



MONAMI
ACCOUNTING & TAX SOLUTIONS

Negative Gearing & Property



Negative Gearing & Property

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

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





The Risks

If you were to believe some people it would all seem very simple - 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 gain it can also magnify your losses.

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

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

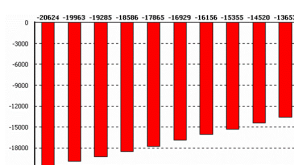
Negative Gearing isn't suitable for all investors because it implies a negative cash flow that you will need to fund from other income sources. The income tax and capital gains tax implications will depend on factors such as the ownership structure, marginal tax rate and holding period.

The family home is a purchase from the heart while an investment property needs to be a purchase from the head. Planning and research is required and the old saying that the three most important things when buying a property are 'location, location, location' rings true when buying an investment property.

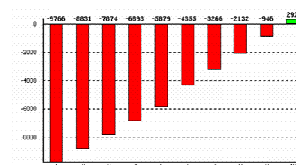
Properties generally only create profits through capital gains that accumulate over a medium to long term period. They are illiquid assets which can't be sold overnight which could pose problems should your circumstances change.

How We Can Help You

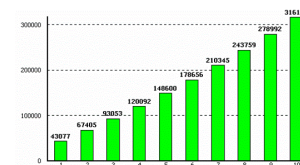
We are in a unique position to advise you regarding the process of purchasing and maintaining a negatively geared investment property. We understand your tax position and have access to analytical software designed to produce reports including 10 year cash flow projections, taxable income forecasts and future equity predictions.



10 Year Cashflow Analysis



10 Year Taxable Income



10 Year Equity Forecast

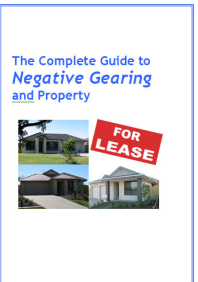
One of the most important decisions you need to make when purchasing an investment property is which entity or person should own the property. We can recommend the appropriate structure so you maximize the tax savings and protect your investment. There are a number of factors to consider because transferring 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. Interest only, principal and interest, fixed or variable are all key considerations. Clearly finance needs to be planned to suit your ultimate investment goal and should not focus on fees, interest rates or other gimmicks used by lenders to get your business. Get it wrong and the costs of rearranging loans with 'deferred establishment fees' and early payout penalties can waste thousands of dollars. We liaise with mortgage brokers and financiers to help you obtain the right loan, correctly structured for maximum tax effect. We can also help you:

- Calculate the weekly after tax cost of owning the property
- Prepare the annual Profit and Loss schedule for your income tax return
- Through our affiliation with a buyer's advocate service we are also able to 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 comprehensive booklet, 'The Complete Guide to Negative Gearing and Property' is a valuable resource available to clients in conjunction with a negative gearing consultation. It explores 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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