

2016 Q1 UPDATE



March 2016

April already and before you know it, it's Tax Return time! This time though, Rachel has finally finished up and is recovering in London from jetlag as we speak. So for now, it's Alanna & myself to keep you all company. Still looking for that elusive person, but I'm sure we're pretty close...

Our year started off with a BANG but subdued somewhat over February/March (new Business). We're only just starting to see the quality enquiry pick up again over the past week to 2. Most of the slowdown has been in the Land/Construction space.

This Quarter, we take a look at the pros & cons of Negative Gearing. It's a hot political topic with an impending Election, but what's all the fuss about? You'll get the 'T' insight into the debate...

Our Reno's are nearly fully completed with only painting to complete – I'll be super happy to have a bonfire with all the paintbrushes at the end of it! Still, hasn't come up too shabby...



Soccer season proper kicks off Friday night, and after training since early January & 7 Trial Games, we're all super keen to get amongst it! Oh, & we have a new HSL sponsored kit!



Negative Gearing

One of the hottest political footballs in recent months has been negative gearing and its impact on the nation's budgetary woes. Some politicians and analysts are calling for it to be abolished, with the justification for their argument being that this will assist more first home buyers enter the market! I, personally, am totally dumbfounded by that statement – 1st home buyers that are committed to undertaking the commitment do – there's no easy ride to home ownership. The removal of negative gearing has the potential to remove a significant portion of the 1.2 million Australians that negatively gear an investment property. Think of how many people that houses where the Government doesn't have to provide housing for...

Another fallacy is that it is a tax haven for the 'rich'! Of the 1.2 million stated above, circa 840000 (70%) have taxable incomes of less than \$80000 PA. So you're now classed as 'rich' if you earn \$80k? Give me a (tax) break!!

What is negative gearing?

Negative gearing arises when you borrow money to buy an asset, but the income you receive from that asset is insufficient to cover the total expenses related to it.

You borrow money to buy an investment property, and the rent you receive is less than the interest and other expenses you have to pay (eg agent fees, repairs and maintenance costs, council rates/water, insurances etc). While negative gearing applies to all forms of investment (Shares etc), it is predominantly applied to property investment. It is usually the prime consideration for the 'Mum & Dad' Investor.

The income tax system allows you to offset these losses against other taxable personal income, such as wages; & has been in place for as long as we have had a federal income tax system – over 100 odd years.

But, is it the beneficial beast that most Investors believe (or are led to believe)? Numerous property spruikers (aka Marketeers) would have you believe that negative gearing is the saviour when it comes to you minimising your tax! Of course, they're not trying to sell you anything either! Let's have a look at the true mechanisms of negative gearing...

John Investor buys an Investment property with his primary aim being to reduce his tax obligations. John buys an investment property for \$450000, and borrows 90% - \$405000.

Interest on Loan - \$405000 – 5.02% - \$1694/mth - \$20328 pa.

Rent on property \$400/wk – net of management fees \$368/wk - \$19136 pa.

Property Costs (Rates/Water/Insurance) - \$4200 pa.

Maintenance costs - \$1000 pa.

Total Income:	\$19136
Total Expenses:	\$25528

Net Annual Loss: \$ 6392

Based on this, John receives a deduction in his tax return of \$6392.

John's Gross Taxable Income:	\$80000	
Less rental property loss:	\$ 6392	
Taxable income for the F/Y:	\$73608	(\$80000)
Tax Payable:	\$17004	(\$19188)
Net Income:	\$56604	(\$60812)

Effectively, John has saved \$2184 in tax for the financial year... BUT, John has still outlaid \$4208 from his own pocket! So John is hoping that the property has increased by more than \$4208 in 'net' terms PA, as opposed to the net loss of \$6392. Let's not forget that John would also be liable for capital gains tax on his profit upon the sale of his investment property too! The principal is that you are relying on the investment to appreciate at a rate greater than your loss. Negative gearing is merely a vehicle to reduce that loss (in part).

The flipside of negative gearing is of course, positive gearing. This is where you actually turn a profit from your investment – rental income is greater than the total expenses. The most common initial response I receive when discussing 'positive' gearing is 'but I have to pay tax on it!'. Sure, but let me present it in another way...

If your Boss said to you, 'Hey John, I'm going to pay for 2 hours overtime every week, but you don't actually have to do the overtime', would you say 'no'?! Of course you wouldn't! Think of positive gearing in the same manner – money in your account for sitting on the couch and watching a game of footy, or sipping latte's with your girlfriends. I know which gearing I'd personally prefer...

As one Commentator noted:

"The Hawke/Keating government tried to get rid of it in the 80s. What they found was that property investors weren't prepared to wear the losses so rents spiked. "It also meant people got out of the property market so prices went down. "I don't think people understand that it does help keep rent costs down and for people who own it helps keeps prices higher than they would be otherwise."

RP Data's Tim Lawless agrees there would be challenges with abolishing the rule:

"What it would likely mean for the housing sector is that investors would want to see higher rental returns than those currently on offer. **Furthermore, the Government may have to play a larger role in providing social housing if investment levels reduced,**" he says. "Ultimately I can't see negative gearing being removed as a taxation policy."

"Too many people are already using a negative gearing strategy – removing the tax benefits at a time when gross rental yields are at or approaching record lows and when investors comprise a record high proportion of buyers in the market could cause a significant disruption to housing market conditions. "With the majority of household wealth contained within the housing sector, any policy changes that risked the safety of this asset class would be unpopular to say the least."

I agree with both Commentators! Leave it alone...

Home Sweet Loans - Housekeeping

On our website is our '**Budget Organiser**' Template. This Organiser has been designed to assist you in implementing a budget or simply tracking your expenses. It's amazing where your money goes once you decipher it on paper! You can download this for FREE! I'm also open to any suggestions on how we can improve it too!

PLEASE NOTE that we are here to assist during the Application process, and post Settlement. If you require any assistance whatsoever once you have your loan in place, please call us at anytime. This alleviates any issues that you will encounter dealing directly with your respective Lender, especially when it comes to Product switches and Discharges/Releases.

We Value Your Thoughts!

Gift Vouchers, Movie Tickets, a night at the Footy, lunch/dinner at sumptuous Restaurants – the more of your family & friends you refer, the greater your rewards! We also conduct a regular competition through our Quarterly Magazine. Throughout the year, we conduct several competitions that are exclusive to our 'Email Alert' members & Facebook 'Likers'.

Take Care
Tarek

More Reno pics...

