

Buying or Building a New Build

New builds are being encouraged by the government to solve the housing crisis, that was created by a lack of homes being built in the past. Investors in new builds will be entitled to negatively gear their property for the rest of the time they own it and when they sell they can choose between indexation with a minimum tax rate of 30% or the 50% CGT discount with no minimum tax rate.

Established residential properties will no longer be able to be negatively geared unless they were purchased before 12th May, 2026 or your portfolio includes positively geared residential properties that have enough profits to absorb the loss generated by your new acquisition. But when it comes to the 50% CGT discount the only concession for properties acquired before 1st July, 2027 is on the gain up to that date. Any gain after that date is subject to indexation and a minimum tax of 30%. Though the 30% minimum tax rate will not apply if you qualify for an income tested Centrelink benefit in the year of sale. It is only new builds that will be able to access the 50% CGT discount going forward. More details on this here https://www.bantacs.com.au/Jblog/a-quick-budget-fact-sheet-for-residential-property-investors/

New builds must increase housing stock so knocking down an existing house and building a duplex will qualify as a new build because there are two separately titled properties produced. Knocking down one house and building a new one will not qualify because housing stock is not increased. Building a granny flat in the back yard will not qualify because it does not have a separate title.

The key date is 12th May, 2026, if the certificate of occupancy was issued after that date then it qualifies as a new build. Wouldn't you feel a bit of an April fool if your certificate of occupancy was granted just before then. At least you will still be entitled to negative gear for the whole period of ownership but you will not be entitled to the 50% CGT discount for any gain after 1st July, 2027. You missed out by 1 month on being entitled to the 50% discount for the rest of the time you owned the property. Don't expect any gain before 1st July,2027 because you now have a property that is not new even if never lived in so it will be devalued by the new laws and the governments push to bring down property prices. Any gain made after 1st July, 2027 on a property completed before 12th May 2027 will be indexed for inflation and taxed at a minimum rate of 30%. Alternatively, anyone who gets their certificate of completion after 12th May, 2027 can sell the property within 2 years and the buyer can treat it as a new build for the purposes of all the investor tax concessions.

Construction time is an important factor in the success of your investment

- Consider the interest cost while you are waiting for the property to be completed. Further, if you directly own the land the interest on the loan for the land is not deductible for the construction period. Interest on vacant land is not tax deductible until the house is finished and ready to rent. Though as long as you are building with the intention of renting the property out then the interest on the loan for the construction will be tax deductable. More information here https://www.bantacs.com.au/Jblog/make-hay-while-the-sun-shines-claiming-interest-during-construction-of-a-residential-rental/#more-896

- Check the terms of your loan approval you may only have 6 months to settle without having to reassess your borrowing capacity. In that time your circumstances and the valuation can change especially with a government whose stated mandate is to bring down property prices and slow the economy.

- How long can you support the loan repayments on the deposit or land loan without earning rent? Or for owner occupiers how long can you afford to make the repayments on the deposit, land and progress payment loans as well as pay rent to live somewhere? This is a major advantage of buying an established property that you or a tenant can move straight into. Some people just can't afford the lead time.

- If you consider that building costs are going to go up. Locking in a price now may have an advantage but really your fortunes are very much aligned with the builder or developer if they end up not being able to afford to finish the construction. Of course the longer the period between signing the contract and completion the more opportunities for these issues to arise.

Buying off the Plan

Most developers need sales off the plan before they can proceed with a block of townhouses or a unit block. This conversion of existing land into multiple dwellings, you would expect to be, a preferred way to increase housing stock. Then why has the government added to the traps associated with off the plan purchases?

The two traps that have always been there is that if the units do go up in value the developer will delay completion until the sunset clause kicks in and all they have to do is hand back the deposit and grab the profit for themselves while the off the plan purchaser has missed the market. The other trap is that banks will not guarantee to lend you the money from the start of a two year project. In fact, they want the development finished, then they value the unit before final approval. So, you are betting, when you hand over your deposit, that your circumstances won't change over the construction years and that the valuation comes up to scratch. You will lose your deposit if you can't settle because you can't borrow enough to complete the contract.

The government's changes have added another level of danger to buying off the plan. The fact that the government is hell bent on, and seems to have been very successful in, bringing down housing prices. Consider that you buy a $500,000 unit off the plan by putting down a 20% deposit of $100,000 but when finished, 2 years later, it is now worth $450,000. You still have to settle on the agreed purchase price of $500,000 so you need $400,000 but the bank may only lend you 80% of its valuation which is $360,000. If you can't find another $40,000 somewhere you are going to lose your $100,000 deposit. Investors might be able to find the $40,000 but a first home buyer has just lost their life savings.

It is not just potential purchasers that should run a mile from developments in this artificially government created chaos. Think about it from a developer's point of view. They need to also consider why would they take all the risk of building these unit complexes in an era of increasing interest rates and building costs when the government is boasting that it will bring down the value of housing.

Further, if this is a large development not only will there be a longer construction time there is likely to be an oversupply of your particular property when it completed possible affecting the valuation and rent return.

House and Land Packages

This may give you a shorter turn around time thus allowing you to secure finance before you commit, providing you contract with a professional organisation that will produce the building on time without any unforeseen circumstances. At least you own the land so have some power when it comes to completing the construction.

Generally, you would expect a house and land package to provide the shortest time period between signing and receiving rent.

Of course owning that land means you are probably making higher loan repayments during construction than on a deposit in an off the plan, so do your numbers carefully.

You will not be entitled to a tax deduction for the interest on the land loan or rates until the building is available for rent but you will be entitled to deduct the interest on the loan for the construction costs.

Many house and land packages are in new estates. While not as bad as an off the plan high rise there is still the consideration that a lot of similar properties become available at the same time dragging down values and rents. Further, these estates tend to be on the outer fringe of infrastructure that buyers and tenants are looking for so have no unique attributes that will make them more attractive than next estate with newer properties by the time you sell

It is not uncommon for there to be a trade off between new and established properties. New providing tax benefits that may make them more suitable as an investment but established properties more likely to be in established areas that have their own demand drivers, resulting in better capital growth. To get tax benefits in a location that has good growth potential through shortage of supply is not going to be easy. You maybe looking for that one off perfect vacant block in an established street or a knock down rebuild. As discussed above the knock down rebuild will need to increase housing stock to gain the full tax benefits. Though it would be considered increasing housing stock if the building you know down is derelict.

Buying Vacant Land

This may be a slower process than a house and land package but if the block is in a well established area that will combine the tax advantages of a new build with the growth driver of a well established popular area.

Do the numbers, make sure you can afford the delays, allow a bit extra for the building time and remember you are not going to get a deduction for the interest on the land loan until the house is ready to produce rent. If this is going to be your home have a good look at the affordability and flexibility of your living arrangements during construction.

Finding a tenant should be easier because you are not competing with your neighbours.

Knocking down and existing property and building a duplex

This is another way of combining the new build tax benefits with the advantages of an established area. It will probably involve even more time than the house and land package or vacant land option considering the approval process. Make sure the end result is separate titles or you will not get the tax advantages associated with new builds.

If you can rent out the old house during the approval process that will help with cashflow and you will be able to claim a tax deduction for the interest while you have the old house there being used as a rental.

Risk factors are getting approval, not knowing just how much it is going to cost you to build until you are significantly committed and having to apply for finance for the construction at some time in the uncertain future.

For more information on building a duplex https://www.bantacs.com.au/Jblog/knockdown-and-rebuild-your-home-or-a-duplex-tips-and-traps/#more-2007 but consider it was written before the budget announcement.

New Build Tips and Traps

Its all about the certificate of occupancy or completion being issued after 12th May 2026 as to whether the property is considered a new build. Though the transitional rules allow houses held for sale by developers at 12th May 2026 to be considered a new build even if the certificate was issued before then.

You need to acquire a new build within 24 months of its certificate of occupancy/completion being issued. This is based on the date you settle, not the date you sign the contract. For this reason you need to look very carefully at your rights if settlement is delayed.

Regarding the requirement to increase housing stock, a derelict house on land would be considered vacant land but knocking down a house to build a new one will not qualify as a new build because it does not increase housing stock. There is an anti avoidance law that prevents one party demolishing a house then transferring it to an associate as vacant land.

Consider that one day when you finally sell the property you are going to have to prove the property was a new build to get the 50% CGT discount. You need to keep evidence of this. We think you should be asking the seller to provide evidence of the date the certificate of occupancy was issued.

Conclusion

As you can see a new built is uniquely different to buying an established home and even more so after 1st July, 2027. Do the numbers, there is so much to consider. You can start by understanding how much of a difference being able to negatively gear your investment will make. This calculator will help you do lot's of what if analysis very quickly. https://www.bantacs.com.au/shop-2/property-cash-flow-calculator/

Then consider how long the property is likely to remain negatively geared. Also consider that if you have another residential investment property that is positively geared you can offset rental losses on an established home against that. Then get out your crystal ball an consider the tax bracket you are likely to be in when you sell (will it be a minimum of 30% if not a new build) or if you will ever sell. Note that a capital gain subject to the minimum 30% tax rate (ie not a new build) cannot be reduced by superannuation contributions. Also consider that after many years of ownership indexing may create the same result as the 50% CGT discount. New builds are going to attract a premium and a timing cost so make sure the tax advantages are enough to justify this.

As far as these measures being necessary to help first home owners get into their own home. Affordable housing stock is not going to increase in an environment where first home owners and investors can lose their 20% deposit and would be developers are lining up for naught to a flogging, building in a market where the government is doing

everything they can to bring down house prices while inflation and interest rates continue to rise.

New build house and land packages may be a better option. The numbers stack up better if you are in a high tax bracket and will be living off your tax free super when you sell. Location is important for capital growth. Look for attributes that are going to make your property uniquely better for a future owner occupier, than the new estate opening up nearby.

But the bottom line is that around 40% of the cost of a new home is tax. Encouraging people to buy a new build is just another way of ripping more money from taxpayers.

Got questions? https://taxquestions.com.au/ask-a-question/