



**LUNCH
&
LEARN**
WORKSHOPS

Investing in property

The tax, cashflow and structure considerations
for property investment and development.

smart
BUSINESS SOLUTIONS
Accounting & Taxation Advisors

Today's Presenters

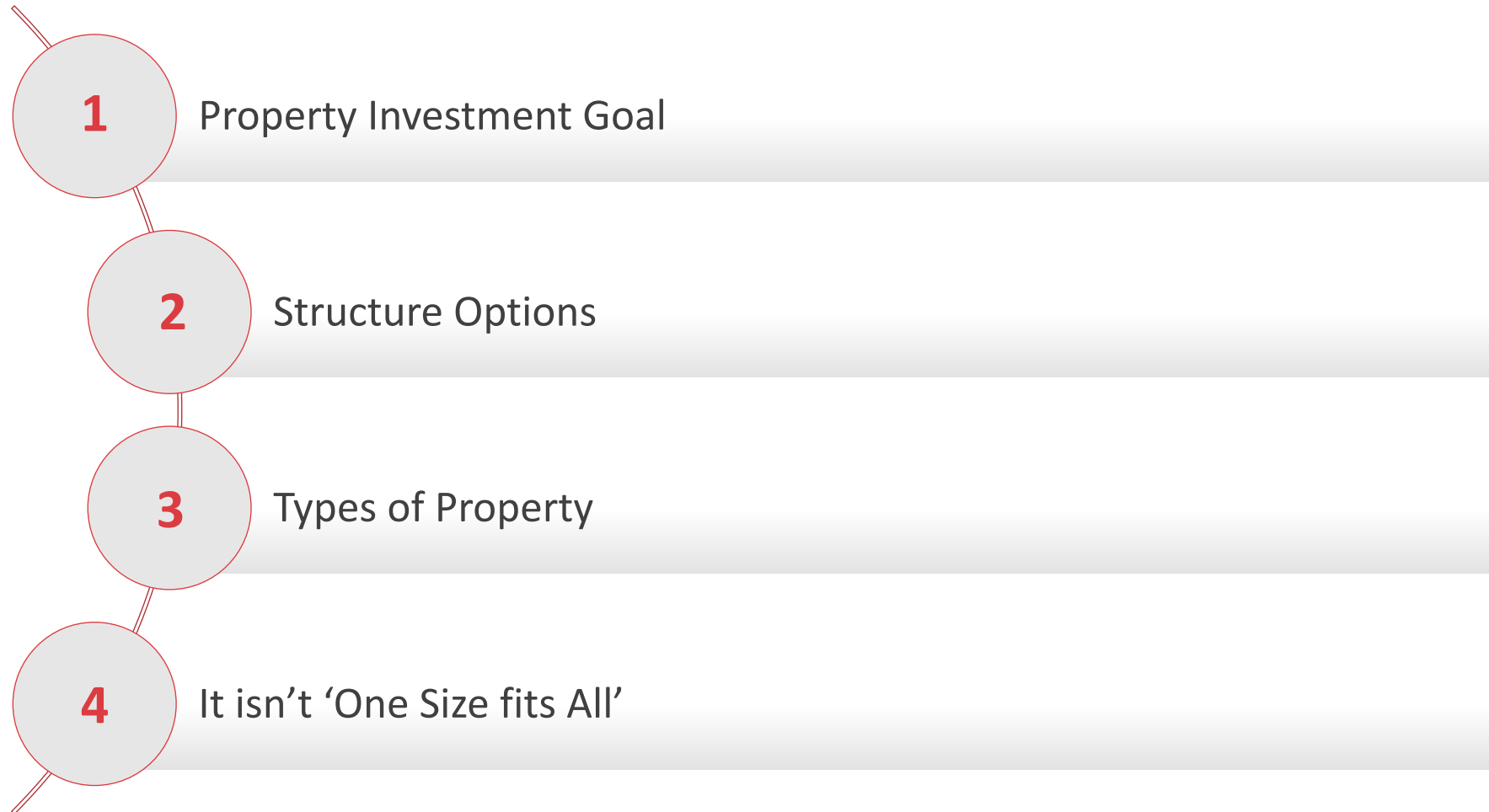


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Director / Accountant / Financial Planner

What We'll Cover



Property Investment Goal

Do Your Research – Be Prepared

PROS

- **Less volatility** – Property can be less volatile than shares or other investments.
- **Income** – You earn rental income if the property is tenanted.
- **Capital growth** – If your property increases in value, you will benefit from a capital gain when you sell.
- **Tax deductions** – You can offset most property expenses against rental income, including interest on any loan used to buy the property.
- **Physical asset** – You are investing in something you can see and touch.
- **No specialised knowledge required** – Unlike some complex investments, you don't need any particular specialised knowledge to invest in property.

CONS

- **Cost** – Rental income may not cover your mortgage payments and other expenses.
- **Interest rates** – A rise in interest rates will mean higher repayments and lower disposable income.
- **Vacancy** – There may be times when you will have to cover the costs yourself if you don't have a tenant.
- **Inflexible** – You can't sell off a bedroom if you need to access some cash in a hurry.
- **Loss of value** – If the property value goes down you could end up owing more than the property is worth.
- **High entry and exit costs** – Expenses such as stamp duty, legal fees and real estate agent's fees.



Be Clear On Your Goal

The most common investment strategies are:

- Buy and Hold
- Renovate
- Capital Growth
- Negative Gearing



*“Negative gearing
without capital
growth is just social
housing.”*

Shannon Smit

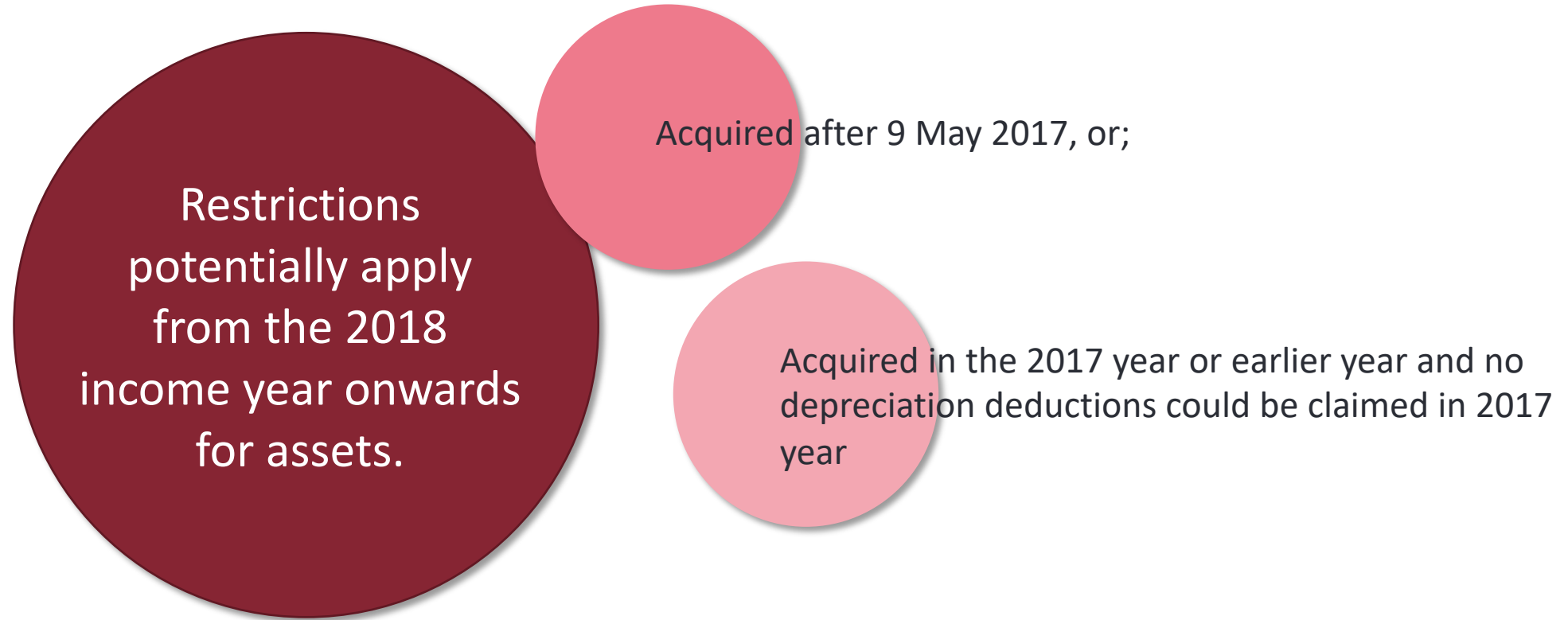


What is Negative Gearing?

When a property is negatively geared, it means **for tax purposes** the cost of owning it is more than the income it generates. Because this strategy returns a tax loss, it can seem risky – but there are benefits:

- You can deduct the loss from your taxable income.
- While you're making a loss, your property's capital value is (hopefully) growing. Negatively geared investors are banking on their overall loss being offset by their property's potential capital appreciation.

Depreciation Deductions





Know Your Budget!

DEPOSIT

At least 10% - 20% (20% to avoid mortgage insurance).

CASH

You'll also need enough upfront cash for things such as stamp duty, legal and conveyancing fees, insurances, maintenance, and interest on borrowings.

Also consider how the cost of your borrowings could impact your investment (fixed vs variable)

Structure Options

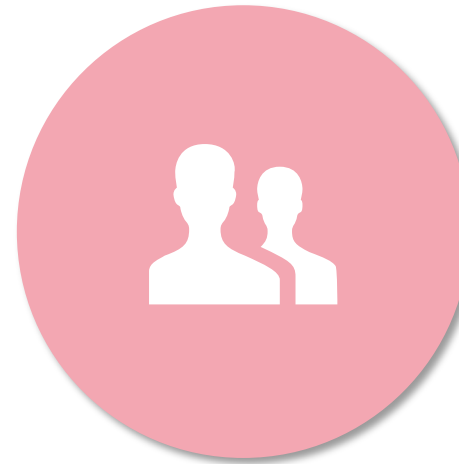
Deciding On The Right Legal Ownership



**INDIVIDUAL
NAME**



**INVESTMENT
ENTITY**



**JOINT OWNERS &
TENANTS IN
COMMON**



SMSF

Types of Property

Finding the Right Property

PROPERTY TYPE

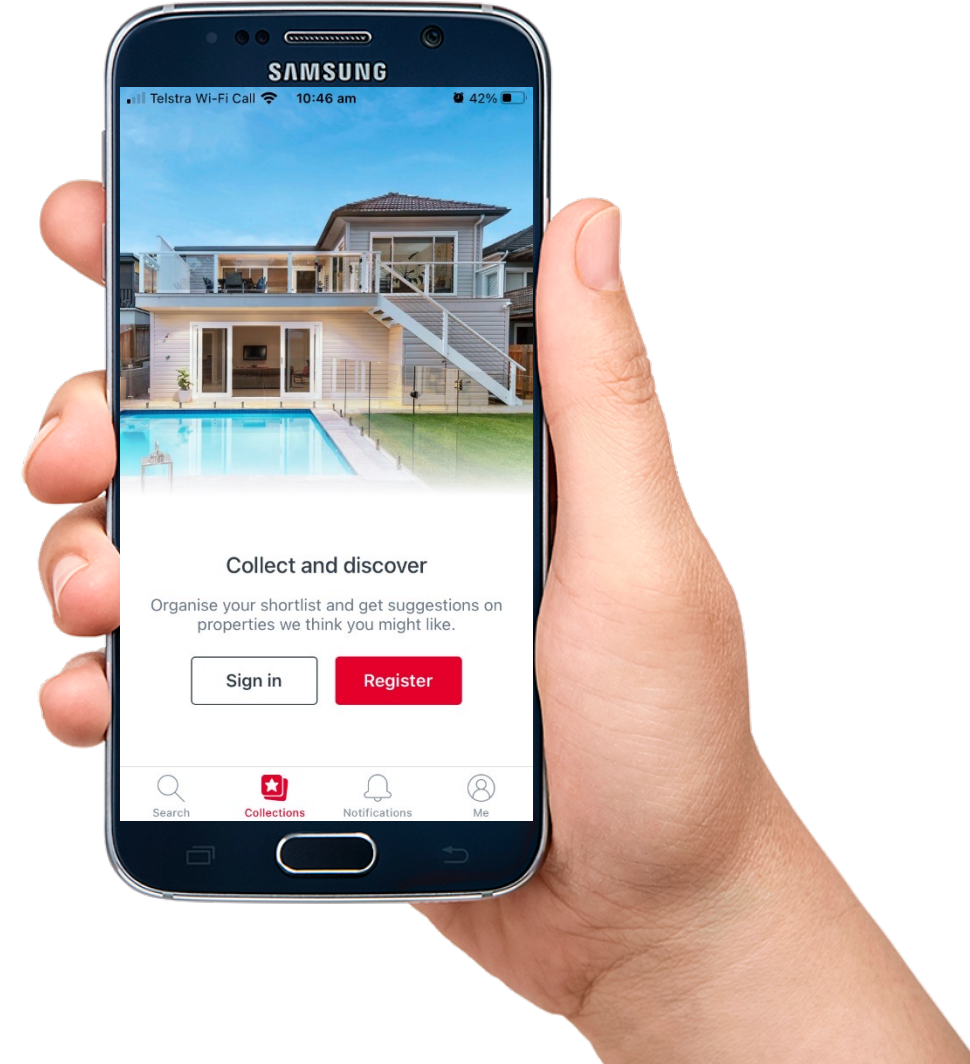
Commercial or Residential? A factory, retail store, medical? A unit, a freestanding house or a townhouse?

NEW OR ESTABLISHED

Some investors prefer buying brand new buildings while others see more value in established dwellings.

SUBURB

Suburb and location has a big impact on your investment. Check out suburb level data and hit the streets to see for yourself.



Differences of Commercial and Residential

COMMERCIAL

- **Lease** – Lease agreements are generally for longer periods compared to residential leases.
- **Vacant** – Longer period between tenants
- **GST** - Applies to the purchase, income and expenses associated with commercial property
- **Maintenance** - Typically covered by the leasee of a commercial property

RESIDENTIAL

- **Lease** – Lease agreements are generally for shorter periods compared to commercial leases
- **Vacant** – Generally shorter period between tenants
- **Maintenance** – The responsibility of the property owner not the tenant

Current net yields of >7%, with interest rates <3% = 4% gap.

(Historically we expect to see a gap of 2%).

This means, right now, there's the opportunity of a lifetime to get the best cash-flow returns you'll ever see out **commercial property**.

Differences of New and Established

NEW

- Depreciation benefits
- Tenant appeal
- Protection
- Low maintenance
- Security
- Government incentives
- Less affordable
- Limited value-adding potential
- Greater market risk

ESTABLISHED

- Renovation potential
- Affordability
- Property history
- Negotiating power
- Capital growth
- Maintenance considerations
- Lower rental return
- Less appeal
- Lower depreciation deductions

One Size Does
Not Fit All

New Residential Property

Purchase price	\$	870,000	Rental Yield	4.5%
Purchase costs	\$	49,570		
	\$	919,570	Interest Rate - 5yr fixed	2.94%
Investment (your money!)	\$	223,570		
Loan @80%	\$	696,000		
	\$	919,570		

Tax Purposes	Annual \$
Rent Received	\$ 39,150
Interest	\$ 20,462
Depreciation	\$ 15,817
Water Rates	\$ 830
Shire Rates	\$ 1,700
Body Corporate	\$ 3,200
Insurance	\$ 350
Repairs & Maintenance	\$ 1,000
Letting fees	\$ 1,380
Agent fees 7%	\$ 3,015
Total Tax Deduction	\$ 47,754
Tax Loss (Negative Gearing)	-\$ 8,604
Tax Benefit @47%	\$ 4,044

Cashflow - P&I	Annual \$
Rent Received	\$ 39,150
Interest	\$ 20,462
Principal on Loan	\$ 14,482
Depreciation	\$ -
Water Rates	\$ 830
Shire Rates	\$ 1,700
Body Corporate	\$ 3,200
Insurance	\$ 350
Repairs & Maintenance	\$ 1,000
Letting fees	\$ 1,380
Agent fees 7%	\$ 3,015
Total Cash Outlay	\$ 46,419
Net Cash Outflow	-\$ 7,269
Tax Benefit	\$ 4,044
Net Cashflow Perspective	-\$ 3,225
<i>Net cashflow per week</i>	<i>-\$ 62</i>

Cashflow - Interest ONLY	Annual \$
Rent Received	\$ 39,150
Interest	\$ 20,462
Depreciation	\$ -
Water Rates	\$ 830
Shire Rates	\$ 1,700
Body Corporate	\$ 3,200
Insurance	\$ 350
Repairs & Maintenance	\$ 1,000
Letting fees	\$ 1,380
Agent fees 7%	\$ 3,015
Total Cash Outlay	\$ 31,937
Net Cash Outflow	\$ 7,213
Tax Benefit	\$ 4,044
Net Cashflow Perspective	\$ 11,257
<i>Net cashflow per week</i>	<i>\$ 216</i>

Existing Residential Property

Purchase price	\$	870,000	Rental Yield	2.5%
Purchase costs	\$	49,570		
	\$	919,570	Interest Rate - 5yr fixed	2.94%
Investment (your money!)	\$	223,570		
Loan @80%	\$	696,000		
	\$	919,570		

Tax Purposes	Annual \$
Rent Received	\$ 21,750
Interest	\$ 20,462
Depreciation	\$ 8,319
Water Rates	\$ 830
Shire Rates	\$ 1,700
Body Corporate	\$ 3,200
Insurance	\$ 350
Repairs & Maintenance	\$ 1,000
Letting fees	\$ 1,380
Agent fees	\$ 1,675
Total Tax Deduction	\$ 38,916
Tax Loss (Negative Gearing)	-\$ 17,166
Tax Benefit @47%	\$ 8,068

Cashflow - P&I	Annual \$
Rent Received	\$ 21,750
Interest	\$ 20,462
Principal on Loan	\$ 14,482
Depreciation	\$ -
Water Rates	\$ 830
Shire Rates	\$ 1,700
Body Corporate	\$ 3,200
Insurance	\$ 350
Repairs & Maintenance	\$ 1,000
Letting fees	\$ 1,380
Agent fees	\$ 1,675
Total Cash Outlay	\$ 45,079
Net Cash Outflow	-\$ 23,329
Tax Benefit	\$ 8,068

Net Cashflow Perspective -\$ 15,261
Net cashflow per week -\$ 293

Cashflow - Interest ONLY	Annual \$
Rent Received	\$ 21,750
Interest	\$ 20,462
Depreciation	\$ -
Water Rates	\$ 830
Shire Rates	\$ 1,700
Body Corporate	\$ 3,200
Insurance	\$ 350
Repairs & Maintenance	\$ 1,000
Letting fees	\$ 1,380
Agent fees 7%	\$ 1,675
Total Cash Outlay	\$ 30,597
Net Cash Outflow	-\$ 8,847
Tax Benefit	\$ 8,068

Net Cashflow Perspective -\$ 779
Net cashflow per week -\$ 15

New Residential Property - SMSF

Purchase price	\$	870,000	Rental Yield	4.5%
Purchase costs	\$	49,570		
	\$	919,570	Interest Rate	3.85%
Investment (your money!)	\$	223,570		
Loan @80%	\$	696,000		
	\$	919,570		

Tax Purposes	Annual \$
Rent Received	\$ 39,150
Interest	\$ 26,796
Depreciation	\$ 15,817
Water Rates	\$ 830
Shire Rates	\$ 1,700
Body Corporate	\$ 3,200
Insurance	\$ 350
Repairs & Maintenance	\$ 1,000
Letting fees	\$ 1,380
Agent fees	\$ 3,015
Total Tax Deduction	\$ 54,088
Tax Loss (Negative Gearing)	-\$ 14,938

Tax Benefit @15% \$ 2,241

Cashflow - P&I	Annual \$
Rent Received	\$ 39,150
Interest	\$ 26,796
Principal on Loan	\$ 8,148
Depreciation	\$ -
Water Rates	\$ 830
Shire Rates	\$ 1,700
Body Corporate	\$ 3,200
Insurance	\$ 350
Repairs & Maintenance	\$ 1,000
Letting fees	\$ 1,380
Agent fees	\$ 3,015
Total Cash Outlay	\$ 46,419
Net Cash Outflow	-\$ 7,269

Tax Benefit \$ 2,241

Net Cashflow Perspective -\$ 5,028
Net cashflow per week -\$ 97

Cashflow - Interest ONLY	Annual \$
Rent Received	\$ 39,150
Interest	\$ 26,796
Depreciation	\$ -
Water Rates	\$ 830
Shire Rates	\$ 1,700
Body Corporate	\$ 3,200
Insurance	\$ 350
Repairs & Maintenance	\$ 1,000
Letting fees	\$ 1,380
Agent fees	\$ 3,015
Total Cash Outlay	\$ 38,271
Net Cash Outflow	\$ 879

Tax Benefit \$ 2,241

Net Cashflow Perspective \$ 3,120
Net cashflow per week \$ 60

Commercial Property

Purchase price	\$	870,000	Rental Yield	4.5%
Purchase costs	\$	49,570		
	\$	919,570	Interest Rate	3.00%
Investment (your money!)	\$	223,570		
Loan @80%	\$	696,000		
	\$	919,570		

Tax Purposes	Annual \$
Rent Received	\$ 39,150
Interest	\$ 20,880
Depreciation	\$ 7,500
Water Rates	\$ -
Shire Rates	\$ -
Body Corporate	\$ -
Insurance	\$ -
Repairs & Maintenance	\$ -
Letting fees	\$ 1,380
Agent fees	\$ 3,015
Total Tax Deduction	\$ 32,775
Tax Loss (Negative Gearing)	\$ 6,375
Tax Benefit @49%	-\$ 3,124
	tax payable

Cashflow - P&I	Annual \$
Rent Received	\$ 39,150
Interest	\$ 20,880
Principal on Loan	\$ 14,064
Depreciation	\$ -
Water Rates	\$ -
Shire Rates	\$ -
Body Corporate	\$ -
Insurance	\$ -
Repairs & Maintenance	\$ -
Letting fees	\$ 1,380
Agent fees	\$ 3,015
Total Cash Outlay	\$ 39,339
Net Cash Outflow	-\$ 189
Tax Benefit	-\$ 3,124
Net Cashflow Perspective	-\$ 3,313
<i>Net cashflow per week</i>	<i>-\$ 64</i>

Cashflow - Interest ONLY	Annual \$
Rent Received	\$ 39,150
Interest	\$ 20,880
Depreciation	\$ -
Water Rates	\$ -
Shire Rates	\$ -
Body Corporate	\$ -
Insurance	\$ -
Repairs & Maintenance	\$ -
Letting fees	\$ 1,380
Agent fees	\$ 3,015
Total Cash Outlay	\$ 25,275
Net Cash Outflow	\$ 13,875
Tax Benefit	-\$ 3,124
Net Cashflow Perspective	\$ 10,751
<i>Net cashflow per week</i>	<i>\$ 207</i>

Commercial Property - SMSF

Purchase price	\$	870,000	Rental Yield	4.5%
Purchase costs	\$	49,570		
	\$	919,570	Interest Rate	4.50%
Investment (your money!)	\$	223,570		
Loan @80%	\$	696,000		
	\$	919,570		

Tax Purposes	Annual \$
Rent Received	\$ 39,150
Interest	\$ 31,320
Depreciation	\$ 7,500
Water Rates	\$ -
Shire Rates	\$ -
Body Corporate	\$ -
Insurance	\$ -
Repairs & Maintenance	\$ -
Letting fees	\$ 1,380
Agent fees	\$ 3,015
Total Tax Deduction	\$ 43,215
Tax Loss (Negative Gearing)	-\$ 4,065

Tax Benefit @15% \$ 610

Cashflow - P&I	Annual \$
Rent Received	\$ 39,150
Interest	\$ 31,320
Principal on Loan	\$ 3,624
Depreciation	\$ -
Water Rates	\$ -
Shire Rates	\$ -
Body Corporate	\$ -
Insurance	\$ -
Repairs & Maintenance	\$ -
Letting fees	\$ 1,380
Agent fees	\$ 3,015
Total Cash Outlay	\$ 39,339
Net Cash Outflow	-\$ 189

Tax Benefit \$ 610

Net Cashflow Perspective \$ 421
Net cashflow per week \$ 8

Cashflow - Interest ONLY	Annual \$
Rent Received	\$ 39,150
Interest	\$ 31,320
Depreciation	\$ -
Water Rates	\$ -
Shire Rates	\$ -
Body Corporate	\$ -
Insurance	\$ -
Repairs & Maintenance	\$ -
Letting fees	\$ 1,380
Agent fees	\$ 3,015
Total Cash Outlay	\$ 35,715
Net Cash Outflow	\$ 3,435

Tax Benefit \$ 610

Net Cashflow Perspective \$ 4,045
Net cashflow per week \$ 78



Going back to your goal...

- Structure
 - Legal Owner
 - Tax Position
 - Expected ownership duration
- Type
 - Residential or Commercial
 - New / Off the Plan or Existing
- Get advice!



How we can help.



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Asset
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Questions





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Using your super to buy property

Taking a strategic tax approach to your
SMSF and property investment.

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Upcoming Webinar Session

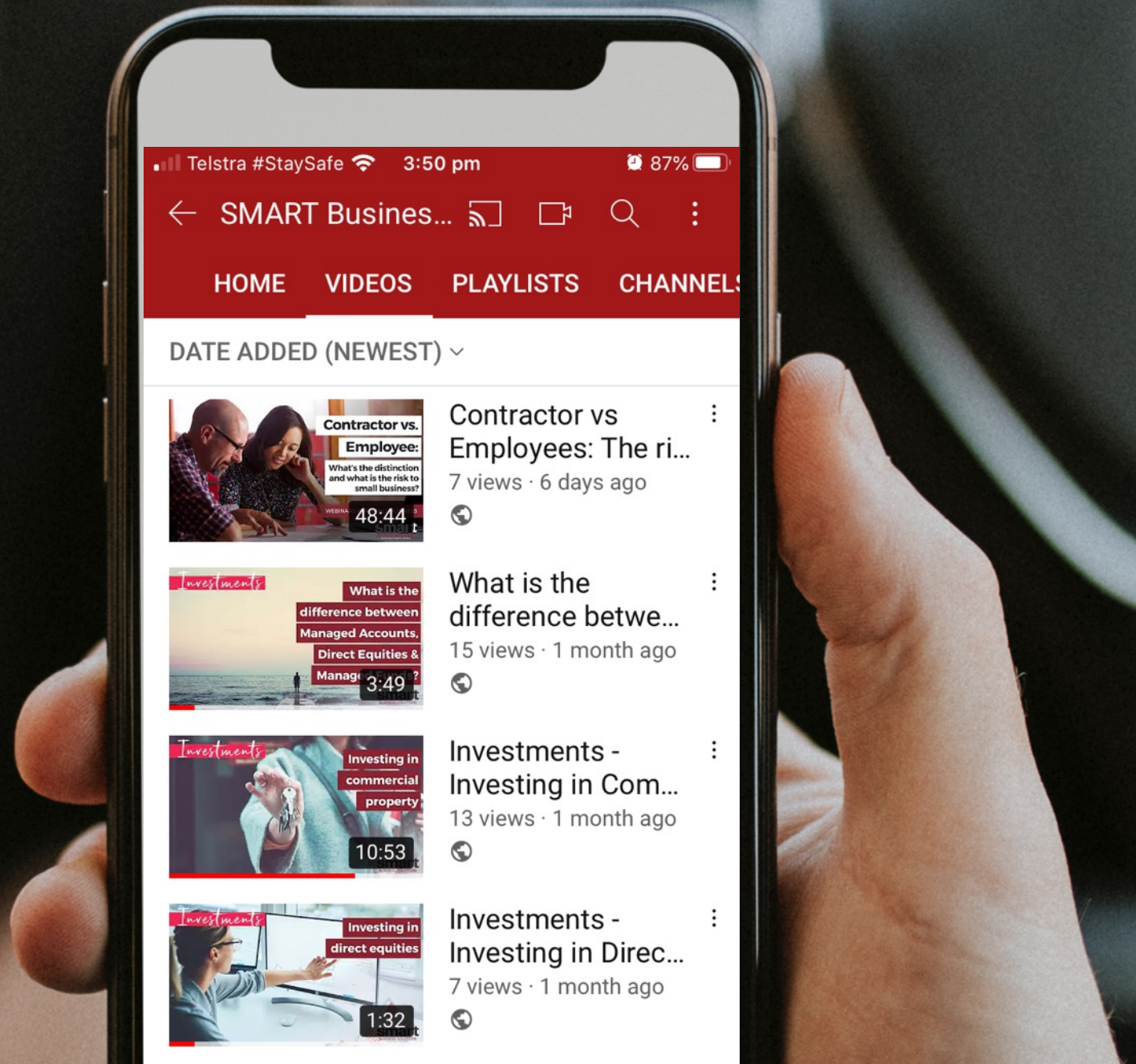
Getting Paid

Thursday 23 September @ 1pm

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Our Leadership Team



Shannon Smit
Managing Director

Shannon Smit is a CEO and founding director who thrives on breaking the mold of the standard. She's lived in 4 different countries and 6 different cities. she talks a mile a minute, has ideas faster than a speeding bullet and has nailed the art of multitasking. Likes travelling the world. Loves being a soccer mum to her two boys.

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Paul Cunningham is a chartered accountant with a slight obsession with cricket. President of his local club, he's played there since his teenage years, perfecting his skills as the ultimate batsman. Is a highly competitive pop quiz and trivia participant. When not on the pitch he's playing doting dad to his young daughter.

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Daniel McCulloch
Associate

Daniel McCulloch is a chartered accountant who gets a kick out of saving his clients money. Likes German Shepherds. Loves hanging with his daughters. Spends his free time playing golf or indulging his passion for anything fast on two wheels. Not known for his ability to do the two of these together.

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