SEAN JOBLIN ACCOUNTING SERVICES

The following is related to Investment Properties and represents general information only and should not be exclusively relied on

'Gearing' is a word meaning borrowing money to invest, you will get charged interest every month by the lender for this borrowing. The common 'thrown around' term 'negative gearing' emphasises that at the end of a specified time, e.g. a tax year your expenses, such as interest, rates, repairs are more than your Income (rental receipts). i.e. you have made a loss, it is a minus or a negative.

So why would I do it ?

1/The aim is to get into the real estate market and eventually have a scenario of income being more than your expenses, i.e. you have made a profit!

2/You may also believe that the property you have purchased will increase in value over time and thus justify your yearly losses - i.e. you want the property value to be going up by more than the losses you are having each year (also beware potential capital gains tax).

3/ There can be good news at tax time as you are generally permitted to offset your 'negative gearing' loss against other income in your tax return such as your wage.

Example of a potential tax saving from negative gearing (big disclaimer - rough guide only!!).

Buddy earns $70,000 per year as an employee
He also owns 100% of a rental property and has established a bank loan to finance it
The rent recieved (gross) is $18,000 per per year
His expenses including Interest total $28,000 per year
this means Buddy is negatively geared by $10,000
He will be entitled to a $3,000 tax refund (i.e. 30% of $10,000)
and his overall loss for the year is $7,000 ($10,000 less $3,000 refund).
**this example is very basic and individual circumstance may vary.*

nb - it is possible for you to vary the amount of tax you pay during the year rather than wait for the tax refund when you do your end of year tax return.

If your property eventually turns into a positively geared one, i.e. when you are making money each year, then you may be liable for tax at your marginal rate. This can occur if you pay down some of the principle and reduce interest or you increase the rent charge and interest rates go down.
Most would take the view that making money and paying tax is a good good thing.

Claimable Rental Expenses

- Advertising for tenants
- Body corporate fees
- Council Rates
- Lawn care and gardening
- Insurance (building, contents)
- Interest expenses
- Land tax
- Pest control
- Property Agent fees, such as commission
- Travel to inspect the property and to collect rent
- Water charges
- Repairs and Maintenance

Repairs V Improvements

Improvements - generally depreciate and claim over time

Improvements can not be claimed as a 'repair'. For example items that are new or that increase life and change character are usually deemed to be improvements e.g. replacing a fibro wall with concrete one is work 'beyond restoration'.

Repairs - generally immediately deductible

Repairs represent work to remedy a defect, fix damage and deterioration.
e.g. replace guttering, repair part of a fence, repair an appliance or paint.
You can not claim repairs to a property before you start renting it even if it is to make it suitable for renting because these expenses relate to a period before it became an Income producing property e.g. buy and do repairs before you rent it out = capital items