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 claim interest and other outgoings as a tax deduction and at the same time have to declare the rental income as taxable income. The cream on the cake is that you can set up a home equity loan or a personal loan account with the interest being deducted from your loan interest instead of being paid to you as taxable income. And at any time, funds can be withdrawn from the offset account without tax implications.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 $35,000 in their offset account, which means they effectively owe only $360,000 on their property. When they make the move they simply withdraw the $35,000 from the offset account and use that as a deposit on the new home. This leaves them with a $400,000 debt at the new tenant’s home and they can claim all the interest on it as a tax deduction. Their neighbours are watching.

Noel Whittaker is a director of Whittaker Macnaught Pty Ltd. His advice is general in nature and readers should seek their own professional advice before making any financial decisions. His email is noel.whittaker@whittakermacnaught.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 decided 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 Nichol, of Nichol 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 household 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 know if what they are doing is 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 can have to pay less to buy out the other partner,” she said. In a shorter marriage, partners might also argue over contributions – people might want to inflate their contributions.

Lawyers are having to get valuations done on shares, property and super because of the market’s volatility, Nichol 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 of 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 lost her job, she has the right to apply for spousal maintenance.”

As well as deferring marriage splits, Nichol 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 advisor Kerry Mitchell said no one planned for divorce and getting the right advice was important. Sometimes it’s 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.”

THE HERALD Thursday, February 4, 2010