Stop and think before you bet the house

Trading in investment property to take advantage of the lump-sum tax holiday may not be so smart, writes **Lachlan Colquhoun**.

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The combination of a flat property market and a tax exemption on lump-sum superannuation contributions of up to $1 million would seem to be a sure-fire recipe for people to sell down property and top up super. But financial advisers say it is not quite that simple.

Advisers are seeing a steady flow of clients with the same question: "Should I sell the investment property and park it in my super fund before the government's deadline of July 1 next year?"

It seems a straightforward enough question, but several advisers say they are giving different responses to different clients and warn against a knee-jerk response.

"The biggest issue they've got to look at is the capital gains tax liabilities that arise," says Lesley Dewar, a Perth-based representative for Professional Investment Services.

"You have to decide if the property is really at the top of its cycle.

"I would be reluctant to see somebody sell a well-performing property, incur a large capital gains tax bill and then be encouraged to undertake some aggressive tax minimisation strategy just so they could free up those funds and put them into super."

Despite her caution, industry observers predict that the government's superannuation changes will transform savings patterns. Actuaries Rice Warner forecast the changes will drive an additional $404 million into superannuation savings in the next 15 years.

Property prices are flagging in most markets, except Perth, so selling the investment property is now an attractive option for many small investors who lack the option of liquidating large share portfolios to make that lump-sum contribution worthwhile.

"What we are doing with a lot of our clients is looking at where all their assets are — not just in residential property — and working out how they can free up capital, because that is the issue," says Scott Fitzpatrick, principal of the boutique Fitzpatrick dealer group.

"It's case by case and there's no hard and fast rule. It depends on where people's assets are, how much they have in super and where they are trying to get to.

"You don't want to cut off your nose to spite your face, and we are seeing some of that in the flurry of activity in the market right now. Some people are making some irrational decisions."

While recognising that this window is a "use it or lose it" opportunity, Fitzpatrick warns against a fire sale of assets simply to take advantage of the tax holiday.

He reports "poorly informed decisions being made" by people who have either misinterpreted the rules or been stampeded into action without understanding some of the uncertainties which still exist with the superannuation regime.

'The biggest issue to look at is the capital gains tax liabilities that arise.'

"Most of our clients still don't understand the rules and a lot of our role is educating them because there are still uncertainties," says Fitzpatrick.

"We still don't have some legislation in place, and we are still waiting to hear about asset protection, so this is another consideration for people, particularly those in high-risk occupations."

Dewar says that while superannuation has become a highly tax-effective method of saving, the government's reforms have not included significant changes to taking money out of superannuation.

"There are almost no additional facilities for getting money out, so when you are advising people you have to take into account their age and family circumstances and how likely they are to need access to capital before retirement age," she says.

"Superannuation is a good vehicle but it's just a tax bucket. And real estate is a good vehicle, but it has some issues with liquidity. So, again, the key is diversifying your asset allocations."

Temptations

- Analysts predict the government's super changes will transform savings patterns.
- Actuaries forecast the changes will drive $404m more into super in the next 15 years.
- But analysts warn against a fire sale of assets simply to take advantage of the tax break.