Negative Gearing

If you've got money to invest, one of the options you may consider is negative gearing.

With correct financial advice and with the selection of the right property, negative gearing can provide great tax advantages. That's great if you're thinking about entering the property investment market for the first time, or want to increase your investment portfolio.

Xplore Capital Ltd has the right loan products for property investment and the interest rate is the same as for Owner/Occupied properties. If you have obtained appropriate advice from your accountant or properly authorised investment advisor and negative gearing is an option for you then,

Contact an Xplore Loan Consultant on 1300 886 887 (Option 1) to source the right loan product for your investment strategy.

How do you negatively gear a property?

A property is negatively geared when the costs of owning it – interest on the loan, bank charges, maintenance, repairs and capital depreciation exceed the income it produces.

Put simply, your investment must make a loss before you can claim a tax benefit.

It works not only for property, but also shares and bonds.

Investment expenses that you can claim as a deduction

Property owners can claim deduction and depreciation against income on the property. There are three main classes of deductions available to investors:

1. Revenue deductions – These include interest on the loan as well as ongoing maintenance and recurrent expenses such as agent’s fees, council fees, advertising charges, bank fees, body corporate fees, cleaning expenses, gas, water, gardening and insurance.

2. Claims for capital items – Large capital items such as a hot water service, white goods, etc are subject to depreciation. This means the owner must claim the cost over a number of years rather than all at once. Depreciation schedules are set by the Taxation Department and range from a few years to more than 20 years.

3. Claims for building allowances – Owners can also claim depreciation of capital works, specifically for building and landscaping. The current rate is 2.5% over 40 years.

Risks associated with gearing

There is an inherent risk associated with borrowing to fund an investment. While gearing can help you increase your gain on borrowed funds, the losses can be large in adverse circumstances.

As a general rule, only investors with the financial capacity to absorb the effect of potential falls in investment values, as well as an increased cost in interest payments, should consider negative gearing.

You can minimise the risk of gearing by:

- Choosing your investment property carefully. You need to try and select a property that is likely to increase in value throughout the investment period.
- Having a sufficient income to cover the interest repayments if your tenants are late with their rental payments, or if your property remains vacant for any time. You also need to be able to fund ongoing repairs and maintenance.
- Taking out Mortgage Protection Insurance with your investment loan.

Example

Rental income on investment property	$2,000 per month
Less	
Expenses (interest, maintenance etc)	($2,500) per month
Council rates and other expenses	($100) per month
Shortfall	**$600 per month**

This example shows how an investment asset may be negatively geared. The net loss of $600 per month ($7,200 per annum) may be claimed as a tax deduction.

It is extremely important that you consult your accountant or financial advisor before launching into a negative or positive gearing investment strategy.

Disclaimer: The above information is general in nature and provided for information and education purposes only. Xplore Capital Ltd is not making specific investment recommendations and Xplore Capital Ltd is not an authorised investment advisor.

Source: ANZ Banking Group Ltd