of financial experts for their definitions of good, bad and ugly property debt, and received a mix of answers. Let's take a closer look.

GOOD DEBT

This one's simple and generally agreed by all: Good property debt is debt used to fund an investment that will generate long-term gains.
"Good debt is the kind that produces income or capital growth and, importantly, involves tax deductions," says MBA Financial Strategists principal Mark Borg, an AMP financial planner.
Investors get to claim a tax

deduction equal to their 30 per cent tax rate, which gives them an after-tax interest rate of 5 per cent.
In many cases rent from tenants can cover most or all of this.

KeyInvest Lending Services chief executive Chris Burns says investment property owners can benefit from debt.
"In most cases, rental properties are a very efficient way to build wealth as tenants essentially pay off the owner's debt as the value of the home increases," he says.

Rents will continue to rise over time, while the original debt will stay the same or fall.
"However, a steady flow of rental income is not guaranteed, so a specialised form of insurance is recommended to protect investors from many of the risks associated with owning rental properties," Burns says.

Oracle Lending Solutions broker



Tony Musolino says savvy investors maximise their tax-deductible debt over other kinds of debt.
"An investment loan that allows you to benefit from rental income from a property steadily increasing in value is that very rare breed of debt that may make you money instead of taking it away," he says.

A "good" property debt can also be used to buy other investments such as shares, which in some cases – such as the big banks at the moment – can pay dividends much higher than the cost of the loan.
But, of course, if the shares lose value, you lose money if you sell.

BAD DEBT

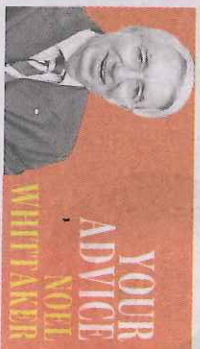
Here's where things get a bit blurry.

For example, your home loan is technically not good debt because you don't get a tax deduction for it, but many experts say paying off a mortgage is better than renting for life because at least you'll have free shelter one day.
"Bad debt includes expenses you can't get deductions on, such as your home loan – although it's not all bad news because you still end up with a valuable asset," Borg says.

Musolino says bad property debt can also be when you take on too much to handle, or borrow heavily to spend on renovations.
"If the changes you want to make are not essential to the structure or upkeep of your property and you cannot comfortably

pay off a existing into dang
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the loan wh low but d if their it repayer
"Takti looking a on a slip to bad de
Renov now and have bee try to sell

Chip away at mortgage



YOUR ADVICE NOEL WHITTAKER

free return of about 7 per cent a year. In 12 months, revisit your options: Depending on income, you may then be eligible for the government super co-contribution.

I HAVE an investment property bought in 1997 for \$87,000 and now it's worth \$250,000. I want to knock it down and rebuild. The cost of building the new house is estimated at \$300,000. I intend to lease the new house for 10 years before selling it. Could you please tell me how capital gains tax will be calculated and if I can claim any depreciation on the cost of building the new house?

You can claim depreciation on the cost of the new house and there may be some depreciation to be written off on the old house if it was built or improved less than 25 years ago. You do not have to remove the cost

of the old house from your CGT cost base for the CGT calculation – the demolition costs, new building costs etc will increase the cost base. Make sure you involve your accountant.

MY WIFE and I are both aged over 65 years. She intends to retire and I will continue to work full-time. When she applies for the age pension, will the amount I salary sacrifice to super be counted in the income test?

Yes, any salary sacrificed contributions will be counted in the income test and, as you are over 65, the balance will also count for the assets test.

WE HAVE a mortgage of \$450,000 on our own home and also have a rental property with a \$600,000 mortgage. We are trying to sell the rental property but are finding it

very difficult and we are quickly running out of money. Can the interest be stopped on both loans to avoid bankruptcy?

Talk to your bank as soon as possible in the hope that both loans can be converted to interest-only to give you some breathing space. If the position is irretrievable, call Lifeline and get access to a financial counsellor who may be able to help you make an arrangement with your creditors. This will give you a chance to get back on your feet and is not as severe as going bankrupt.

Noel Whittaker is a co-founder of Whittaker Macnaught. His advice is general in nature and readers should seek their own professional advice before making any financial decisions. Contact: noelwhitt@gmail.com.



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