

Do you want \$9,981 in tax free incentives? Every year? For 10 years?

The National Rental Affordability Scheme (NRAS) is a long term commitment by the Australian government for investors prepared to build affordable rental housing. The goal of the Scheme is to **create 50,000 dwellings across the nation to provide affordable rental housing for 'key workers'** such as childcare workers, nurses, police officers, fire fighters and paramedics.

How does the NRAS work?

The NRAS provides a **substantial annual tax free incentive**, called the NRAS Incentive, to the business sector and community organisations who build and rent dwellings to low and moderate income households. To be eligible, the property must be available for rent at a rate of at least 20% below the prevailing market rate.

Then why would I consider this?

The NRAS has had a number of changes since it was first introduced and this has led to misinformation and confusion around the scheme. As with any investment there are always pros and cons. You **MUST** investigate these and then balance them to ensure the appropriateness of the investment for you.

Pros:

1. **Tax free** Commonwealth and state incentives each year for 10 years indexed for CPI/market adjustments. In the 2012-13 financial year these **incentives** will be \$7,486 and \$2,495 respectively, a combined total of \$9,981 in tax free incentives!
2. The incentive is aimed at compensating landlords for the reduction in rent received by offering the property to 'key workers'. As the incentive is tax free, in effect this increases the cashflow generated by the property relative to the cashflow generated if the property was rented at the normal market rate.
3. NRAS properties are professionally managed.

4. NRAS properties typically experience reduced vacancies due to the competitive advantage of reduced rent and stable employment.
5. Only new properties are eligible. Newer properties generally deliver higher depreciation allowances compared to older properties.
6. NRAS properties are able to achieve normal market rental after 10 years.
7. It is possible to opt out prior to the end of the 10 year period (subject to satisfying conditions).

Cons:

1. Property management and consortium fees need to be paid. These fees **WILL** however be tax deductible.
2. Property locations will vary across states and may not be available in some city CBD areas.
3. Whilst there is no consequence on the capital gains tax calculations payable upon a sale, if the property is sold within the 10 year period it is likely to be sold subject to NRAS guidelines. This could possibly impact on the potential number of buyers for the property.
4. Like all investment properties, high capital gains are not guaranteed and due diligence is necessary.

I have heard that the NRAS is not available to individual investors

The NRAS is available to private investors through NRAS consortiums. The consortium will arrange for the sale of the property to the investor and the asset is held in the investor's name. A consortium has an ongoing role and will work jointly with the investor to audit the activities of the investment property ensuring it continues to meet the NRAS requirements.

The consortium will coordinate with the relevant government departments to process your annual NRAS incentive payments. A consortium may operate utilising a "Joint Venture" or a "Head Lease" structure.

What if I change my mind during the 10 years?

Investors no longer wanting to participate in the Scheme **can sell their property or cease their participation prior to completion of the 10 year NRAS term** without incurring any early exit penalties provided:

- the dwelling can be sold to another investor who undertakes to comply with NRAS obligations, or
- an equivalent dwelling can be offered as a substitute dwelling for the remaining part of the 10 year period.

How are tenants selected for NRAS dwellings?

Tenants for NRAS properties are selected by investors and their tenancy managers, except in Queensland. Queensland tenants are selected from the Queensland government's One Social Housing Register.

Tenancy managers select tenants and maintain waiting lists for NRAS homes with assessment and selection of tenants being at the discretion of the tenancy management organisation. As long as NRAS eligibility requirements are met, tenancy decisions will be made in line with their usual policies and processes.

Remember all property investment should be researched thoroughly to ensure the selected property will provide good rental and capital returns while suiting your personal investment goals and situation.



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