

What is Positive or Negative Gearing???

Positive gearing

Occurs when a property yields an above average rental return for the purchase price and/or expenses are lower than average. This means that your return outweighs your expenses, which means you have extra money (or extra income) in your pocket each week.

That means that with each property you buy, your income increases, lifting your power to service more debt and invest in yet more property. So theoretically, the capacity of the positively geared investor to borrow money for more properties rises with each purchase.

Negative gearing

Negative gearing occurs when you borrow money to buy a property that has more expenses than income. This means you lose money every week. This loss can be partially offset by some of your income tax being returned to you, but there is still some money required from your pocket to make up the shortfall.

EXAMPLE:

In order to get a property loan, you need to be working so you can show the lender that you have an income to service your debt. If you have an income, then you must be paying taxes???

The advantage of buying an investment property is this now becomes a business for you. As a business, certain expenses related to operating this business become tax deductible. Things like Interest on your loan, Rates, Taxes, Insurance, Maintenance plus certain other claims now become possible. Secondly, if you were to buy a new investment property, the government allows an annual depreciation allowance that is also claimed against taxes you are presently paying on your wages/income.

Various properties have different allowable depreciation schedules but for the purpose of this example, based on purchasing a brand new \$300,000 property, I have estimated annual claims to the value of \$26,000. This means that if you earn \$65,000 per annum presently, you would be paying around \$17,900 in PAYG tax. However, by now having this investment property, the annual claim of \$26,000 is deducted from your \$65,000 wage which means your annual income is only taxed at \$39,000. Hence, instead of paying \$17,900 a year in tax, you only pay \$7,990.

Basically if set up correctly you will receive \$191.00 rebate from the Tax Man each week. You have now purchased real estate whereby the tenant pays \$320 per week rent and the tax rebates contribute \$190 per week which means the actual cost to you for buying and servicing this property is only \$55.00 per week.

I believe that wise investors would have a split portfolio of both Positive & Negatively geared investments.

NB: Please obtain independent financial advice before entering into any form of investment.