

## Negative gearing changes

Hi team,

Just an idea here as I have just read a response to the proposed negative gearing changes. It occurred to me that any changes could be significantly simplified.

In that – any tax offset is to only apply to the income earned by that asset. This is a little more complex when it comes to other asset classes, but my understanding is the property sector is currently in focus.

I've included a screenshot of an example that has been sent to me to show the difference between current rules and the proposed.

While effective – a simpler approach of allocating offset against that asset income only.

To use the numbers in the screenshot below:

- Annual income for the below investment property is \$29,120.
- Expenses are \$41,028.
- The maximum deduction applicable \$29,120.

This approach would be best implemented across all property types and would be relatively simple to administer. The resultant gearing would be either neutral or positive.

Just a thought.

Three year old house purchased for \$600,000			
Scenario before 9 <sup>th</sup> of May 2017 with 1 <sup>st</sup> year total depreciation claim of \$12,397		Scenario after 9 <sup>th</sup> of May with 1 <sup>st</sup> year capital works deduction only of \$6,126	
Annual expenses	\$41,028	Annual expenses	\$41,028
Annual income (\$560 x 52 weeks)	\$29,120	Annual income (\$560 x 52 weeks)	\$29,120
Pre-tax cash flow (income – expenses)	-\$11,908	Pre-tax cash flow (income – expenses)	-\$11,908
<b>Total taxation loss (pre-tax cash flow + total depreciation including plant and equipment)</b>	<b>\$24,305</b>	<b>Total taxation loss (pre-tax cash flow + capital works deduction only)</b>	<b>\$18,034</b>
Tax refund (tax loss x tax rate of 37%*)	\$8,993	Tax refund (tax loss x tax rate of 37%*)	\$6,673
Annual costs of the investment property (pre-tax cash flow + refund)	\$2,915	Annual costs of the investment property (pre-tax cash flow + refund)	\$5,235
Weekly cost of the investment property	\$56	Weekly cost of the investment property	\$101
<b>Difference = \$45 per week</b>			

Depreciation deductions have been calculated using the diminishing value method.  
\*Calculations for the investor's tax refund have been completed at a standard tax rate of 37 per cent.

Kind Regards  
Johnathon