IDentity Property Buyers

NEWSLETTER #040

What To Do When Your Accountant Says You Are Paying Too Much Tax

Welcome back to the next instalment in the IDentity Property Buyers Newsletter series. Today's chat is a look into what you should do when your accountant says that you are paying too much tax.

In this situation the assumption is that you are earning a decent income and are paying a substantial portion of those earnings towards government taxes. They say that there are only two certainties in life, and they are death & taxes. So with your accountant not placed to question your mortality, then tax discussion it is.

The fact that the government currently allows investment properties to be negatively geared is a fantastic thing for the property investor. To be able to offset your current and future investment losses against any income earnt will make holding your investment properties easier and less of a financial burden.

But why do we invest?

Well the answer can vary depending on who you speak to, but the only real reason you should be investing is to make money.

So when it comes to investing in real estate you should not be investing in property that looses money, as this is the exact opposite of why we should invest.

Don't get me wrong negative gearing and claiming investment losses on an investment property can be financially beneficial in the scheme of things.

You must consider the long term outcome of your wealth building strategy as the primary concern. Generating significant wealth in real estate is a long term project, which needs to span decades and multiple property cycles.

So if in the short term negative gearing as a result of investment losses allows you to hold and maintain additional properties or higher quality assets, then the benefit in the long term can be significant. The larger the asset base you hold now, means the larger the magnitude of gains you can make long term.

An investment loss is when the rent you receive is less than all interest and expenses paid, meaning you are going backwards from a cash flow perspective. But over time, as rents rise and the price of your property increases, those investment loses will reduce and even become positive gains.

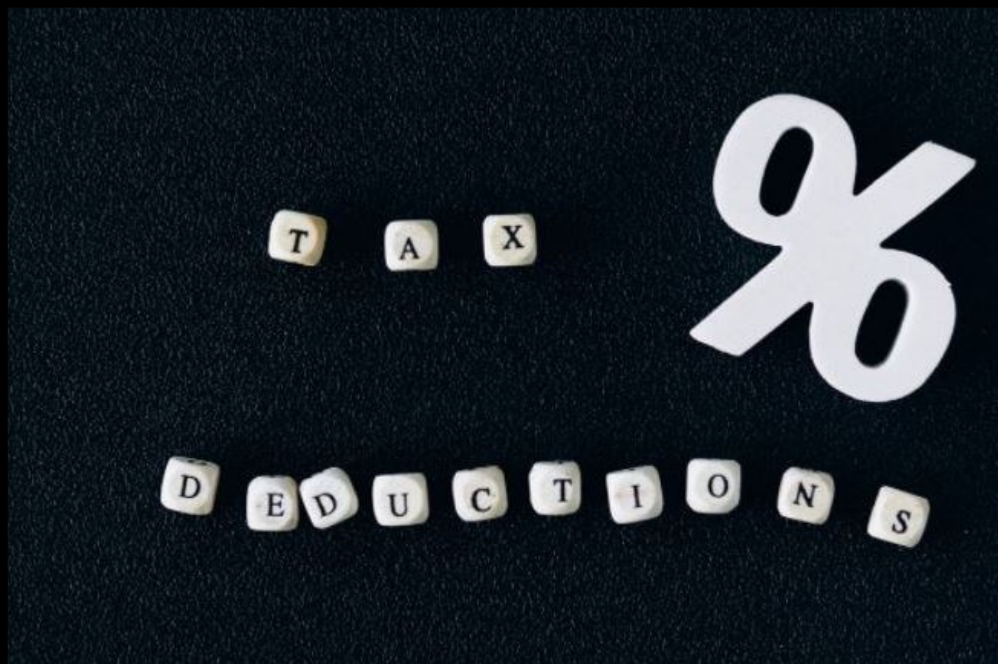
When you include the capital growth achieved by your investment property as part of your financial health check, then the gains can be significant.

If you choose well located high quality properties with scarcity and extremely good owner occupier appeal, then the capital gains can be life changing. When comparing average asset growth verses high quality asset growth projected out over multiple property cycles, then the difference in gains can be in the order of hundreds of thousands if not millions of dollars.

So when your accountant says you are paying to much tax and suggests looking into an investment property, don't just look at the glossy new properties with shinny new fixtures and fittings.

Please remember the fact, that you invest to make money and not to loose money. So the key is to find high quality investment grade assets that suit your specific risk profile, cash flow requirements and long term financial goals and generally this does not align with glossy new assets with high depreciation schedules & large tax returns.

Capital Growth is King!



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