Putting your money into an investment property

If you have a large sum of money and are tossing up whether to put down a deposit on an investment property or put it away in your super, there are many issues to consider.

We've outlined the advantages and disadvantages for you...

Property Advantages

- Property investors can receive a substantial rental income. Yields are currently ranging between 3.60% to 6.00% in major cities. (Source: RP Data May 2013).
- Property has a long history of stable capital growth. (Note: this does not guarantee future performance).
- Expenses such as interest paid, repairs and maintenance, rates, taxes, repairs and building depreciation can be claimed as a tax deduction.
- Negative gearing exposes the investor to larger capital growth than investing in a managed fund within super (ie. the investor enjoys the full increase in value, after tax and costs).
- Your investment property can be useful as security when taking out another home, car or personal loan.
- Property is a tangible asset; a 'bricks and mortar' investment giving an increased sense of security and ownership.
- Both property and superannuation are long-term investments and can fund your desired lifestyle at retirement.

Property's Disadvantages

- A good knowledge of property is usually required to be able to get relatively good stable returns from a relatively low risk property.
- The cost of purchasing and selling property is high. Ongoing costs of maintaining a property are also high compared to the costs involved in maintaining a superannuation account.
- There is a risk mortgage payments may need to be covered when your property is not occupied.
- Negative gearing involves paying for the shortfall from your own pocket.
- There is a risk of getting bad tenants. They can significantly damage your property, refuse to pay rent and refuse to leave. Disputes can sometimes take months to resolve and are usually costly.
- If you have all your money tied up in property, you are putting all your eggs in one basket. Overexposure to one type of investment can be dangerous.
- Property takes time to sell. Settlement typically takes six weeks from exchange.
- The Federal Government imposes Capital Gains Tax (CGT) on any 'profits' (appreciation of property value) when you sell your property. Currently this is 50% of the appreciation on the property as long as the property has been held for at least 12 months. Any Capital Gain will form part of your income tax.

Super Advantages

- Starting a super account is easy if you don't already have one. Starting costs are low and you do not require any particular knowledge to invest in super.
- Most super funds have professional fund managers who invest funds on your behalf.
- Superannuation provides a tax-effective environment to help save for your retirement. The earnings on your super are taxed at a maximum of 15%.
- Unlike property, when you have difficulties adding to your super, you can simply stop or reduce the payments depending on your cashflow and affordability.

Money Solutions Pty. Limited
Australian Financial Services License No. 258145

- After-tax contributions (otherwise known as non-concessional contributions) such as personal contributions, spouse contributions and the Government co-contribution amount are returned to you tax-free.
- If you are self-employed, you can claim a tax deduction for up to $25,000 each year or $35,000 for individuals aged 59 and over at 30 June 2013 for concessional contributions.
- For small business owners, there is CGT exemption for proceeds from the sale of business assets which are contributed to super. (This is capped at a lifetime limit of $500,000)
- If you are over age 55, you will be entitled to a 15% tax offset on your pension payments. Once you reach age 60, you can withdraw your super as a lump sum or pension tax-free.
- Super funds are diversified, which means your eggs are not all in the same basket. You can choose an investment option that invests across the appropriate asset classes to suit your needs.
- Both property and superannuation are long-term investments and can fund your desired lifestyle at retirement.

Super's Disadvantages

- You cannot receive an income until you reach your preservation age.
- Money invested in superannuation is generally not accessible until you reach your preservation age and are retired from the workforce. You need to think about when you may need this money.
- There are various rules which must be considered when formulating an investment strategy in super. For example, contribution rules, cap limits and access rules, some of which are listed above.
- Like property, your investment in super is not guaranteed. The value of your investment can rise or fall. The chances of a negative return depend on your chosen investment option.