



**Harvest**

*Sow, nourish & harvest  
your wealth*

# HOME LOANS NEWSLETTER

May 2015

## Reserve Bank interest rate announcement

Today, the Reserve Bank of Australia reduced the official cash rate by 0.25% to 2.00%. Rates had previously been on hold since February 2015. We expect that most lenders will reduce their variable interest rates within the next few weeks.

## Will negative gearing stay?

You may have heard a lot lately in the media about economists and political parties calling to abolish or scale back negative gearing. This topic has been opened for discussion due to the upcoming federal budget and the search for budgetary solutions, and as a result of the David Murray Financial System Inquiry.

Negative gearing is an investment strategy that involves borrowing money to invest where a tax loss is made in the initial years. It can apply to other investments such as shares or managed funds but we are talking specifically about property investment. Negative gearing allows interest payments on the mortgage, repairs, council rates and other costs relating to an investment property to be used as a tax deduction against the investors wage or other income, reducing their taxable income.

For example:

John borrows \$500,000 to purchase an investment property worth to \$550,000. In the first year John's net income is

Rental income (est. @ \$500 p/wk)	\$26,000
Mortgage Interest deductions (based on a fixed rate of 4.4%)	-\$22,000
Other deductions	-\$7,000
Investment property loss	-\$3,000

In this example, John makes a tax loss of \$3,000 and can offset this against any income he has in that year. Note that whilst his tax loss, that is offset against his income, is \$3,000 the refund John receives is dependent on his marginal tax rate. Let's say John's wage is \$70,000 which makes his marginal tax rate plus Medicare levy is 34.5%, then the tax refund is \$1,035.

There has been speculation in recent weeks that negative gearing may not be allowed for future property purchases or

that a limit may be placed on the amount of negatively geared investments an individual may be able to have.

Negative gearing reduces the tax income received by the ATO (Australian Tax Office). Some market estimates are that the ATO revenue is reduced by \$5 billion per year just from this strategy. This saving has been calculated on 2011 - 12 data (the latest available) and does not take into consideration the current record low interest rates. With lower interest rates the tax loss that investors have made in recent years has been reducing. Some early indicative reports show that, with the current record low interest rates, subsidised rental losses for property investors could have reduced by up to \$2 billion, reducing the significance of this policy change.

Overall, we do not expect any changes to negative gearing in the May 2015 Federal Budget. However, if any changes were proposed we would expect they would not affect existing investments, but rather be a prospective change which would affect potential new investments.

## We can assist you with your home loan

There is a lot to consider when it comes to choosing a suitable lender and mortgage. It can often feel overwhelming trying to take into account all the different aspects of a mortgage when doing a comparison. There are different terms, types of mortgages, costs, penalties and rates just to mention a few. Shopping around, comparing and negotiating may save you thousands of dollars. We can assist with this research and decision making process free of charge.

At Harvest we provide independent advice about home loans based on your personal financial situation, and therefore, do not favour any particular lender. We have access to 27 loan providers to make sure you get the best value home loan by customising a package for you that best meets your needs.

## Our current best interest rates

The best home loan rates we currently have available:

- Variable rate of 4.38% pa
- 1 year fixed rate of 4.14% pa
- 2 year fixed rate of 4.14% pa
- 3 year fixed rate of 4.14% pa



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