

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.