MAIN RESIDENCE

It is often said that the family home is the most valuable asset you'll ever own. This is because it is exempt for a number of purposes, such as capital gains tax (CGT), pension calculations and Centrelink benefits. However, there are a number of situations that you should be aware of concerning your main residence, if your circumstances happen to change. For example:-

Moving residences
You can only have one main residence at a time ─ except if you are changing residences, in which case you can elect to treat both dwellings as your residence for a period of up to 6 months. However, this only applies if the first residence was your main residence for a continuous period of at least 3 months in the last 12 months before it was disposed of, and not used for income-producing purposes (eg. business or rental) at any time in that 12 month period when it wasn't your main residence.

Building a house
If you are building a house, you can elect to treat it as your main residence for a period of up to 4 years, assuming that you have no other main residence during this period (apart from the 6 month exemption above), and provided that you move into the property as soon as practicable after it is completed and reside there for at least 3 months.

Temporary absences
If a dwelling stops being your main residence, you can choose to continue to treat it as your main residence for a period of up to six years (if rented) or indefinitely (if not rented) provided you do not have another main residence at the same time. The six year period need not be continuous and starts again if you re-establish your home base there, but have to leave again. [These rules were introduced mainly for Australian employees who are sent overseas with their families to work for an extended period of time.]

Renting your home
If you do have a main residence, but decide to rent it out for longer than the 6 year period as above:-

- Get a valuation done, as any capital gain will be based on the market value at the time of rental rather than the cost price at the time of purchase.
- Keep a record of any improvements to the property while it is rented, as these costs can be added to the cost base for CGT purposes
- Note that any repairs (eg. painting) done to the property before it is rented <u>cannot</u> be claimed as a tax deduction because they have arisen as a result of your own private use of the property
- Interest on your mortgage will only be deductible while the property is earning assessable income (eg. rent). If your home is paid-off before you start renting it, you won't be able to 'switch' the mortgage from your new house to the rental property to claim a deduction.
- If you are running a business from home and claiming a tax deduction for 'home office expenses' calculated as a percentage of rates/electricity/insurance etc. based on floor space area, then you will be subject to CGT based on that same percentage when the property is sold.

Miscellaneous rules
If spouses have different residences, they must elect one as the main residence for them both or split the exemption. If the residence is owned by a company or trust, then CGT will apply regardless. If you live on acreage, then the exemption will only cover the house and 2 hectares of surrounding land.

Divorce
Property which is transferred between spouses as part of a court order or agreement under the *Family Law Act* may be eligible for CGT rollover-relief, so it is important to keep all records for when the asset is subsequently disposed of.

As there are a number of exclusions and exemptions, please contact this office if you have any specific queries regarding your particular circumstances.