

Did you know that property investors need not wait for their tax return?

A common investment strategy is to finance the purchase of residential property using debt which can be in the form of a mortgage over the property.

Generally, interest expenses incurred in connection with the mortgage will be deductible for income tax purposes by the investor.

Where interest and other related expenses (such as rates, repairs and insurance) exceed the rental income from the investment property, the investment is commonly referred to as "negatively geared" because tax deductible expenses exceed rental income.

Where investment related expenses exceed rental income, the investment will usually be regarded as incurring a loss for income tax purposes.

This tax loss can be used to offset other taxable income of the investor and will therefore reduce tax otherwise payable by the investor for a particular financial year.

This results in a tax saving to the investor equal to the amount of the loss for a particular year, multiplied by the investor's own marginal tax rate.

The tax saving is also commonly referred to as a 'tax benefit'.

Obviously, investors tolerate these losses because they expect to generate significant capital gains exceeding the losses they have incurred on the ultimate sale of the investment property.

Such capital gains will usually be subject to concessional capital gains tax (CGT) treatment. In the case of an investor, who is an individual person, the amount of CGT that would otherwise be paid by the investor could be reduced by half.

Accordingly the annual costs of owning an investment property are funded by:

- The tenant – through rent,
- The tax benefit - associated with the investment, and
- The owner's contribution - for the balance.

Owners of negatively geared investment properties do not necessarily have to wait until they submit their income tax return to receive the income tax benefit associated with the investment property.

Investors have the potential to bring this benefit forward by either:

1. **Salary sacrificing interest payments** as they are paid under an arrangement with their employer.

This has the effect of reducing tax instalments that would otherwise be withheld by the employer from salary or wages (you need to be aware of Fringe Benefits Tax);

2. **Submitting a form to the Australian Taxation Office (ATO) requesting a reduction in the amount of income tax instalments that the employer would otherwise be required to take from salary or wages.**

This more appropriately reflects the ultimate income tax liability of the investor as a consequence of owning a negatively geared investment property.

Either of these strategies may improve the cash flow position of an investor owning a negatively geared property.

It is simply a matter of bringing forward the tax benefit to the time at which interest payments are made, rather than when the investor lodges their annual tax return (normally after the end of each financial year).

Investors wishing to vary the amount that their employer withholds from salary and wages on account of income tax must lodge a PAYG Income Tax Withholding Variation (ITWV) Application Form with the ATO.

The application can be lodged on a paper form or electronically over the internet.



More information can be obtained from the following website: www.ato.gov.au
Or call our office for more assistance.