negativegearing

Negative Gearing

CONTENTS

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Negative Gearing is where your rental income is less than your taxable expenses. Giving you a tax loss that may be offset against your existing income.

eg.

A	BANK $ 100.00 per week	=	$ 5,200.00 PER YEAR
	@ 6% GROWTH	=	$ 130.00 GROSS/ PROFIT
	MINUS TAX	=	($ 150.00)
	NETT PROFIT APPROX	=	$ 160.00
	÷ 52 WEEKS	**=**	**$ 3.00 PER WEEK**
B	PROPERTY BORROW		**$ 170,000.00**
	$ 100.00P/wk @ 6% GROWTH/yr	=	$ 10,200.00 GROWTH
	LOAN INTEREST	=	$ 13,000.00
	PROPERTY EXPENSES	=	$3,500.00
	TOTAL	=	$ 16,500.00
	MINUS RENT	=	($10,000.00)
	MINUS TAX CREDIT	=	($ 6,000.00)
	SHORTFALL	=	$500.00
	÷ 52 WEEKS	**=**	**$ 10.00 PER WEEK**

Summary

A $ 100.00 PER WEEK TO EARN **$ 3.00**

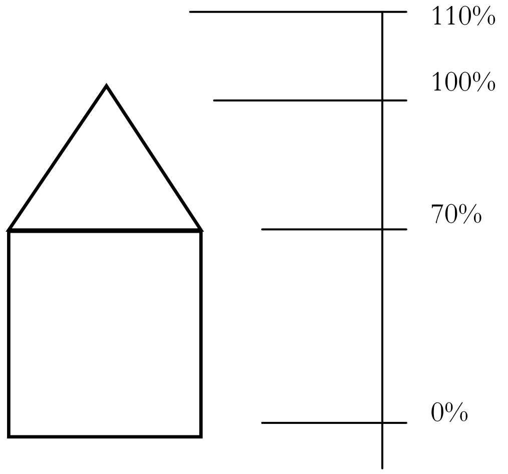
B $10.00 PER WEEK TO EARN **$ 10,200.00**

Debt Reduction

Development

Cash Flow

Growth



@	110%	$ Negative
@	100%	$ Negative
@	70%	$ Positive

Goal 1 - Buy Property

Goal 2 - Reduce Debt and Stress

Goal 3 - Create Positive Cash Flow

Goal 4 - Purchase More Properties

post tax scales

GROSS	TAX	GROSS	TAX	GROSS	TAX	GROSS	TAX
$ 6,500.00	$ 92.50	$ 30,000.00	$ 5,740.00	$ 53,000.00	$ 13,562.50	$ 77,000.00	$ 24,852.50
$ 7,000.00	$ 186.00	$ 30,500.00	$ 5,897.50	$ 53,500.00	$ 13,780.00	$ 77,500.00	$ 25,095.00
$ 75,000.00	$ 277.50	$ 31,000.00	$ 6,055.00	$ 54,000.00	$ 13,997.50	$ 78,000.00	$ 25,337.50
$ 8,000.00	$ 370.00	$ 31,500.00	$ 6,212.50	$ 54,500.00	$ 14,215.00	$ 78,500.00	$ 25,580.00
$ 8,500.00	$ 462.50	$ 3,200.00	$ 6,370.00	$ 55,000.00	$ 14,432.50	$ 79,000.00	$ 25,822.50
$ 9,000.00	$ 555.00	$ 32,500.00	$ 6,527.50	$ 55,500.00	$ 14,650.00	$ 79,500.00	$ 26,065.00
$ 9,500.00	$ 647.50	$ 33,000.00	$ 6,685.00	$ 56,000.00	$ 14,867.50	$ 80,000.00	$ 26,307.50
$ 10,000.00	$ 740.00	$ 33,500.00	$ 6,842.50	$ 56,500.00	$ 15,085.00	$ 80,500.00	$ 26,550.00
$ 10,500.00	$ 832.50	$ 34,000.00	$ 7,000.00	$ 57,000.00	$ 15,302.50	$ 81,000.00	$ 26,792.50
$ 11,000.00	$ 925.00	$ 34,500.00	$ 7,157.50	$ 57,500.00	$ 15,520.00	$ 81,500.00	$ 27,035.00
$ 11,500.00	$ 1,017.50	$ 35,000.00	$ 7,315.00	$ 58,000.00	$ 15,737.50	$ 82,000.00	$ 27,277.50
$ 12,000.00	$ 1,110.00	$ 35,500.00	$ 7,472.50	$ 58,500.00	$ 15,955.00	$ 82,500.00	$ 27,520.00
$ 12,500.00	$ 1,202.50	$ 36,000.00	$ 7,630.00	$ 59,000.00	$ 16,172.50	$ 83,000.00	$ 27,762.50
$ 13,000.00	$ 1,295.00	$ 36,500.00	$ 7,787.50	$ 59,500.00	$ 16,390.00	$ 83,500.00	$ 28,005.00
$ 13,500.00	$ 1,387.50	$ 37,000.00	$ 7,945.00	$ 60,000.00	$ 16,607.50	$ 84,000.00	$ 28,247.50
$ 14,000.00	$ 1,480.00	$ 37,500.00	$ 8,102.50	$ 60,500.00	$ 16,850.00	$ 84,500.00	$ 28,490.00
$ 14,500.00	$ 1,572.50	$ 38,000.00	$ 8,260.00	$ 61,000.00	$ 17,092.50	$ 85,000.00	$ 28,732.50
$ 15,000.00	$ 1,665.00	$ 38,500.00	$ 8,417.50	$ 61,500.00	$ 17,335.00	$ 85,500.00	$ 28,975.00
$ 15,500.00	$ 1,757.50	$ 39,000.00	$ 8,575.00	$ 62,000.00	$ 17,577.50	$ 86,000.00	$ 29,217.50
$ 16,000.00	$ 1,850.00	$ 39,500.00	$ 8,732.50	$ 62,500.00	$ 17,820.00	$ 86,500.00	$ 29,460.00
$ 16,500.00	$ 1,942.50	$ 40,000.00	$ 8,890.00	$ 63,000.00	$ 18,062.50	$ 87,000.00	$ 29,702.50
$ 17,000.00	$ 2,035.00	$ 40,500.00	$ 9,047.50	$ 63,500.00	$ 18,305.00	$ 87,500.00	$ 29,945.00
$ 17,500.00	$ 2,127.50	$ 41,000.00	$ 9,205.00	$ 64,000.00	$ 18,647.50	$ 88,000.00	$ 30,187.50
$ 18,000.00	$ 2,220.00	$ 41,500.00	$ 9,362.50	$ 64,500.00	$ 18,790.00	$ 88,500.00	$ 30,430.00
$ 18,500.00	$ 2,312.50	$ 42,000.00	$ 9,520.00	$ 65,000.00	$ 19,032.50	$ 89,000.00	$ 30,672.50
$ 19,000.00	$ 2,405.00	$ 42,500.00	$ 9,677.50	$ 65,500.00	$ 19,275.00	$ 89,500.00	$ 30,915.00
$ 19,500.00	$ 2,497.50	$ 43,000.00	$ 9,835.00	$ 66,000.00	$ 19,517.50	$ 90,000.00	$ 31,157.50
$ 20,000.00	$ 2,590.00	$ 43,500.00	$ 9,992.50	$ 66,500.00	$ 19,760.00	$ 90,500.00	$ 31,400.00
$ 20,500.00	$ 2,747.50	$ 44,000.00	$ 10,150.00	$ 67,000.00	$ 20,002.50	$ 91,000.00	$ 31,642.50
$ 21,000.00	$ 2,905.00	$ 44,500.00	$ 10,307.50	$ 67,500.00	$ 20,245.00	$ 91,500.00	$ 31,885.00
$ 21,500.00	$ 3,062.50	$ 45,000.00	$ 10,465.00	$ 68,000.00	$ 20,487.50	$ 92,000.00	$ 32,127.50
$ 22,000.00	$ 3,220.00	$ 45,500.00	$ 10,622.50	$ 68,500.00	$ 20,730.00	$ 92,500.00	$ 32,370.00
$ 22,500.00	$ 3,377.50	$ 46,000.00	$ 10,780.00	$ 69,000.00	$ 20,972.50	$ 93,000.00	$ 32,612.50
$ 23,000.00	$ 3,535.00	$ 46,500.00	$ 10,937.50	$ 69,500.00	$ 21,215.00	$ 93,500.00	$ 32,955.00
$ 23,500.00	$ 3,692.50	$ 47,000.00	$ 11,095.00	$ 70,000.00	$ 21,457.50	$ 94,000.00	$ 33,097.50
$ 24,000.00	$ 3,850.00	$ 47,500.00	$ 11,252.50	$ 70,500.00	$ 21,700.00	$ 94,500.00	$ 33,340.00
$ 24,500.00	$ 4,007.50	$ 48,000.00	$ 11,410.00	$ 71,000.00	$ 21,942.50	$ 95,000.00	$ 33,582.50
$ 25,000.00	$ 4,165.00	$ 48,500.00	$ 11,567.50	$ 71,500.00	$ 22,185.00	$ 95,500.00	$ 33,825.00
$ 25,500.00	$ 4,322.50	$ 49,000.00	$ 11,725.00	$ 72,000.00	$ 22,427.50	$ 96,000.00	$ 34,067.50
$ 26,000.00	$ 4,480.00	$ 49,500.00	$ 11,882.50	$ 72,500.00	$ 22,670.00	$ 96,500.00	$ 34,310.00
$ 26,500.00	$ 4,637.50	$ 50,000.00	$ 12,040.00	$ 73,000.00	$ 22,912.50	$ 97,000.00	$ 346,552.50
$ 26,500.00	$ 4,637.50	$ 50,500.00	$ 12,257.50	$ 73,500.00	$ 23,155.00	$ 97,500.00	$ 34,975.00
$ 27,000.00	$ 4,795.00	$ 51,000.00	$ 12,475.00	$ 74,000.00	$ 23,397.50	$ 98,000.00	$ 35,037.50
$ 27,500.00	$ 4,952.50	$ 50,500.00	$ 12,257.50	$ 74,500.00	$ 23,640.00	$ 98,500.00	$ 35,280.00
$ 28,000.00	$ 5,110.00	$ 51,000.00	$ 12,475.00	$ 75,000.00	$ 23,882.50	$ 99,000.00	$ 35,522.50
$ 28,500.00	$ 5,267.50	$ 51,500.00	$ 12,692.50	$ 75,500.00	$ 24,125.00	$ 99,500.00	$ 35,765.00
$ 29,000.00	$ 5,425.00	$ 52,000.00	$ 12,910.00	$ 76,000.00	$ 24,367.50	$ 100,000.00	$ 36,007.50

Initial Costs

Property	$225,000
Solicitors Fees	$650
Stamp Duty	$6,365
Loan Costs	$2,399
TOTAL	$234,414

Total Purchase	$9,414
Less Deposit	$0
Funds Required	$234,414
Interest Rate	7.5%

Don't invest because of tax benefits, buy in growth areas only.

Annual Outgoings

Interest Repayments	$17,581
Rates	$720
Body Corporate	$850
Management Fees	$702
Letting Fees	$270
Insurance	$195
Maintenance	$200
Other	$500
Total Outgoings	$21,018

Weekly Outgoings	$404

Weekly Rental	$270
Annual Rent	$14,040

Total Outgoings	$21,018
Less: Rental Income	($14,040)
New Annual Shortfall	$6,978
Weekly Short Fall	$134

Annual Outgoings

Tax 1 – Actual Costs Annual Shortfall Balance B/F	 $6,978
Tax 2 – Paper Costs Building Depreciation	 $2,625
Total Nett Tax Deduction	

We are also allowed a building depreciation allowance.

The ATO allows you to claim 2.5% of the construction cost of your property as an annual tax deduction for a period of 40 years provided your property was built after 15 September 1987.

This deduction is referred to as 'special building write-off'.

Total Tax Deduction

Tax 1 – Actual Costs	
Annual Shortfall Balance B/F	$6,978
Tax 2 – Paper Costs	
Building Depreciation	$2,625
Depreciation F & F (20%)	$5,500
Total Nett Tax Deduction	

In addition to the building depreciation we can claim depreciation on fixtures and fittings.

Depreciation allowance allows you to write-off the capital cost of individual fixtures and fittings over its estimated life.

<u>Two types of methods allowed.</u>

The Diminishing Value method

or

The Prime Cost Method.

Total Tax Deduction

Tax 1 – Actual Costs Annual Shortfall Balance B/F	 $6,978
Tax 2 – Paper Costs Building Depreciation Depreciation F & F (20%) Depreciation F & F (100%)	 $2,625 $5,500 $2,450
Total Nett Tax Deduction	

You are currently allowed to have 100% depreciation in fixtures and fittings.

You are entitled to claim a full 100% deduction of the cost of a fixture in the year you first use it if:

a. you acquired the item after 30 June 1991
b. It had an initial cost of $300 or less, or an effective life of less than 3 years

Total Tax Deduction

Tax 1 – Actual Costs Annual Shortfall Balance B/F	 $6,978
Tax 2 – Paper Costs Building Depreciation Depreciation F & F (20%) Depreciation F & F (100%) Loan Cost	 $2,625 $5,500 $2,450 $ 480
Total Nett Tax Deduction	$18,033

Loan amortisation deduction

If your total Loan Costs are over $100, you can amortise the cost over 5 years or

Over the term of the loan (whichever is the lesser)

Tax Refund Calculation

Gross Salary	$45,000
Less Deduction	($18,033)
New Salary	$26,967

Current Tax	$9,880
New Tax	$4,470
Annual Tax	$5,410
Weekly Tax Savings	$104

Tax variation form certificate and lodgment

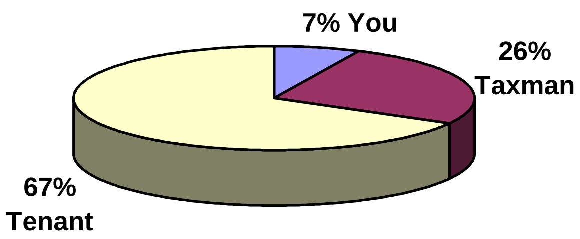
You can lodge a tax variation form with the ATO to receive your tax refund in your weekly, fortnightly or monthly pay packet!

Summary

Weekly Outgoings	$404
Less: Tax Savings	($104)
Less: Rent	($270)

Your Investment $30

Who Pays For What



In Australia, we operate under a 'self-assessment' tax basis ... where self-assessment means the Australian Taxation Office uses the information you provide in your tax return to calculate your refund or tax liability at the end of the financial year.

For this reason it is very important for you to know your rights and to be properly informed of your tax responsibilities. In fact, you are required by law to make sure you have shown all your assessable income and claimed only the deductions and rebates to which you are entitled.

The following information is designed to merely offer you a guide into your tax responsibilities as a property investor and in no way does this information give specific advice relating to your individual circumstance.

Since you are still legally responsible for the accuracy of your claims even if someone else (including your tax agent) helps you prepare your return, National Asset Corporation Pty Ltd strongly recommend that you consult with your accountant prior to making any taxation claims.

Although the information is provided in good faith, it is also given on the basis that no person using the information, in whole or in part, shall have any claim against the Asset Group.

Rental Income

Rental and other related income is the full amount of rent and associated payments that you receive, or become entitled to, when you rent out your property. You must include the full amount you earn ... that is, your Gross Rent ... in your tax return.

Gross rent means the total amount paid by the tenant either to you or to your agent.

You must also include rental bond money as income if you become entitled to retain it ... for example, where you derived it because a tenant defaulted on the rent or because of damage to the property requiring repairs.

Rental Expenses

You can claim a deduction for some of the expense you incur for the period your property is rented or is available for rent however ... you cannot claim expenses of a capital or private nature.

Expenses you may be able to claim include:

- advertising for tenants
- bank chargesTaxation implications of property investing
- body corporate fees
- cleaning
- council rates
- electricity and gas
- gardening and lawn mowing
- in-house audio/video service charges
- insurance: building, contents, public liability
- interest on loans
- land tax
- legal expenses
- lease costs: preparation, registration, stamping
- pest control
- property agent fees and commission
- quantity surveyor's fees
- repairs and maintenance
- replacements of crockery, bedding, linen
- secretarial and bookkeeping fees
- security patrol fees
- servicing costs, such as servicing a water heater etc
- stationery and postage
- telephone calls and rental
- tax-related expenses: rent collection, inspection of property, maintenance of property
- water charges

You can claim a deduction for these expenses only if you have incurred the expenditure.

When you claim a deduction for expenses incurred in gaining your gross assessable rental income, there may be situations where the expenses need to be apportioned between deductible and non-deductible expenses.

Examples include:

If the property is not 'available for rent for the full year, you may need to apportion some of the expenses on a time basis.

If only part of the property is used to earn rent, you can claim only that part of the expenses that relates to the rental income. As a general guide, apportionment should be made on a floor area basis, that is, by reference to the floor area of that part of the residence solely occupied by the tenant, together with a reasonable figure tenant access to the general living areas, including garage and outdoor areas.

If you combine travel to inspect or maintain your rental property with travel for private purposes, you may need to apportion your travel expenses.

Expenses that you are not able to claim include:

- stamp duty on conveyance of a rental property
- expenses not actually incurred by you such as water or electricity charges borne by your tenants
- expenses that are not related to rental of a property such as expenses connected to your own usage of a holiday home that you rent out for part of the year.

Negative Gearing

A rental is negatively geared when it is purchased with the assistance of borrowed funds and the nett rental income, after deducting other expenses, is less than the interest on borrowings.

The overall taxation result of a negatively geared property is that a nett rental loss arises. In this case, you may be able to claim a deduction for the full amount of rental expenses against your rental and other income - such as salary, wages or business income - when you complete your tax return for the relevant income year.

Acquisition and disposal costs

You cannot claim a deduction for the costs of acquiring or disposing of your rental property.

Examples of expenses of this kind include the purchase cost of the property, conveyancing costs and advertising expenses.

However, if you acquired the property after 19 September 1985, these costs may form part of the cost base of the property for capital gains tax purposes.

Body corporate fees & charges

You are able to claim a deduction for body corporate fees and charges that you incur for your rental property.

Body corporate fees and charges may be incurred to cover the cost of day-to-day administration or they may be applied to a special purpose sinking fund.

You may only be entitled to claim a partial deduction for body corporate fees and charges if the expenditure you incur includes a contribution to a special purpose sinking hind. This is because payments to a special purpose sinking fund are considered to be capital, or of a capital nature, and are not an allowable deduction.

If the body corporate fees and charges that you incur are for things like the maintenance of gardens, incidental repairs and building insurance, you can't also claim for these expenses. For example, you can't claim for garden maintenance as an expense separate from the total body corporate fees and charges if that expenditure is already included in those fees and charges.

Borrowing expenses

Theses are expenses directly incurred in taking out a loan for the property. They include establishment fees, valuation fees, title search fees and costs for preparing and filing mortgage documents

Interest expenses do not qualify as borrowing expenses.

If the total cost of theses items is over $100, the deduction is spread over 5 years or the term of the loan, whichever is the lesser. If the total cost is $100 or less, it is wholly deductible in the first year.

If you repay the loan early, and in less than 5 years, you can claim a deduction for the balance of the borrowing expenses, in the year of repayment.

If you obtained the loan part way through the income year, the deduction for the first year will be apportioned according to the number of days in the year that you had the loan.

Depreciation

Depreciation provides a basis for writing off the capital cost of an item of plant over its estimated life.

For depreciation on plant to be deductible, the plant must be used during the year for the purpose of producing assessable income, or installed ready for such use.

In the case of rental properties, plant includes items such as carpets, furniture and washing machines.

You can claim a percentage of the cost, or undeducted cost, of each item of plant each year as a deduction for depreciation. Where plant is used to produce assessable income for only part of the year, your entitlement to a depreciation deduction is reduced proportionately.

For example, where you purchase an asset 3 months before the end of an income year, you are entitled to only one-quarter of a full year's depreciation deduction.

There are two methods of working out depreciation deductions:

- the Diminishing Value Method, and
- the Prime Cost Method.

You must choose one of the 2 methods to apply on an item-by-item basis for items that are first depreciable on or after 1 July 1998.

Make your choice for the income year in which a depreciation deduction is first allowable.

Generally, for plant which was first depreciated before 1 July 1998, the same costs and method previously used to calculate depreciation are to be used in the 1998-99 and subsequent income years.

Prime cost method

This method uses the cost of the plant as the basis for calculating depreciation. Where the item was purchased at the start of the income year, you can claim the same amount of depreciation deduction each year.

For example:

If you purchase an item of plant for $1,000 at the start of the income year, with a prime cost rate of depreciation of 10%, you will be allowed a $100 depreciation deduction ($1000 x 10%) for the item for each of the next 10 years.

Diminishing value method

The depreciation allowed under this method is worked out each year on the un deducted cost of the item and the rate used is one and a half times the equivalent prime cost rate.

In this example, you purchase an item of plant for $1000 at the start of the income year and the diminishing value rate of depreciation is 15 per cent. The equivalent prime cost rate is 10 per cent. In the first year you can claim a depreciation deduction of $150 (15% of $1000). In the second year you can claim a depreciation deduction of $128 (15% of $850).And so on.

Depreciation using this method is greatest in the first year. In the second and subsequent years, you work out the depreciation on the un deducted cost - that is, on the amount remaining after taking away from your cost the sum of your depreciation deductions and any further depreciation amounts that you could not deduct because you did not use the plant for producing assessable income or because a deduction is prevented by the income tax law.

Items costing $300 win! An effective life of 3 years

You are entitled to claim a deduction for the full cost of an item of plant in the year you first use it for income producing purposes, or install it ready for use for income producing purposes, if:

- you acquired the item of plant after 30 June 1991, and
- it had an initial cost of $300 or less, or an. effective life of less than 3 years.

For example, if you bought a $250 video recorder for your rental property in January 1998, you can claim frill depreciation on it as an outright deduction in the 1998-99 year.

Purchasing and valuation of second hand items

If you purchase a second hand item of plant after 30 June 1997 you can generally claim a depreciation deduction based on the cost of the item to you.

Depreciation rates

From July 1, 1991, you can either;

- make your own estimate of the effective life of depreciable property you acquired after 12 March 1991, based on how you use it, or
- adopt the effective life periods listed in Taxation Ruling IT2685-Depreciation.

Examples of depreciable items

- above ground swimming pools
- air conditioning units
- carpets, vinyl, linoleum and other floor coverings
- curtains
- electronic security systems
- furniture and fittings
- heaters
- hot water systems
- lawn mowers
- microwave ovens
- radios
- rain water tanks
- refrigerators
- reticulation pumps and timers
- roller door motors
- solar water heaters
- stoves
- swimming pool filtration and cleaning system equipment
- synthetic lawn
- television antennas
- television sets
- video recorders
- washing machines

Examples of non-depreciable items

- built-in kitchen cupboards
- clothes hoists
- door and window fittings
- driveways and paths
- electrical wiring
- fencing and retaining walls
- floor and wall tiles
- garages and non portable sheds
- in-ground swimming pools, saunas and spas
- plumbing and gas fittings
- reticulation piping
- roller door shutters
- rooftop ventilators and skylights
- security doors and screens which are permanently fixed to the building
- sinks, tubs and baths
- wash basins and toilet bowls.

Special building write-off (construction costs)
You can deduct certain kinds of construction expenditure. In the case of residential rental properties, the deductions would generally be spread over a period of 25 to 40 years. These are referred to as 'special building write-off deductions.

The deduction is limited to 100% of the construction expenditure.

Deductions based on construction expenditure apply to capital works such as building, or an extension - such as adding a room or garage; alteration - such as removing or adding an internal wall; or improvement to a building- such as erecting a pergola, patio or carport.

Deductions are allowable only for the period the property is rented or is available for rent.

Where you are entitled to special building write-off deductions, the construction expenditure on which those deductions are based cannot be taken into account in working out any type of deductions to be claimed, such as deprecation.

Amount of deduction

The following rules apply for residential rental properties

If construction of the building started before 18 July 1985, special building write-off cannot be claimed.

If construction of the building started between 18 July 1985 and 15 September 1987, the annual 1 special building write-off allowable is 4% of the construction expenditure.

If construction of the building started after 15 September 1987, the annual special building write-of allowable is 2.5% of the construction expenditure.

The deduction can be claimed for 25 years from the date construction was completed in the case of a 4% deduction, and 40 years from the date construction was completed in the case of a 2.5% deduction.

Deductions may also be allowable for structural improvements undertaken after 26 February 1992. Examples of structural improvements include sealed driveways, retaining walls and fences.

Estimating construction costs

Where a new owner is unable to determine precisely the construction expenditure associated with a building, an estimate provided by an appropriately qualified person may be used.

Appropriately qualified people include:

- A clerk of works, such as a project organiser for major building projects
- A supervising architect who approves payments/ stages of projects
- A builder who is experienced in estimating construction costs of similar building projects
- A quantity surveyor

Unless they are otherwise qualified ... licensed valuers, real estate agents, accountants and solicitors generally have neither the relevant qualifications nor the experience to make such an estimate.

Interest

If you take out a loan to purchase a rental property, you will be entitled to claim the interest on that loan, or a portion of the interest, as a deduction.

However, the property must be rented (or available for rental) in the income year for which you claim a deduction.

You may also claim interest on loans taken out to purchase items of plant, for renovations, or for repairs to the property occasioned by your use of the property to produce assessable rental income.

Legal Expenses

Some legal expenses incurred in gaining or producing your assessable rental income are deductible-such as the cost of evicting a non-paying tenant.

Most legal expenses however, are of a capital nature and are therefore not deductible. These include:

- purchase or disposal of your property
- costs of resisting land resumption
- defending your title to the property

Non-deductible legal expenses may however, form part of the cost base of your property for capital gains tax purposes.

Repairs
Expenditure for repairs you make to the property may be an allowable deduction however, the repairs must relate directly to wear and tear or other damage that occurred as a result of your renting out the property.

Repairs generally involve a replacement or renewal of a worn out or broken part - for example, replacing some guttering damaged in a storm, or a part of a fence that was damaged by a fallen tree branch.

Travel expenses
If you travel to inspect or maintain your property or collect the rent, you may be able to claim the costs of travelling as a deduction.

You are allowed a full deduction where the sole purpose of the trip relates to the rental property. However, in other circumstances you may not be entitled to a deduction or you may be entitled to only a partial deduction.

If you fly to inspect your rental property, stay overnight and return home on the following day, all of the airfare and accommodation expenses would generally be allowed as a deduction.

Appointment of travel expenses

Where travel related to your rental property is combined with a holiday or other private activities, the expenses may need to be appointed.

If you travel to inspect your rental property, and combine this with a holiday, you need to take into account the reasons for your trip.

If the main purpose of your trip is to have a holiday and the inspection of the property is incidental to that main purpose ... you are not entitled to a deduction for the cost of travel.

However, you may be entitled to claim local expenses directly related to the property inspection, and a portion of accommodation expenses.

Capital Gains Tax

If you acquired your rental property, or plant used in relation to your rental property, after 19 September 1985, capital gains tax may apply when you dispose of the property and the plant..

Co-owners of an investment property

A co-owner of an investment property is regarded as an investor who is not carrying on a rental property business, either alone or in conjunction with the other co-owners. This is because of the limited scope of the rental property activities, and the limited degree to which a co-owner actively participates in rental property activities.

Joint tenants must divide the income and expenses in accordance with their legal interest in the property. With joint tenancy, each joint tenant holds an equal interest in the property. A partnership agreement, either oral or in writing, cannot change this.

Tenants in common must also divide the income and expenses in accordance with their legal interest in the property. However, with a tenancy in common, the tenants in common may hold different proportionate interests in the property. A partnership agreement, either oral or in writing, cannot change this.

Keeping records

Please keep records of both income and expenses relating to your rental property for 5 years from the date you lodge your tax return.

For capital gains tax purposes you must start keeping records if you purchase or inherit assets, receive an asset as part of a divorce settlement or as a gift, or make improvements to property.

You must keep records relating to your ownership and all the costs of assets for 5 years from the date you dispose of them.

You must keep records setting out in English:

- The date you acquired the asset
- The date you disposed of the asset and anything received in exchange
- Any amount that would form part of the cost base of the asset.

Do not send theses records in with your tax return. Keep them in case the ATO asks to see them.

typical example of negative gearing

Medium price entry point into Sydney market is $500,000.00 for quality 2 bedroom property.

$500,000.00 @ 7% = $35,000.00			
Loan cost per week		=	$700.00
Rental income		=	$400.00
Shortfall		=	($300.00)
Shortfall x 52 weeks		=	$15,600.00
Cash deductions		=	$15,600.00
Non cash deductions		=	$8,000.00
Total		=	$23,600.00
Income $50,000.00 ($23,600.00)		=	$12,040.00 tax
New income	$26,400.00		$4,637.50 new tax
			($12,040.00) old tax
			$7402.50 tax credit
			/52 = $142.00
Shortfall			$300.00 - $142.00 = $158.00
You Still Pay			$158.00 per week

the ABN and GST consequences of renting out a residence

The Taxation Office has recently released Miscellaneous Taxation Ruling MT 2000/2 and Goods and Services Tax Determination GSTD 2000/9. Both are effective from 1 July 2000 and deal with the requirements of an owner of rented residential property (hereinafter referred to as a landlord) in obtaining an Australian Business Number ("ABN") and registering for GST.

ABN considerations

With the exception of companies, the requirement to obtain an ABN is not compulsory; however, for cash flow reasons there is a strong incentive to obtain one.

Basically obtaining an ABN should be considered where you are carrying on an enterprise. An enterprise is defined as 'an activity or series of activities carried on as a business, in the form of a venture or concern in the nature of trade, or on a regular or continuous basis in the form of a lease, licence or other grant of an interest in property'.

An enterprise does not include activities of a private or recreational nature, or activities carried out by an individual without reasonable expectation of gain or profit.

Therefore from a landlords perspective the consideration to obtain an ABN will be dependent upon the activities undertaken (that is, the rental of a property be it residential or commercial) falling within the definition of an enterprise. Upon an analysis of the definition of GSTD 2000/9 refers to that part of the definition of an enterprise relating to an activity 'in the nature of a lease, licence or other grant of an interest in property' as being relevant in respect to rental properties. In particular where this activity is carried out on a regular and continuous basis (such as continuous tenancies or tenancies repeated at reasonably close intervals) the Taxation Office will consider an enterprise to be carried on.

Having established that an enterprise is actually being carried on, then it is necessary to determine whether or not an ABN should be obtained. As you are no doubt aware, under the Pay As You Go Withholding (PAYG) provisions where an ABN is not quoted the payer is required to withhold tax at 48.5% from payments made and include such amounts on their business or instalment activity statements for remission to the Taxation Office. Where an ABN should be quoted but is not, the payee will suffer cash flow disadvantages. Therefore, the PAYG implications need to be considered.

PAYG Ramifications

As stated above, a payer is required to withhold tax at the rate of 48.5% where an ABN is not quoted except in certain cases. For a landlord this could mean that 48.5% of any rental income is deducted by the tenant and paid in tax before being received, unless any of the following applies:

1. The landlord has provided the tenant with an ABN, either on a tax invoice or some other document related to the supply of the property;

2. Where a rental property is supplied through an agent and the agent quotes their ABN to the tenant;

3. The rental payment is made in circumstances where the tenant does not carry on an enterprise. For instance, the property is used for private or domestic purposes by the tenant (it is the use of the property which determines the character of the payment). In these cases no ABN is required and there will be no PAYG withheld from payments to the landlord;

4. The rental property is input taxed. This is where the property is used entirely for residential purposes (refer comments below). Input taxed items are those on which GST is not permitted to be charged and where the supplier of these goods or services is not allowed to claim back any GST paid in providing these goods or services.

Where a property is used for both business and private purposes this may require the landlord to obtain an ABN so as not to have any PAYG tax deducted. Complexities may arise in situations where a property is used for both residential and business purposes. In determining whether or not the PAYG provisions will apply and therefore the withholding of tax where the landlord does not quote an ABN, it is the primary purpose or use of the property by tenant, which is relevant.

An example is where a residential property may also be used for conducting a business, however, should the primary purpose of the property be for the tenant's private accommodation, then the landlord will not require an. ABN as no tax will be required to be withheld from rental payments. Conversely, where a commercial property is used by a tenant for business and attached to these premises is an area used for residential purposes, as the primary purpose of the property is for the conduct of the tenant's business, the landlord would need to quote an ABN as the tenant will otherwise be required to withhold tax at 48.5%.

It is important to note that unlike with GST, the PAYG provisions do not allow for any apportionment. Therefore, if the primary purpose for which a tenant uses a residential property is conducting a business or enterprise, the whole rental payment will be subject to PAYG withholding tax unless the landlord quotes an ABN.

the ABN and GST consequences of renting out a residence

GST implications

Registration for GST is compulsory where a person or entity's GST exclusive and GST-free turnover is in excess of $50,000 pa. In determining turnover any income received for input taxed supplies is excluded. Therefore, subject to the $50,000 threshold, where the only income for a person or entity is rent from predominantly residential premises (which are input taxed) GST registration is not required.

Alternatively, where a property is used predominantly for commercial purposes, the relevant portion of total rental income representing the commercial use of the property will be taken into account in determining the GST registration threshold of $50,000 for the landlord. Should the landlord conduct other business activities, this 'commercial' rental income will be added to other business income to assess the GST registration threshold. Where a landlord is required to register for GST, a portion of this rental income (representing commercial rent) will be subject to GST.

Where properties are used for "mixed" purposes care should be taken by the landlord in assessing their GST obligations.

Conclusion

The foregoing demonstrates the difficulties that property owners will have in correctly understanding the ABN and PAYG withholding implications and GST requirements relating to residential rental income. It was initially considered that residential property would be input taxed and as such landlords would not require an ABN or GST registration. However, upon reviewing the above one cannot help but consider that the topic of residential property is more complicated than first thought. Although the rulings and determinations assist in interpreting taxation legislation, they also raise many more questions.

negative gearing – friend or foe?

Often proclaimed as a property investor's best friend, negative gearing is a concept that few people really understand. Sadly this ignorance is causing many investors a lot of financial heartache.

Let's review the basics of negative gearing, the way it works and how unwary investors are being willingly coaxed to buy a so called asset that's purposefully designed to lose money.

In his special article entitled 'Positive Cash Flow Returns Through Property Investing', expert property commentator Steve McKnight rightly pointed out that there are two ways to make money in real estate. Either through capital appreciation, when your property value goes up, or via positive cash-flow returns, when you have more income than expenses.

In the world of property investing, the most common way that investors seek to profit is through capital appreciation, which is why location is regarded as critical to real estate success.

The preferred weapon in the fight to achieve capital gains returns in Australia, New Zealand and Canada is something called negative gearing.

Negative gearing seems simple enough – buy the right property in the right location and then have the tenant and the taxman partially fund your repayments while you sit back and profit from the appreciating property value.

But can using property to make money be that simple? In a rapidly rising market, as was seen in most of Australia between 1996 and 2002, yes – it can appear to be that easy. Just hop on the escalator and ride the easy way to the top.

Yet there are quite a few investment pitfalls that aren't discussed in the glossy 'off the plan' brochures, at the free seminars, or on the carefully tailored TV reality shows.

So let's take a full "warts and all" look at negative gearing to see when to use it … and when to avoid it like the plague.

What is Negative Gearing?

There's lots of hype when it comes to negative gearing. Lots and lots and lots in fact. And this all stems from the fact that quite a number of property sharks make a killing from selling negatively geared properties to unsuspecting investors.

Sadly, a lot of investors are sold on the potential outcome of owning property (hopefully making truckloads of money) without understanding the immediate consequences of their investment.

negative gearing – friend or foe?

Negative gearing is a strategy that provides immediate tax benefits while also offering the promise of long-term gains in the form of capital appreciation.

Tax Benefits

The Australian Taxation Office (ATO) allows property investors to offset an income loss (where property costs are higher than property income), incurred on a real estate investment, against any other income. To explain how this works we need to work through the numbers based on a typical property.

John is a taxpayer earning $80,000 per annum (plus superannuation) in a contract job for a major IT company. He is thinking about purchasing a property for $230,000 (inclusive of $7,850 in closing costs). To maximise his available tax deduction he has been able to secure 90% finance on a 25-year principal and interest loan with a current variable interest-only rate of 6.7% per annum. He makes weekly loan repayments in advance. The developer has offered a 5 year rental guarantee at $250 per week. The rates and body corporate fees total $2,000 per annum and there is also an 8% rental management commission to be paid. We are going to ignore depreciation benefits for the time being. At the end of the first year, the profitability of John's property investment would be:

Rental income	$13,000
Rental Management	($1,040)
Loan Interest	($13,869)
Rates etc.	($2,000)
Total	($3,909)

John is then able to claim the loss of $3,909 against his salary income and can reduce his overall tax bill as follows:

	John With No Property	**John with One Property**
Salary	$80,000	$80,000
Property Tax Loss		($3,909)
Taxable Income	$80,000	$76,091
Tax + Medicare	($26,180)	($24,284)
Nett Income	$53,820	$51,807

Even though John has made a Loss of $3,909, the after-tax effect on his bottom line income is only $2,013 ($53,820- $51,807).

negative gearing – friend or foe?

Are you wondering that knowing this investment was going to lose money, why on earth would John want to buy it?

Good question! Trying to explain a good answer raises several key issues at the heart of negative gearing that must be addressed before you'll make one dollar in profit.

The short answer is that John is speculating that his potential capital gain will be consistently more than his certain income loss.

Which isn't out of the realms of possibility given that all he seemingly needs to make is capital appreciation of just 0.88% ($2,013 / $230,000) per annum to at least break even.

Indeed, if John had purchased this property back in 1996 then it's extremely likely that he would be sitting on a small gold mine right now.

But trying to examine John's intention for investing actually opens up many other issues that must also be considered to paint the full picture of his investment - now and in the future let's now examine some of those issues.

Can you make money and save tax at the same time?

At any given point in time you can't make money AND save tax because the act of making money gives rise to the need to actually pay tax.

This is where we need to discuss the difference between a realised and an unrealised profit/loss. In negative gearing the loss is real in that John will physically have to come up with the after tax shortfall of his expenses over his income. This can be summarised by:

Property loss	($3,909)
Tax benefit @ 48.5%	$1,896
After tax loss	($2,013)

The consequence of this is that John will physically lose the buying power of $2,031 out of his pocket until expenses fall and I or income rises, from owning this property.

On the other hand any of his capital gains remain unrealised, and as such there is no tax to pay, until he decides to sell.

John can even refinance any capital appreciation he obtains and effectively pay no tax provided he doesn't sell!

But the problem with an unrealised gain is that you can't generally use it to fund your lifestyle. For example, you can't go into the supermarket and pay for your groceries using your capital gains debit card.

Accessing your unrealised profits can also be expensive (with redraw fees) and time consuming (with forms to fill in and sometimes lengthy delays).

Contrast the situation of realised loss and unrealised gains (as discussed above) with cash-flow positive property that has only realised income gains.

Because your property income is higher than your property expenses then you'll have to actually pay tax on your profit.

For example, imagine John purchased a property that had the following annual outcome:

Property income	$12,000
Property expenses	($10,000)
Subtotal	$2,000
Tax payable @ 48.5%	($970)
After tax profit	$1,030

Unlike the previous negatively geared example, if John purchased this type of property then he'd instantly add to his bottom line, That is, he'd have more money from investing in property from day one (before any capital gains) not less.

And under both models he would profit from any capital gains although it has been traditionally claimed that it is difficult to get both capital gains and positive cash-flow from the same property.

The bottom line here is that it's not possible to use negative gearing to consistently invest in property in a way that sees you pocket more cash AND also claim a tax deduction at the same time.

How many properties can you afford to own?

Statistics show that only 1 in 200 property investors own more than 5 properties. But if owning property was such a great idea then wouldn't it make sense to own multiple properties... say 10, 20, 30 or even more?

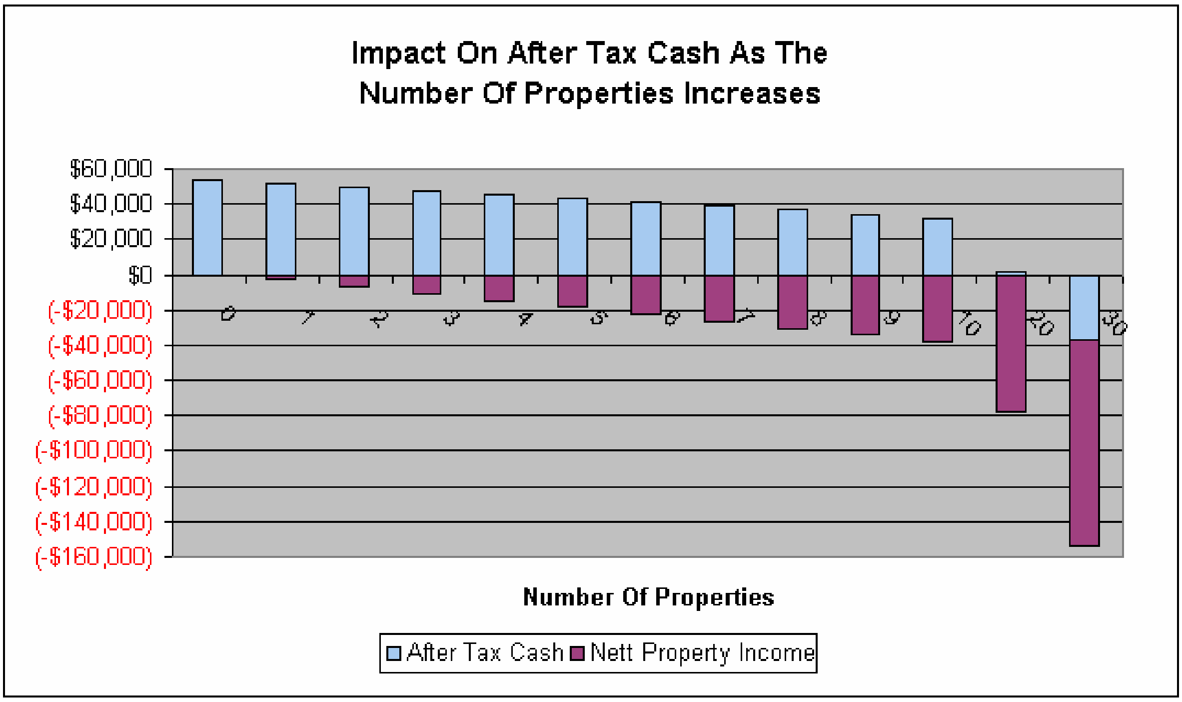
The reason why only 8% of all investors are able to own 3 or more properties is because of an affordability issue.

Let's go back to our earlier example and imagine that John was able to buy 5 of the same negatively geared type properties. How would his after-tax financial circumstance look then?

Rental income	$65,000
Rental Management	($5,240)
Loan Interest	($69,345)
Rates etc.	($10,000)
Total	($19,585)

	John With One Property	**John with Five Properties**
Salary	$80,000	$80,000
Property Tax Loss	($3,909)	($19,545)
Taxable Income	$76,091	$60,455
Tax + Medicare	($24,285)	($16,682)
Nett Income	$51,806	$43,773

What we can see now is that as John owns more properties his after-tax cash position is dramatically shrinking. Sooner or later John will reach the point when he can no longer afford to buy more property. His real after-tax wealth is reducing in ever decreasing circles, which is illustrated in the graph below.



The graph above shows that as John owns more property his after tax available cash decreases, while his losses from owning property increases. This illustrates the decrease in his purchasing power as only a maximum of 48.5% of the property loss can he claimed as a tax deduction. The remainder must be paid out of John's after tax salary.

The Lack of sustainability is a phenomenon of negative cash-flow that is rarely discussed.

The outcome of this investment is that you need to keep working in order to continue to earn enough of a salary to fund the cash drain of the loss making investment.

Five years on…

Let's take our example of John a few steps further and fast forward five years. His property has appreciated by 40% and is now worth $322,000.

His rent has increased by 10% and he now earns $275 per week, but his rental guarantee has now lapsed and he needs to allow for $1,000 per annum in maintenance. Rates have risen to $2,200. Let's imagine interest rates have remained steady at 6.7%. During the same time John's salary has risen to $90,000.

His annual property income statement would now look like:

Rental income	$14,300
Rental Management	($1,144)
Loan Interest	($13,869)
Rates, etc.	($2,200)
Maintenance	($1,000)
Total	($3,913)

Based on these figures John's property has been able to hold its own in terms of profitability in that his rental increase has offset his additional expenses. Really though, allowing for inflation, he is slightly worse off as a dollar five years on buys less than a dollar at the time John bought his property.

	John With No Property	**John with One Property**
Salary	$90,000	$90,000
Property Tax Loss	-	($3,913)
Taxable Income	$90,000	$86,087
Tax + Medicare	($31,030)	($29,132)
Nett Income	$58,970	$56,955

Whereas five years ago John was $2,013 out of pocket, now he's $2,015 a minuscule deterioration.

But he has earned unrealised capital gains of $92,000.

In summary, on paper he's doing well, but in reality his purchasing power has taken a hit. Negative gearing has achieved an outcome of theoretical wealth creation but an actual real loss in purchasing power.

Using the equity

Now John has made a paper gain of $92,000 on one property. If he decided to realise that gain, what options does he have?

1. Sell

Assuming John sold his property for $322,000 on the last day of the tax year then his profit would he:

John with one property

Sales price	$322,000
Agents commission (4%)	($12,880)
Legals etc.	($2,000)
	$307,120
Acquisition Cost	$230,000
Gross Capital gain	$77,120
50% Exemption (Note 1)	($38,560)
Taxable portion	$38,560
Income Tax at 48.5%	($18,701.60)
After Tax Profit	$19,858.40
Add Tax Free Portion	$38,560
Total After Tax Gain	$58,418.40

However, in order to calculate his true return we need to deduct the negative cash-flow for five years and then divide it by his original deposit (10% of $230,000)

True After Tax Gain Total Gain	$58,418.40
Five Years (After Tax) Negative Cash flow	($10,065)
Nett Gain	$48,353.40
Less Original Deposit	$23,000
Nett Gain	$25,353.40

After Tax Project cash on cash return: 165~5i% ($15,200 / $23,000)

After Tax Annual cash on cash return: 1 3.22% ($3,040 / $23,000)

If John sold his property under this circumstance then he would have made a small return and he would have had to take a lifestyle cut in order to fund the annual negative cash-flow from expenses being higher than income.

2. Hold and Refinance

If John didn't want to pay tax then he needn't sell. He could approach his original financier and seek to refinance his loan to 90% of the new value. That is, he could access a further $82,000 (90% of ($322,000).

Should John use this money for investing in other property investments then he would qualify for a tax deduction on the additional interest. But if he did this then his annual negative cash flow would increase because he has borrowed more money.

It would now appear as:

Rental income	$14,300
Rental Management	($1,144)
Loan Interest (90% of $322k)	($19,417)
Rates etc.	($2,200)
Maintenance	($1,000)
Total	($9,461)

What John would find is that refinancing would allow him to acquire another property with no money down, but the additional interest cost would further reduce his after-tax available cash.

The worst thing that John could do is redraw the equity and then fund his lifestyle with the proceeds. If he does this then he will lose the interest deductibility of the redrawn amount - which will have a nasty impact on his overall wealth creation.

Lets look at what would happen if John redrew all of his equity and funded a round the world extravaganza.

Rental Income Statement if John
refinances and spends money on lifestyle

Rental income	$14,300
Rental Management	($1,144)
Loan Interest (Note 1)	($13,869)
Rates etc.	($2,200)
Maintenance	($1,000)
Total	($3,913)

John with one property

Salary	$90,000
Property tax loss	($3,913)
Taxable income	$86,087
Income Tax * Medicare	($29,132)
Subtotal	$56,955
Non deductible interest	($5,548)
Nett Cash Flow	$51,407

Note: The total interest would be ($222,000 90% of 6.7%, $19,417, however on the portion relating to the property investment ($13,869) would be deductible. The remainder ($5,548) is not deductible as it relates to private rather than investment expenditure.

The wash up of all this is that if John sold then he would pocket a handsome gain - the product of steady capital appreciation while he owned the property.

But if he refinanced and then invested the proceeds then his borrowings would increase, as would his interest costs, which would have the effect of further decreasing his nett after-tax available cash

Even worse, if John refinanced the property and then took his equity and spent it he would be left with an interest bill that was not deductible. He might just as well have applied for a personal loan. Investors should never drawdown on equity to fund a Lifestyle. It would be better for John to sell and pay for his trip as at least he would have borrowed the money but would have used realised profits.

Fairytale assumptions

It's just assumed that you'll make money from buying a negatively geared property, provided you can hold on for the long-term and wait for the escalator of property prices to steadily rise, in times of rapidly rising prices this is great, but in times of stagnant or even falling prices then negative gearing is a poor strategy.

It's true that you won't lose unless you sell. If you can hold on for the long-term and ride out any bumps then you should do well because property prices generally trend upwards (meaning that the average property will increase in price over time.)

The real losers are investors who buy in the boom and have to sell in the gloom because they can't afford to ride out the storm.

If John had of purchased five properties and interest rates rose from 6.7% to 10% then the result would have been disastrous. His after-tax remaining cash-flow would be:

Rental Income Statement: John with 5 properties and
interest rates rise to 10%

Rental income	$65,000
Rental Management	($5,240)
Loan Interest	($103,500)
Rates etc.	($10,000)
Total	($53,740)

John with 5 properties

Salary	$90,000
Property tax loss	($53,740)
Taxable income	$36,260
Tax + Medicare	($7,802)
Nett income	$28,458

Ouch! John's available cash has just about been crunched. It's no wonder so many property developers went to the wall when interest rates spiked at 17% in the early 1990's.

Assuming that interest rates will remain low or that property prices will rise forever is nothing more than a fairytale assumption that is really the best case scenario.

Truth #1: Negative gearing is a strategy guaranteed to lose money

A negatively geared property is designed to enable you to access an immediate tax deduction arising from the shortfall of rental income failing to cover your property expenses.

In other words, negative gearing is a strategy guaranteed to make a loss.

In order for you to afford this loss, you'll have to fund it out of your existing cash flow by working longer hours, or by taking a lifestyle cut. For most people this means going without some of the luxuries they previously enjoyed.

No one wants to lose money, but it is testimony to the power of effective marketing that smart investors are fleeced out of thousands of dollars by being conned into a concept that only exists to lose money in the short term.

The only way an investor can make money from negative gearing is if any potential future capital appreciation is higher than the certain cash flow loss incurred today.

Negative gearing is a valuable profit-making tool in a rising market. But it is not a strategy for all investing seasons.

Truth #2: The dangers of depreciation

Buying a property based on depreciation benefits is dangerous and deceptive.

Depreciation is an accounting term used to describe the wear and tear of an asset that occurs over time. In practical terms, depreciation on a property refers to the carpet wearing down, the walls becoming chipped or stained and the furniture dating.

In most new properties you are allowed to claim a tax deduction for the depreciation of the fixtures and fittings and in certain circumstances you may also claim a building write-off of either 2.5 per cent or 4 per cent of the property (not land) value too.

Slick marketing companies sell the notion of the taxman paying off your property using depreciation and building write-off deductions, but this sales pitch is quite deceptive because you don't avoid paying tax with depreciation, you just defer it.

Commonsense suggests that depreciating an appreciating asset like property will give you a tax deduction today, but you'll have to repay it in the form of capital gains tax at a later date when you sell.

'Bracket-creep' issues can catch out many taxpayers too, If you earn $50,000 when you buy the property you will only be able to claim a deduction for depreciation at 43.5 cents in the dollar, but if your income rises to $60,000 when you sell then you'll need to repay the depreciation at 48.5 cents in the dollar.

If you don't ever plan to sell the property then at a minimum you should recognise that your depreciation tax deduction represents the wear and tear on your asset that will need to be eventually refurbished in order to continue attracting quality tenants.

Finally, beware any financial model that allows for depreciation benefits but does not include a maintenance budget. You cannot have depreciation without an expectation of repair costs - even new properties still need tap washers replaced,

Truth #3: The deception of attracting premium tenants

A common strategy used to sell negatively geared property is to focus on purchasing a blue-chip property that will attract a premium tenant, since a premium tenant is more likely to be a quality long-term and high paying occupant.

Yet my experience reveals premium tenants are often the most volatile segment of the rental market. When times are prosperous, then premium tenants look for glamorous living in the newest kind of accommodation available with all the modern conveniences, But when the economy contracts, premium tenants with high paying salaries are at a high risk of being downsized. If this happens, then they will seek cheaper accommodation leaving investors owning expensive properties competing for new tenants in a shrinking market.

In times of serious recession it's not unusual to expect vacancies of three months or more on premium properties, which can make owning negatively geared properties an absolute investing cash-flow disaster.

A better strategy would be to attract a quality tenant who is willing to pay between 10 and 20 per cent above the market rate for a well-maintained property and decent landlord service.

There will always be demand for a house that the average family can afford to live in. It would be wise for you to focus your attention on purchasing a property that is less prone to market fluctuations, and then seeking to charge above market rates for a quality property to attract long-term tenants that want to treat your property like a home.

Truth #4: Unfair comparisons

Figures used to substantiate expectations of appreciating property values are in many instances downright deceptive. One common example is the rise in the value of median property prices being applied to premium real estate market.

In reality property prices can rise and fall in the same market at the same time. To eliminate this variance, statisticians adopt a mathematical snapshot of the market based on the value of median properties sold during the period.

Movements in the median property price are certainly not representative of movements in the highly priced end of the market. Attempts to correlate movements in the median property values to highly priced real estate is statistically incorrect at best and potential fraud at worst.

Making an assumption that real estate values double every seven to ten years, across all types of property (houses, units, etc.), in all States, is misrepresentative.

It's very easy to build a financial model and then hide distant reality in broad assumptions or leave out important information all together. For example, making no allowance for vacancies after the rental guarantee period has finished or showing after tax nett profit with no allowance for capital gains tax payable when that asset is sold.

One quick way to test the conviction of a sales agent promising capital appreciation is to get him to personally guarantee it in writing, Given the degree of their certainty about rises in property value and considering the massive investment you'll need to outlay to own a blue chip property, a written guarantee simply confirming the underlying assumption isn't too much to ask.

Be very wary of the assumptions used in any financial model.

Truth #5: Who's really paying for the secret commissions?

If you liked the idea of purchasing property similar to the one that John purchased then you're probably asking, Where can I find such a property?'

Enter the free property seminar circuit, which is often little more than an elaborate attempt to sell you an overpriced property that meets the finely-tweaked financial models devised by clever marketing agents who are paid a commission to sell real estate on behalf of developers.

It's not unusual for commissions to be five per cent of the sales price, which on the property used in the earlier example amounts to $11,500.

This fee is not paid from the developers margin. It's a cost added on top and paid for directly by you the purchaser. It can become unnecessarily expensive buying prime property off the plan when there are kickbacks to financiers, fit-out providers and sales agents all funded by you as the purchaser.

Negative gearing is often sold as a strategy that will make you rich in the future, but when you buy a boutique property you'll be making developers and sales agents rich ~ Be very wary about letting other people profit at your expense.

Remember to always ask who gets paid when I buy?

Truth #6: The trap of trying to save tax!

One of the many sales reasons given for investing in a negatively geared property is that qualified accountants recommend it.

Indeed, if you approached most accountants and asked for strategies that legally minimised tax then negative gearing would be one of the first options discussed.

But investing in negatively geared property to save tax is a double-edged sword. For every dollar you lose, you'll only ever recoup a maximum of 48.5 per cent back as a tax saving.

While you're waiting for illusive capital appreciation you'll be working longer hours and trying to cut back spending in order to fund the continual cash outflow when your property expenses are always higher than your rental income.

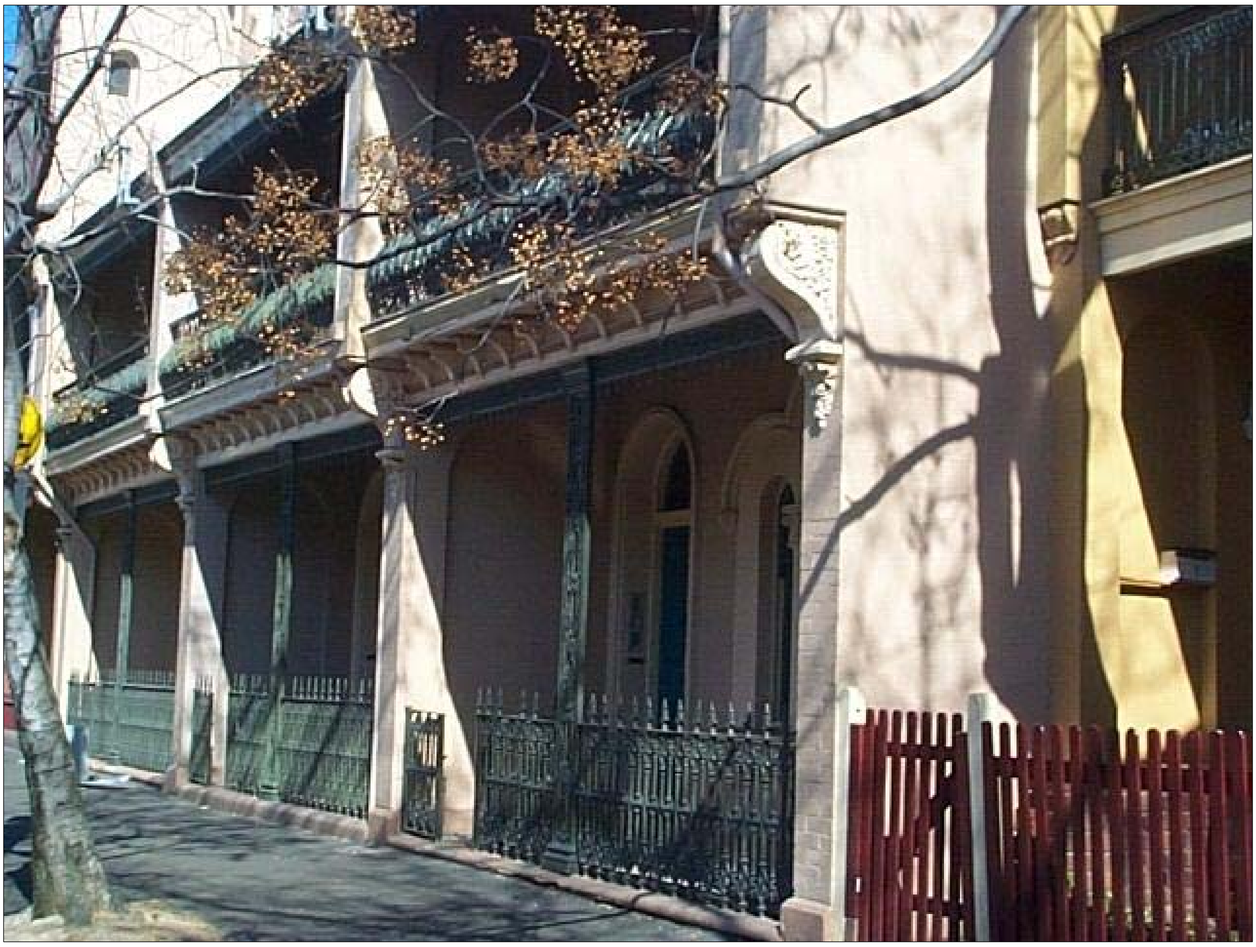
If you are paying your accountant for advice then spend your money searching for strategies that will earn cash profits, not ways that are guaranteed to make a loss

You might pay more in tax but you'll also be earning much more cash profits too.

Truth #7: How many of these properties can you afford to own?

As you own more negatively geared property, your after-tax available cash reduces. This is because you only ever recover a maximum of 48.5% in a tax deduction, the remaining 51.5 cents in the dollar comes from your back pocket.

It makes sense that as you own more loss making property, your real buying power shrinks in ever decreasing circles.



the final word

Negative Gearing is a proven wealth building strategy during times of rapid price increases provided you can comfortably afford the negative cash-flow and are happy to continue working.

But as the saying goes... 'horses for courses'.

Negative gearing is a strategy designed to lose money and in order to fund that loss you will need to continue working. This makes the strategy at odds with the broader target of financial independence. If your goal is to stop working as soon as possible or to free up more time to do the things you love, then negative gearing is not a wealth building strategy you should implement.

Remember that there's a lot of hype about negative gearing because a huge industry of developers and sales agents make a living by selling property. It's more important than ever that you complete your proper due diligence over a potential property purchase to ensure you can afford the ongoing cash outflow from your property.

Summary

Be very careful about blindly purchasing any kind of property.

Be extra cautious when buying something when the outcome is likely to he negative cash-flow. Be extremely careful when buying property that a sales agent or a developer says has tax advantages... this is a red flag that the property is guaranteed to lose money.

Making a profit from speculating that property prices might rise while you incur a certain income loss is risky.

Remember that if all you did was make money, then you'd have to make money. If your investments are not making money, then something's going badly wrong,

13 critical questions

1. What's the end purpose to my investing?
2. Will buying this property bring me closer to, or push me further away from that goal?
3. Am I saving tax or making money?
4. What is the annual cash in or outflow?
5. Can I afford to make a sustained loss?
6. What is my exit strategy if things get tough?
7. What has to happen in order for my property to make money?
8. How many of these properties could I afford to own?
9. Have I checked and double-checked all the figures and sought independent information to ensure the data I have is realistic?
10. What happens if I lose my job or my income drops?
11. Can I sell the property easily if I need to?
12. Is the investment protected in the case of Death, Divorce or Disaster?
13. Is my portfolio well balanced or over weighted?

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Australian Property Investors Network (APIN)

www.apin.com.au

What does **APIN** offer ?

Seminars & Workshops

Why is that most people aren't taught how to be rich or happy? We are trained to do most things in our lives, in order to do them well enough to get by. We are taught how to read and write, how to cook, how to drive. We are taught how to do incredibly complex and challenging tasks like designing and building bridges over wide spaces, how to cure diseases, to fly airplanes, yet when it comes to creating personal wealth and happiness, we're left to find out for ourselves.

There's another, more subtle reason why most people don't achieve wealth and happiness. Deep down they don't believe that there is a choice to be made between being rich and being happy. They believe that somehow you can't have both, which is why in the end they don't get either.

The money that slips through your fingers could make you wealthy if spent more wisely.

Our free seminars and information evenings will provide you with leading edge valuable and up to date information. As a bonus you will be able to meet other like minded people who are either starting out on the road to success or are avid investors sharpening their investment knowledge. As a further advantage we encourage you to meet and freely talk with our alliance partners. These hand picked people both male and female are leaders in their own right, they are also licensed, qualified and independent.

These evenings are fun and informative plus you will have access to lots of support material in the form of e-books, books and cd's on a wide range of topics. Come and learn the many strategies used by successful investors NO SECRETS just sensible plain English techniques that really work in any market at any time.

Education

It's true what they say "*the difference between the rich and poor is what they know and what they do*". Property is more than houses and unit investing. Do you know how to buy a property using an option, how about knowing all the ins and outs of being your own "DIY Developer"?

There are many ways to make money in real estate and with the correct tools and strategies you too can play with the best.

TIME x INTENSITY = SUCCESS.

You can't expect to get results in life if you have all the information but fail to apply the principles needed to succeed.

Our programs, e-book, books and home study kits will give you the ability to learn and gather what you need at your own pace in your own time. We encourage you to learn from our expert alliance partners all that you can, so when you are ready to act you will have the education to get into your first investment or do your own JV building renovation makeover.

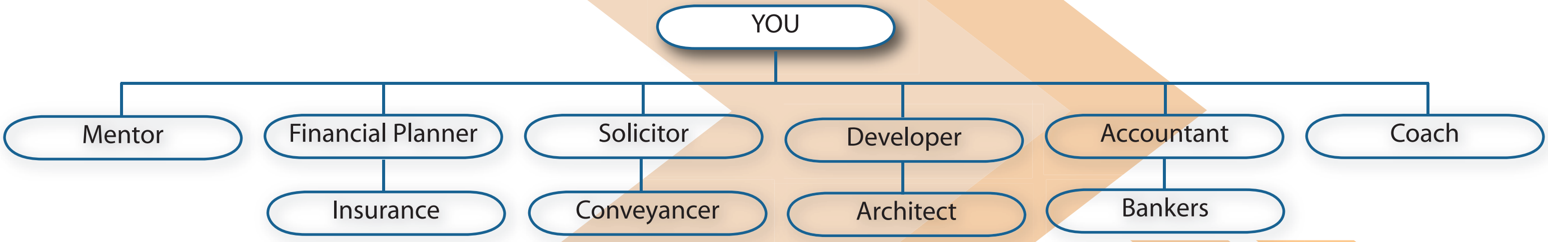
On going Support

Through APIN's Alliance Partners and Discussion Forums you can fortify your ideas and gain strength by exchanging information. Creating alliances generates business opportunities increasing your network and of course - your cashflow.

We have a mentoring service for those that are not quite ready to take those steps without guidance, extra information and some affirmation. Helping you to create a "*safe*" environment for your first steps.

Who is on your team?

When looking at people who are successful, you will notice they have a hand selected group of people to support and advise throughtout the journey to success.



Property Opportunities

Through our Australia wide network we select opportunities that "stack up". We use an independent Research company (Guardian) who are licensed financial planners and real estate agents to use our pre selection due diligence program. From investment properties, development sites, future land subdivisions, building makeovers to even golf course resort projects.

APIN also align ourselves with a select group of builders and developers where we negotiate wholesale purchasing, saving you 10% off the retail price. These opportunities are not available to the public but only members of the APIN site. We can introduce you to the key people who are experts in their fields, saving you thousands of hours of frustration and heartache. Very shortly APIN will also be offering FREE property advertising on our site through resisearch.com who are one of our alliance companies. APIN is fast becoming the most exciting site in Australia.