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Negative Gearing & Property



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Creating wealth through purchasing an investment property is a well established practice in this country.

By definition, 'negative gearing and property' is where you borrow to acquire the property and the interest expense on the loan exceeds the rental income you receive from the tenant. The attraction of borrowing or gearing to invest is that you can purchase a property that might otherwise have been unaffordable. The strategy can also be tax effective because individuals can offset the tax loss against other assessable income.

The real benefits of negative gearing are only realised when you combine the correct tax and financial advice with a suitable property in the right location funded by the most appropriate loan product. As such, you should always seek expert advice and make sure the purchase is within your budget and will deliver long term financial benefits supported by taxation concessions.

Having assisted so many clients when buying a negatively geared property as part of their wealth creation strategy, you can benefit from our knowledge and experience.



The Risks



If you were to believe some people it would all seem very simple. You buy the right property in the right location and then have the tenant and the Tax Office partially fund your tax loss while you sit back and profit from the appreciating property. The truth is, while gearing can amplify your gains it can also magnify your losses.

If you negatively gear property, you need to understand some important points:

Firstly, investing in property requires planning and the tax benefits should not be the only reason for the property purchase.

Negative Gearing isn't suitable for all investors because it implies a negative cash flow that you will need to fund from other income sources. The income tax and capital gains tax implications will depend on factors such as the ownership structure, your marginal tax rate and the holding period.

While the family home is a purchase from the heart, an investment property needs to be a purchased from the head. It is an investment decision that requires planning and research.

Properties generally only create profits through capital gains that accumulate over a medium to long term period. They are illiquid assets which can't be sold overnight which could pose problems should your circumstances change.

How We Can Help You



The real benefits of negative gearing are only realised when you combine the correct tax and financial advice with the right property and loan product. You should always seek expert advice to make sure the purchase is within your budget and will provide taxation and financial benefits in the long run.

We are in a unique position to advise you regarding the process of purchasing and maintaining a negatively geared investment property. We understand your tax position and are able to advise any property investment.

When buying an investment property we can assist you in several areas:

- exploring what you can claim, what costs form part of the cost base for capital gains tax purposes, prepare a cash flow analysis of the proposed property, taxable income forecasts and equity projections.
- The tax loss on the property can pose a major cashflow issue, however, we can prepare a PAYG variation application so that your regular pay packet reflects the annual tax saving.
- One of the most important decisions you need to make when purchasing an investment property is which entity or person should own the property. We can recommend the appropriate structure so you maximize the tax savings and protect your investment. There are a number of key factors to consider because transferring the property at a later date can prove costly with stamp duty and capital gains tax implications.

How We Can Help You

Obtaining the right loan can nearly be as important as finding the right property. There are numerous loan options including Interest only, principal and interest, fixed and variable. Finance needs to be planned to suit your ultimate investment goal and you need to be wary of fees, interest rates and 'gimmicks' used by lenders to win your business. Get it wrong and the costs of rearranging loans with 'deferred establishment fees' can waste thousands of dollars. We liaise with mortgage brokers and financiers to help you obtain the right loan and make sure it is correctly structured for maximum tax effect. We can also help you:

- Calculate the weekly after tax cost of owning an investment property
- Prepare the annual Profit and Loss schedule for your Income Tax Return
- Through our affiliation with a buyer's advocate we can help you locate the right property in the right location with a view to maximizing the capital gain on sale
- Where applicable, prepare an annual PAYG Variation to bring forward the annual tax benefit of the loss into your regular pay packet to help with your cash flow
- Assist with creating and maintaining a Capital Gains Tax register of costs
- Provide ongoing advice regarding the tax deductibility of expenditure
- Calculate the Capital Gain on sale of the property
- Provide a referral to a suitable insurance broker, solicitor, etc.
- Provide advice regarding record keeping requirements



Our negative gearing consultations explore the tax treatment of all your expenses, what costs form part of the capital gains tax cost base and how negative gearing works for each alternative tax structure.

Negative gearing is clearly one of our specialist services and if you are interested in finding out more call our office today and benefit from our experience.

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