

# HOW CAN LOSING MONEY BE A GOOD THING?

Negative gearing is one of those financial buzzwords that we've all heard before, but might not understand. So what does it mean and how might it affect whether or not you should invest in property?

BY JESSE ROSENBERG



**G**earing is when you borrow money to make an investment. If you are paying more in repayments than you are earning from the investment, then the investment is negatively geared. When it comes to properties, this means that if your monthly loan repayments are more than the rental income the property generates then it's negatively geared. It's often heralded as a fullproof income solution for property investors. Negatively gear your property and claim the financial loss associated with the property as expenses to offset your taxable income, all while your property's value grows. But is there much substance to the claims, or is it modern day snake oil?

## How to use it to your advantage

Negative gearing is essentially losing money, so how can people use it to their advantage? Bianca Patterson, Director at Calculated Lending Perth, says that it comes down to the tax deduction that can be gained.

"People generally use negative gearing as an advantage because the

tax deduction that they get from the property makes it easier to pay for and hold on to the property," she said.

But Patterson doesn't see it as a reason to buy a house. "It's not a reason to buy a property," she added. "I wouldn't suggest it as a strategy just for the tax deductions. I would say you would go down that path because there was a really good quality property that you wanted to buy, but just at this point in time it is costing you money to hold onto."

But if you find a good property and you have the income to support the purchase, negatively gearing can be a good solution for reducing the overall spend.

## How can negative gearing impact your plans for retirement?

Like any form of investment, there are risks involved in negative gearing. Negative gearing is great for people with a high income, but if you're retired, then it can be a fairly risky option.

If you don't want to keep working, you probably won't have the income required to make the tax benefits gained from negative gearing worth it. »



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## FINANCE

If you don't have the income to sustain the repayments, you may find that you are losing more money than you can afford. Negative gearing relies heavily on the property's value increasing over time. If this doesn't happen, things can get very messy. Don't stretch yourself too thin.

### Get a strategy

Having a strategy in place is key to the purchase of a property. Before you buy it, you should know what you want to do with it, said Patterson.

"You need to have an end game in mind – you really need to know how long you're going to be holding on to the property for and what the purpose of the property is."

You need to consider what you want to do with your property. You might want to renovate it and increase its value that way, or maybe you're considering redeveloping on the land. Whatever the case, it's necessary to have this in mind when buying the property and match it to your long-term life and financial goals.

"As you progress on in age, you need to be sure that the decisions you are making are in line with what you want to achieve and when you want to retire," said Patterson. "Is that property right for your stage of life and the types of income that you're trying to achieve?" If you fail to plan, you plan to fail.

### What are the alternatives?

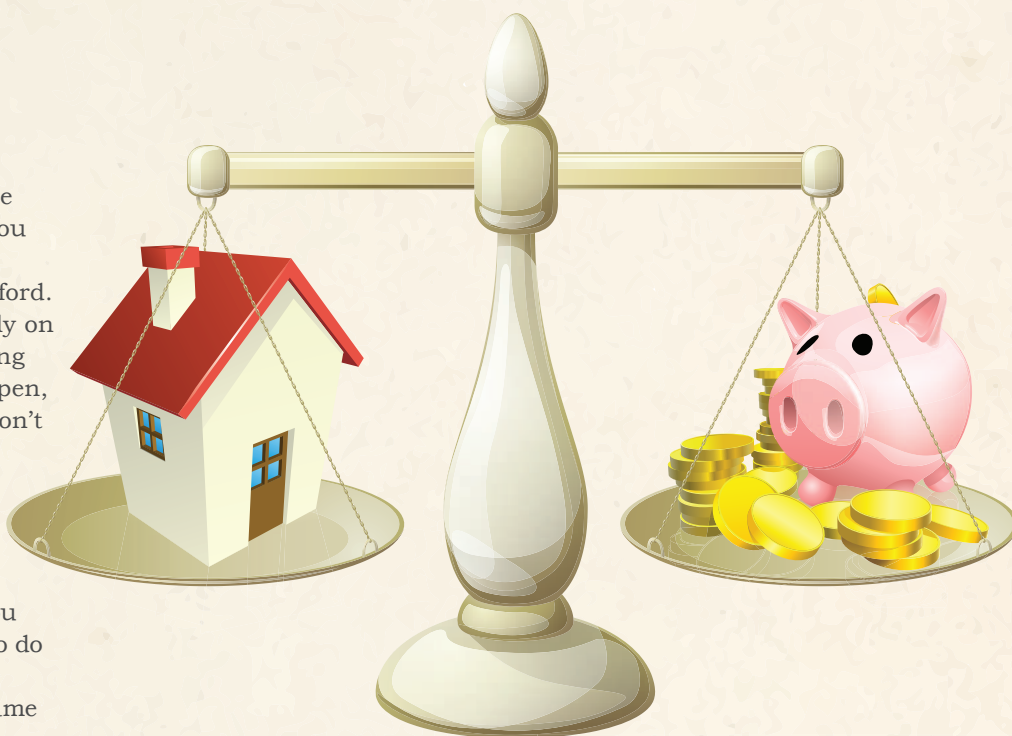
If you're in or considering heading into retirement, negative gearing may not be the best option for you. But what are the other places to look for generating a source of income?

"There's lots of potential to buy property at below market value and

add value to them by renovating or developing," said Patterson. Finding a good property that has a high chance of capital growth is a great option for retirees, especially if you're considering renovating to grow the value of the property. Positively gearing is when the property generates greater rental income than the value of the repayments. Getting a property like that can be a great solution.

"In the long-term they could get a positively geared property that maintains itself. There are properties that provide a strong rental return, so you could positively gear them," said Patterson. She also suggests talking to your accountant about increasing your upfront payment for the home, so that your repayments are smaller, enabling you to positively gear.

The big lesson to learn is to know what you want and speak to the right people to help you get there. Negative gearing might be right for you, but it isn't right for everyone, so don't just get caught up in by the buzz. ••



### TOP TIPS

Here are three important rules to follow when considering negative gearing and other investments.

- 1 Speak to your accountant or financial planner.
- 2 Know your exit strategy and understand your plan for the property.
- 3 Make sure the property you want to buy fits with your plans for retirement.