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Property Investment Costs Part 4

Welcome back to Part 4, where we will discuss how negative gearing works, and how the net outgoings after tax deductions is calculated.

Using the Cash Flow Analysis report in the PIA software, let's now step through these figures and the process.

Negative gearing means that the outgoing expenses of the property are in excess of the rental income you receive from the property. You will see a calculation on the PIA Spreadsheet that informs you how much you will require to invest in cash to make the property cash flow neutral. The more of your own cash you input into the financing of the property, the less you need to borrow, and the less that will be negatively geared.

As a property investor, one of the golden rules is that you always borrow as much as possible for the new property, providing you can afford the repayments. This will help you buy more property in the future as your property assets increase in value, as all interest payments on the investment loan are tax deductible, providing you with greater leverage in the future.

In this case, we are borrowing the full price plus costs. So here are our total loan repayments. Based on net rental income after rental expenses (which we will detail later), that leaves a before-tax out-of-pocket cash flow here.

We then calculate your total cash and depreciation Tax Deductions, listed here. To calculate the tax loss, deduct your gross rental income here from the total tax deductions here, to give you a tax loss amount here. Based on your marginal tax rate listed here we calculate the tax credit by multiplying the total tax loss by the marginal tax rate, and arriving at the tax credit listed here.

This tax credit is deducted from the before-tax out-of-pocket cash flow, leaving a net weekly after-tax investment here. This figure will be your net outgoings after all out-of-pocket and depreciation deductions are factored in. So there will be no other costs to be paid by you other than this regular weekly amount after all loan interest, property management fees, insurances etc. and tax deductions are taken into account.