



POSITIVE OR NEGATIVE?

I am about to purchase an investment property. Should I positively gear it or negatively gear it?

Rebecca, Cairns

I would definitely positively gear a property if I had the chance Rebecca.

Alot of people (particularly property developers and real estate agents) talk up the benefits of negatively geared investments but very few realise that it is actually costing them money.

A negatively geared investment occurs when your expenses (such as interest, rates, repairs and commission) are greater than the rent received. The difference is a tax deduction.

But the maximum tax deduction that you can receive is at 46.5%. If you are like most Australians and earn less than \$80,000, your marginal rate of tax is 31.5%. So a \$10,000 net outlay will still cost you \$6,850 out of pocket. Not good maths particularly if property prices aren't moving north quickly.

To get a property positively geared you should look at smaller places where your deposit becomes larger or you can be really focused and work hard on eliminating your mortgage.

I would be more than happy to pay tax from rental property income because my bank balance would have increased due to the extra rent. Granted that I would still try to reduce the tax debt as much as legally possible but you are not out of pocket.

Good luck with the purchase!