

Positive Results from Negative Gearing?

Benefits of Property Investment

Many people turn to property as an alternative to other forms of investment, especially when they seek capital growth, tax benefits and future retirement income.

A large number of such investment properties, purchased to create rental income, are financed through a method called negative gearing.



What is negative gearing?

A negatively geared investment is one where the interest on the amount borrowed exceeds the net income received from the investment's rental income. The tax department allows investors to claim a tax deduction on the difference between the interest paid and the net income from the property.

When buying an investment property in this or any other way, you need to realise the full tax implications, so you can make the right choices for your circumstances.

Negative gearing can provide tax benefits for many people. However, you should consult a professional tax adviser or accountant to help you decide whether negative gearing is right for you.

The advantages of negative gearing

When your investment property is negatively geared, you may be entitled to deductions such as:

- The interest on the loan
- The costs of setting up the loan, including establishment fees
- Letting agent fees to manage the property
- The cost of advertising for tenants
- Council rates and land tax
- Owners' Corporation levies
- Insurance premiums
- Depreciation of fixtures and fittings, including furniture
- Repairs and maintenance



The key benefit of negative gearing is that it enables you to offset costs associated with your loan and renting the property against your tax bill — and at the highest rate of tax that you pay.

The interest-only loan

The interest payment tax deduction makes interest-only loans especially attractive to investors paying the highest tax rate.

For example, you have a property rented for \$1,000 a month, giving you an annual rental income of \$12,000. If your loan interest payments and allowable expenses amount to \$18,000 for the year, you have made a loss of \$6,000 on the property.

This loss can be offset against your personal income. For instance, if your other earnings, such as salary, amounted to \$80,000 for the year, you would only have to pay tax on \$74,000.

At the same time, it's important to make sure you have the financial reserves to meet any potential repayment shortfall and ongoing costs. For this reason, negative gearing best suits investors with reliable cash flows and surplus income.

Increasing value of the property

In addition to giving you tax benefits, your rental property may also increase in value during the year.

Say it was purchased for \$200,000 and you paid a deposit of \$40,000 with a home loan of \$160,000. If the property increased in value by 10%, that would mean a gain of \$20,000.

This would mean a 50% return on your original investment of \$40,000.

Remember: when you decide to sell the property, you will be subject to capital gains tax on any increase in its value.

Making negative gearing work for you

To succeed in property investment through negative gearing, you need to have a clear understanding of everything involved.

You need to be aware of all the deductions available to you and to remember the need to provide for capital gains when you sell.

Your personal circumstances will determine how well negative gearing will work for you, and you should seek professional tax advice.



Gatherum-Goss & Assoc are property tax specialists, who have been providing strategic taxation, accounting, financial and retirement advice for over 20 years.

Call Rebecca Mackie, Partner at Gatherum-Goss & Assoc to find out more about how negative gearing can help you reach your financial goals, ph. 03 8393 1010.