interest on your home loan will not be tax deductible while you are living in it, but if you vacate the property and rent it out, you can then claim interest and other outgoings as a tax deduction and at the same time will have to declare the rental income as taxable income. The cream on the cake is that you can

An offset account is simply a savings account with the interest being deducted from your loan interest instead of being paid to you as taxable income. At any stage, funds can be withdrawn from the offset account without tax implications. In contrast, every time you make a withdrawal from a line of credit account, you are establishing a new loan.

Suppose a couple have a $400,000 loan on their home and have the goal of eventually upgrading to another home and renting the original out. Over the years they have accumulated $350,000 in their offset account, which means they effectively owe only $50,000 on their property. When they make the move they simply withdraw the $350,000 from the offset account and use that as a deposit on the new home. This leaves them with a $400,000 debt on the now tenanted original property and they can claim all the interest on it as a tax deduction. Their neighbours once had a

particular trap if the borrowers do not keep their business and private expenses strictly separate. Unfortunately far too many borrowers deposit their salary into the investment loan account and then withdraw funds each month for normal living expenses.

They do not realise that the deposit of the salary is treated by the tax office as a permanent reduction of the debt, and each redraw is a new loan. Because the redraws are used for a private purpose such as paying for groceries, the loan very quickly loses its tax deductibility.

The lesson in all this is that you should keep your investment and private borrowings separate and always use an offset account if you intend to rent out a property that is presently used as your own residence.

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A rely solely on the employer contribution at the moment because it will be at least 30 years before you can access your super and changes during this period are a certainty. Unless you have foreseen a need for the $20,000, a better option for it would be to use it to reduce your mortgage or else place it in an offset account where the interest on it will be notionally paid at the same rate as you have been charged on the mortgage but instead will reduce the principal. Leaving it in the online savings account means you will be paying unnecessary tax on the interest. I don't know the value of your house so I don't know what equity you have in it, but once your mortgage has been reduced to a stage where you can handle it easily you could seek advice about taking out a home equity loan for investment.

Send your questions to noel.whittaker mcnaught.com.au

To go or stay – global woes take a toll on couples

By **ELINORE MARTEL**

THE global financial crisis may be responsible for saving a few marriages – for the time being.

Australian couples whose marriages hit rock bottom at the same time as their shares and property may have waited out the GFC, if they took heed of advice.

Others are likely to have tried to avoid property settlement court cases, with costs that can easily run to tens of thousands of dollars, and gone through mediation instead.

Melbourne lawyer Sally Nicholes, of Nicholes Family Lawyers, said: "We certainly have some clients who have put settlements on hold."

She credits the GFC with an increased number of people exploring mediation. "We're trying to cut costs where we can for people."

And the role of the financial adviser has become more important. Share values dived as the GFC hit and with them super funds.

"I felt terrible for a lot of people who had a settlement based on shares rather than cash," she says. "Of course, the GFC has affected the size of the asset pool. Shares are no longer worth what they were. People might be picky with what sort of assets they end up with."

Lawyers and judges have become more reliant on financial advisers as they negotiate tricky property settlements as part of the divorce process. "Judges will be looking for guidance from financial advisers. They will want to look at what's appropriate," she said.

Valuations are also important. "If one partner tries to keep the house, they are likely to want it valued as low as possible so they have to pay less to buy out the other partner. In a shorter marriage, partners might also argue over the contributions – people might want to inflate their contributions."

Lawyers and clients are having to get revaluations done on shares, property and super because of the market's volatility, Nicholes says. "There might be cases where people have deferred settlements. They are waiting to negotiate until the GFC situation has sorted itself out."

Another impact on divorce has come from the collapse of tax schemes such as Great Southern and Timbercorp. "With a lot of those schemes there's uncertainty as to what's going to happen to them," she said.

Job losses, too, have affected property settlements. "If a woman was working part-time and loses her job, she has the right to apply for spousal maintenance."

As well as deferring some marriage splits, Nicholes says the GFC may also be responsible for an increase in marriage break-ups.

"Our business hasn't slowed. I'm wondering if it's because of the financial pressure that people are under. Financial pressure is always a cause of marital breakdown, a cause of anxiety. I feel that's also a reason we're so busy."

Melbourne financial adviser Kerry Mitchell said no one planned for divorce and getting the right advice was important. Sometimes, people find it hard to accept a reduced lifestyle and many do not realise that settlements can take two years. Meanwhile, property and share values can change dramatically.

The junior vice-president of the Law Society of NSW, Justin Dowd, said valuations were now obtained as close to the date of settlement as possible, a change from the previous practice of obtaining them at the start of the divorce process and updating later.

Dowd, a partner at Watts McCray Lawyers, said it was hard for judges to assess future needs of the divorcing couple. For example, some companies that issue share options as an incentive to keep employees may see their share price dive.

"It is true that because of the financial situation, it was much harder to predict what financial futures may have been."

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