

What is negative gearing?

'Gearing' is simply another term for borrowing to invest. While we may not enjoy being in debt, not all debt is bad. In fact, it can be a powerful tool to build wealth and enhance your investment performance.

'Negative Gearing' is when you borrow to invest, but at the end of the year your interest and running costs add up to more than your investment income – so you make a loss.

In most situations you can use this loss to reduce your tax payable.

Here is a simple example:

	Without Gearing	With Gearing
Wages	\$90,000	\$90,000
Investment Income	\$0	\$15,000
Total	\$90,000	\$105,000
Investment Deductions	\$0	\$23,000
Taxable Income	\$90,000	\$82,000
Tax & Medicare Levy	\$22,597	\$19,517
Tax saving from Negative Gearing	-	\$3,080



The goal of investing is to make a profit. If you are making a loss on your investment each year then sure you are saving tax, however you are still losing money. The reason to invest in negatively geared investments is that growth in value of the underlying asset will eventually be greater than the holding costs of the investment.

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

Negative gearing (cont.)

How can we help you

- Provide independent tailored advice to your situation
- Prepare cash flow and equity forecast models
- Advice on ownership structuring – Who should own the investment
- Advice on the most appropriate way to structure your borrowings
- Prepare annual profit and loss schedule for your income tax return
- Specialist advice on allowable deductions and ways to maximise potential claims
- Prepare annual tax variation applications – Get your tax refund during the year
- Assist with creating and maintaining capital gains tax registers



Talk with us to develop your negative gearing strategy.

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*Other than for the acts or omissions of financial services licensees.