$151	This is the amount that your investment property (IP) could pay you each week.
10 yrs 4 mths	How much quicker you could pay out your home loan by using the extra cash flow from the IP to make extra repayments.
$104,220	The interest you could save by using net rent from the investment property to make extra repayments on your owner occupied home loan.
$263,640	Potential equity available in your IP for further investment (when your owner occupied home loan is repaid).
$309,839	Potential profit AFTER tax if selling the IP in the year your owner occupied home loan is repaid.
361%	The ratio of potential profit you could make compared to the amount you initially invested (for the deposit + costs).
14.49% p.a.	The internal rate of return of the IP (up to the year the owner occupied home loan is paid out). Bascially what your investment earned each year.
9.14%	The percentage of your initial investment you could receive as income at the end of the first year (AFTER-tax). The return per $100 invested

Cash Flow of the Investment Property

Perhaps your biggest concern as a property investor is just how much the investment is going to cost you. While an investment property will provide a steady stream of rental income, there are also many expenses associated with holding this type of investment (see the Year 1 Investment Property Tax Analysis at the end of this report for a detailed breakdown).

Below is an analysis of how your weekly cash flow would be impacted by the proposed investment purchase.

	The weekly cash flow looks like:		
	Weekly tax savings due to the Investment Property	$76	[1]
Plus	Weekly investment rental income (48 weeks occupancy)	$500	
Less	Weekly Investment Property expenses	$425	[2]
equals	**Each week the Investment Property pays you**	**$151**	[3]

NOTE: [1] Your accountant can assist you to obtain any tax deduction on a weekly basis. This is known as an Income Tax Withholding Variation (ITWV). Note a negative figure indicates extra tax payable at the end of the financial year because the investment is positively geared. That is, income is greater than expenses.

[2] Decline in Value, Capital Works & Borrowing Expenses are excluded. While they are expenses, they are not an outgoing expense you pay each week. They are depreciation items claimed on your tax return. If you organise an ITWV as per the first point above, then their effect WILL be reflected in the 'Weekly Tax Savings'. It is assumed you will organise an ITWV.

[3] This is an estimate only - your actual figures **WILL BE DIFFERENT FROM THIS** and you should seek the advice of an accountant in determining the actual figures. This estimate is to provide you with an indication as to the potential viability of a proposed deal and whether it bears further professional investigation.

Cash Flow of Your Household (incl living expenses)

Another important factor when deciding whether or not to purchase a particular investment property is how your overall household cash flow will be impacted.

The analysis below investigates how your household cash flow is impacted once your nominated living expenses are taken into account. That is, whether you will have a surplus or deficit (on a yearly basis).

			Client 1		Client 2	
	Income	$	90,000	$	75,000	
Less	Net property loss	$	5,764	$	5,764	[1]
Equals	Taxable Income	$	84,236	$	69,236	
Less	Tax (incl Medicare)	$	19,528	$	14,353	[2]
Plus	Low income offset	$	-	$	-	
	NET INCOME	**$**	**64,707**	**$**	**54,882**	

[1] See "Year 1 Rental Property Tax Analysis" at the end of the report

[2] No Low and Middle Income Tax Offset (LMITO) included (ends 06/2022)

			COMBINED (p.a.)	
	Combined NET income	$	119,590	
Less	Mortgage on your home	$	21,944	[1]
Plus	NET Investment Cash Flow	$	7,854	[2]
Less	Living expenses	$	40,000	[3]
	SURPLUS INCOME (per annum)	**$**	**65,501**	

[1] Based on $400,000 at 1.99% Principal & Interest & $85,899 at 2.59% Interest only.

[2] Assumes Income Tax Withholding Variation (ITWV)

[3] As per your estimated household living expenses figure

Comments & Assumptions

1) Note that the 'NET Investment Cash Flow' figure is low. This assumes you organise an ITWV with your accountant. This results in being able to claim your tax return each pay cycle rather than in a lump sum via your tax return.

2) In general most people tend to underestimate or be a little dishonest with themselves when it comes to their budget. You may feel that the surplus income figure is quite high. If you are finding you are not seeing that much extra each pay then ther's a 'black hole' in the budget that should be addressed.

3) The calculations for 'net property loss' can be found at the end of the report. It illustrates the figures used in estimating your investment property cash flow. Some important points to note are:

a) Income/expenses are shared where relevant
b) Investment debts are Interest Only with the rate applied to Loans B and C.
c) The 'decline in value' figures relate to depreciation in new assets within the home. Our estimates are based on a 180m2 property with a medium level of finishing. The estimate used for Brisbane is $8,150 in Year 1.
d) The 'capital works deduction' relates to the depreciation of the building. The figure is conservative. Again, it may be much higher if the building is assessed by a Quantity Surveyor as having a higher construction cost. The allowable claim is 2.5% over 40 years and has been estimated as $4,650 for a $186,000 build cost in 2022.

4) Hecs/Help repayments or salary packaging are not taken into account.

Mortgage Reduction Analysis

When you purchase your investment property you have the opportunity to refinance your current home loan to a lower rate. An example of your savings using current indicative rates is below.

You could potentially save $184 per month.

	Current Loan Repayment (your home)	$1,827
Less	New Loan Repayment (your home)	$1,643
Equals	**Monthly Home Loan Savings**	**$184**

Furthermore, if you choose a property with a good rental yield, then you will also be able to redirect that extra cash flow to paying out your mortgage even faster. Rental yield is the annual rent divided by the purchase price.

A second factor that can improve your cash flow is depreciation deductions. When you build a new home, you are able to claim a deduction for the decline in value of the building PLUS the decline in value of the plant and equipment (eg air-con units, oven, flooring etc.). These deductions reduce your taxable income and result in you paying less tax overall.

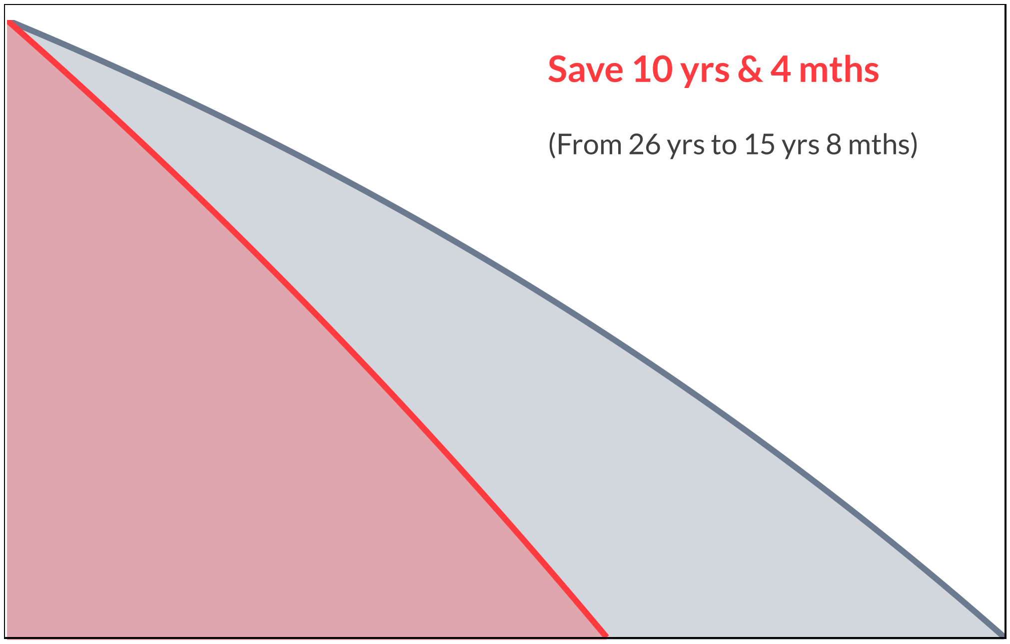
In contrast, with an established home you can only claim the decline in value based on what it cost to originally build the home many years ago. (The depreciation in plant & equipment can be offset against capital gains if and when you sell). But this doesn't help with your day-to-day cash flow.

Generally, established homes don't help reduce your mortgage as fast.

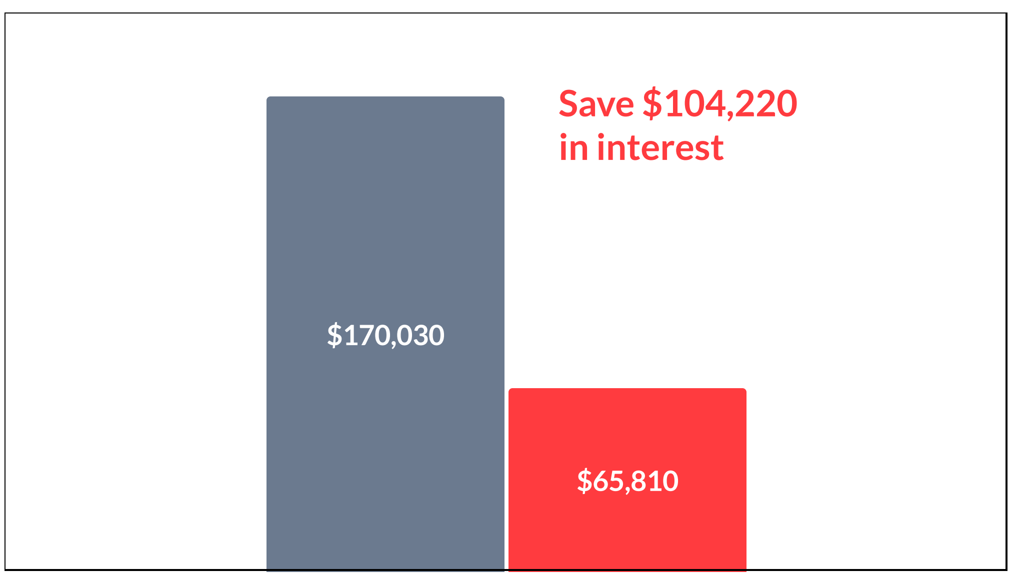
Below is an outline of your NET cash flow benefit from investing.

	Monthly Home Loan Savings	$184
Plus	Monthly Cash Flow from Investment Property	$655
Equals	**Extra Cash Each Month to Pay Home Loan Faster**	**$838**

The savings from refinancing your home loan plus the positive cash flow from your investment means you have an extra $838 in cash to use to pay off your home loan each month. The savings are illustrated below.



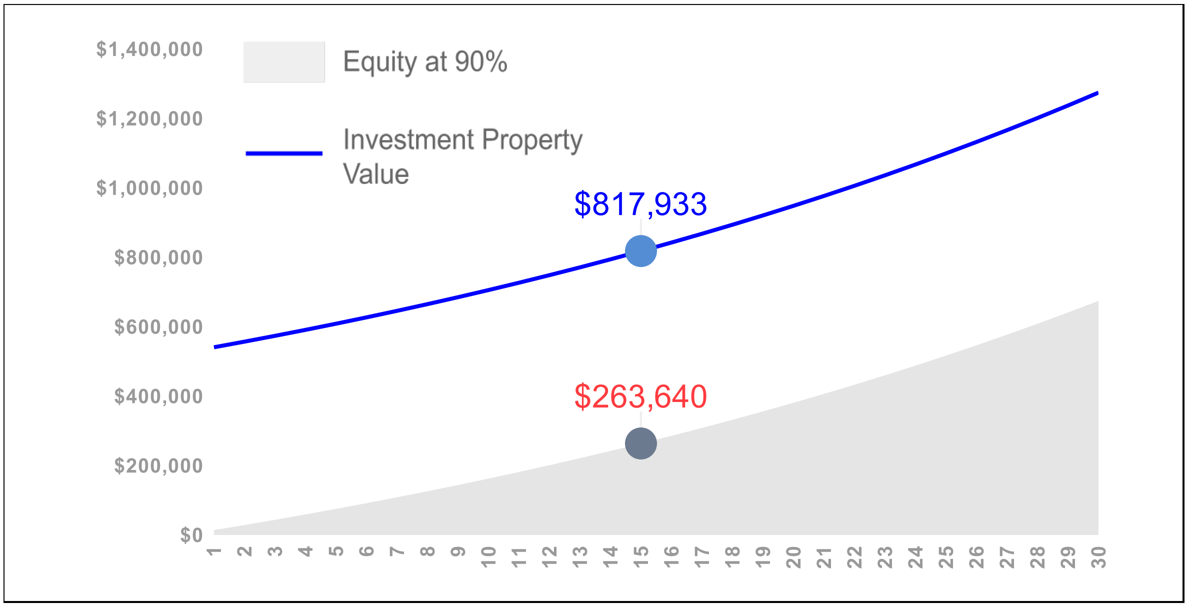
If you pay out your home loan faster there will also be a saving in the total interest you will pay. An indication of your potential savings is illustrated below.



Growth Analysis

By purchasing an investment property that provides extra cash flow you will potentially pay out your home loan 10 yrs & 4 mths early.

The equity in your investment property is illustrated below at the end of the year your home loan is paid out - year 15.



At the end of year 15 your investment would have an approximate value of $817,933. The equity available to use for further investment is $263,640. This is the difference between the remaining loan of $472,500 and 90% of $817,933. An example of potential equity is illustrated in the table below.

End of Year:	1	5	10	20	30
Value	540,750	608,619	705,556	948,208	1,274,313
90% of Value	486,675	547,757	635,000	853,388	1,146,882
Less: Mortgage	472,500	472,500	472,500	472,500	472,500
equals **Equity**	**14,175**	**75,257**	**162,500**	**380,888**	**674,382**

Note: The above figures are based on your chosen investment property growth rate of 3% per annum.

Capital Gains Analysis

In Australia, as long as you hold an investment for at least 12 months, then you are entitled to a 50% reduction in the capital gain when you sell the asset.

Below is a brief analysis of what your potential sale year would look like if you sold the investment in the same year your home loan is paid out. This would also clear Loan B against your home (if you hadn't shifted it to the IP).

	Property Sale Price	$	817,933	
less	Reduced Cost Base	$	492,677	[1]
equals	Capital Gain	$	325,256	
	Taxable Capital Gain	**$**	**162,628**	[2]
	Capital Gains Tax Payable			
	Investor 1 at 50% ownership	$	35,029	[3]
	Investor 2 at 50% ownership	$	33,099	[4]
	Total Capital Gains Payable	**$**	**68,128**	
	Net Profit From Investment			
	Gross Gain from Sale	$	255,506	[5]
Less	Capital Gains Payable	$	68,128	
Plus	After-tax Net Rental Income	$	122,461	[6]
Equals	**AFTER TAX PROFIT**	**$**	**309,839**	

[1] Total property costs of Loan B ($85,899) and Loan C ($472,500) PLUS 2% selling (and other misc.) costs LESS Capital Works Deductions of $69,750 claimed over 15 years.

[2] After the 50% capital gains discount applied to the $325,256 capital gain.

[3] [4] Extra tax payable when capital gains are added to normal income in 15 years time. Eg - For Investor 1, 2037 income is $140,143 with $39,723 tax due. Adding the capital gain increases the tax payable on $221,457 to $74,752. The difference between the 2 tax payable amounts equals the 'Capital Gains Tax Payable' figure for Investor 1.

[5] The property sale price ($817,933) LESS Loans B + C ($545,372 combined) LESS Total Selling Costs of 2% plus other costs like discharge/settlement fees ($17,056).

[6] What the property has PAID or COST you over 15 years, with rent increasing 3% annually.

Return On Investment Analysis

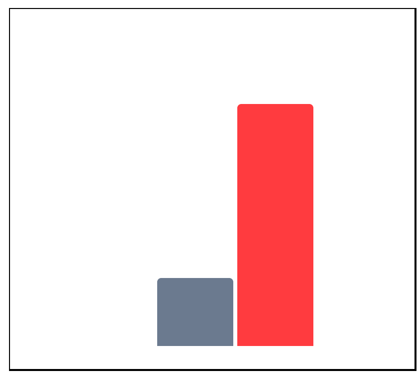
Return on Investment (on Cash Outlay)

If and when you choose to sell, the Return on Investment (ROI) is a measure of how much profit is made versus the cost of an investment.

Below is a return of investment calculation - but based only what you initially invested for the investment property deposit and costs. The ROI should be a significant multiple of the initial investment.

You could potentially NET $3.61 for every dollar you initially invested if you sold at the end of year 15.

ROI on Cash Outlay		
Cash Outlay	$	85,899 [1]
After Tax Profit	$	309,839
ROI = Profit ÷ Cash Outlay		361.00%



[1] 10% deposit plus costs for the investment property - see Loan B later in the report.

Internal Rate of Return (Pre-tax & After-tax)

The table below shows the Internal Rate of Return (IRR) for two different scenarios. The IRR takes into account your initial deposit, income received and expenses paid along the way. Finally, it takes into account your final equity position as well (retained in the property or realised after selling).

In short, it is a measure of how much and how quickly your investment grows or shrinks over the time you own it.

The 2 scenarios show your IRR at the end of year 15 if you continued to hold the property (pre-tax IRR) and in the event you sell it (after-tax IRR).

Internal Rate of Return (IRR)	
Pre-tax IRR	14.49% p.a.
After-tax IRR	13.92% p.a.

Cash on Cash Returns (After-tax)

A cash on cash return is simply how much cash flow your investment generates versus the amount you actually invested (in the first year). For example, if you invested $100,000 into a term deposit and it returned $3,000 then your cash on cash return is 3% (the return divided by the initial outlay). This is a very easy calculation.

With an investment property the cash on cash return is calculated as follows:

$$\frac{\text{(IP income - IP expenses)}}{\text{Initial Cash Outlay}}$$

While this is quite an easy figure to determine it doesn't take into account the tax advantages that may be available to you as a result of investing in property. The figure below takes those tax benefits into account and illustrates your cash on cash return AFTER-TAX at the end of year 1.

End of Year 1 Cash on Cash Return (After-tax)		
Total Net Income in Year 1	$	7,854
Initial Cash Outlay (IP Deposit + Costs)	$	85,899
After-tax Cash on Cash Return		9.14%

Note: The above 4 analyses are based on your chosen investment property growth rate of 3% per annum.

SUMMARY OF LOANS

Loan	Security	Loan Type	Deduct Against	Amount
Loan A	PPOR	IO or P&I	N/A	$400,000
Loan B	PPOR	IO	IP	$85,899*
Loan C	IP	IO	IP	$472,500
Offset	None	N/A	N/A	N/A

PPOR: Personal Place Of Residence P&I: Principal & interest I/O: Interest only.
* Loan B includes $10,470 in LMI costs for the investment.
You still have a potential $114,101 in equity in your PPOR.

The discussion below outlines how I would propose we set up the structure for your future investing. It offers the best trade-off in terms of cost, flexibility and taxation deductions. More importantly, it is designed to ensure that your properties do not end up being cross collateralised.

FUNDS REQUIRED

Purchase Price	$	525,000	
plus: Purchase Costs	$	22,929	[1]
plus: Mortgage Insurance	$	10,470	
equals	$	558,399	
less: Equity/Deposit	$	85,899	
***equals:* Loan Required**	**$**	**472,500**	[2]

[1] See 'Loan B' section for an outline of the purchase costs

[2] $10,470 lenders mortgage insurance (LMI) to come from loan against PPOR.

Loan-to-Value Ratio (LVR)	90.00% (Loan required divided by purchase price)
Lenders Mortgage Insurance	$10,470 (A rough estimate based on a LVR > 80%)

LOAN A

Security:	Your Principal Place of Residence (PPOR) is the security
Amount:	$400,000

This is a refinance of your existing home loan and will become the main loan on the PPOR. There are two choices for this account:

1) Principal and interest (usually a cheaper rate)
2) Interest Only (ideal if this will become a future investment property)

There will be an offset account attached to LOAN A. Wages, savings and other money such as future rent is to be deposited into this account.

NEVER redraw from LOAN A

LOAN B

Security:	Your PPOR is the security for this loan.
Limit:	$85,899

This loan is to provide funds to cover the **deposit AND costs** on the investment property (including mortgage insurance for the investment).

Generally this loan will be a **Line of Credit secured against your PPOR**. So it will be a pre-approved limit but not drawn down until you find and purchase the investment property. Think of it like a credit card against your home.

You are also able to use a normal loan and deposit the funds straight back into the loan facility after settlement. You would just ensure that you keep the loan account open. When you find an investment you redraw those funds for the deposit.

	Costs Estimate :
$52,500	10% Deposit (don't use your own cash as it negatively impacts tax benefits)
$16,800	Stamp duty
$10,470	Lenders Mortgage Insurance estimate
$2,960	Other costs - (build/pest inspections, depreciation report, valuation, rates etc.)
$1,500	Legal fees estimate
$1,669	Government fees such as mortgage discharge/registration & land transfer
$85,899	

Some lenders won't allow you to transfer funds directly into the solicitor's trust account. You may be required to place your deposit + costs into a separate bank account. You must avoid mixing investment funds with other money for tax purposes.

The idea is that **borrowed funds are to be used for all expenses relating to** the investment. This maximises the tax benefit. Your own funds are to be used to reduce the non-deductible PPOR debt in the offset attached to Loan A.

LOAN C

Security:	New Investment Property offered as security to the lender
Amount:	$472,500
Price:	$525,000

This loan is to **fund the purchase of the new investment property**.
The initial $85,899 deposit will come from the pre-approved funds in LOAN B.

DO NOT use your own cash if you have it, otherwise you will lose tax deductibility.

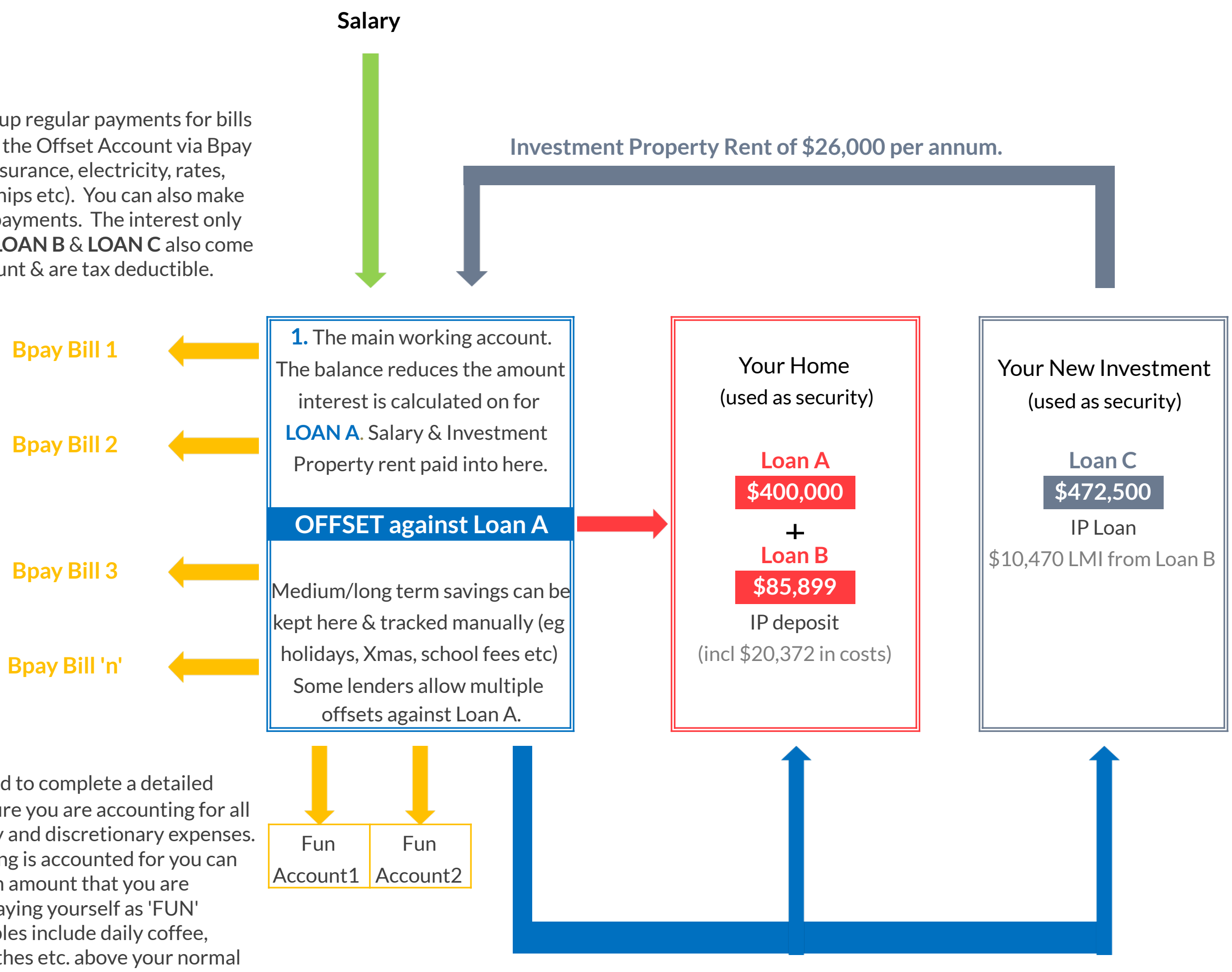
Move the debt from LOAN B to LOAN C over time (change the security from the PPOR to the IP).

At settlement you will have a debt on the IP secured by the PPOR (LOAN B). Over time, as the IP value grows you can **increase the debt on LOAN C** and use those funds to slowly pay out LOAN B so it resets back to zero debt.

LOAN B debt will reset to zero but the limit would still then be available to use for the next IP. All the IP debt will then be against LOAN C. This will keep everything clean and simple from a tax perspective.

The other benefit is that if the PPOR is ever sold then LOAN B must be paid out. If there was still a debt attached to LOAN B you would lose the ability to make tax deductions on the IP for that portion. But if you shift the debt over to LOAN C you won't lose any tax benefits.

2. You can set up regular payments for bills to come out of the Offset Account via Bpay (eg car rego, insurance, electricity, rates, gym memberships etc). You can also make one-off debit payments. The interest only payments for **LOAN B** & **LOAN C** also come from this account & are tax deductible.



3. You will need to complete a detailed budget to ensure you are accounting for all bills, necessary and discretionary expenses. Once everything is accounted for you can then choose an amount that you are comfortable paying yourself as 'FUN' money. Examples include daily coffee, eating out, clothes etc. above your normal budgeted amount. This maintains discipline without compromising lifestyle.

Principal & interest repayments to Loan A. Interest only repayments to Loan B and Loan C (tax deductible)

Year 1 Rental Property Tax Analysis

Income	
Rental income @ 50 weeks @ $520/week	$26,000
Gross Rental Income	**$26,000**

Expenses	
Advertising for tenants	-$400
Body corporate fees and charges	-$0
Borrowing expenses (spread over 5 years)^	-$2,605
Cleaning	-$0
Council rates	-$2,000
Decline in value deductions (for NEW assets after 09/05/17)	-$8,150
Gardening/lawn mowing	-$0
Insurance	-$1,700
Interest on Loan C ($472,500 at 2.64% pa interest only)	-$12,474
Interest on Loan B ($85,899 at 2.59% pa interest only)	-$2,225
Land tax (assumes no land tax)	-$0
Legal expenses (other than conveyancing)	-$0
Pest control	-$175
Property agent fees/commission @ 8%	-$2,080
Repairs and maintenance	-$750
Capital Works Deductions @ 2.5% (est. build - $186,000)	-$4,650
Stationery, telephone and postage	-$20
Travel expenses	-$0
Water charges (assumed passed on to tenant)	-$0
Sundry rental expenses - annual loan fee	-$299
Gross Rental Expenses	**-$37,528**

Net Rental Income or Loss (Tax Deduction)	**-$11,528**

$26,000 rent - $37,528 expenses = -$11,528

The -$11,528 figure impacts taxable income providing a weekly tax saving of $76. This PAYG variation would need to be organised with your accountant

WHAT'S NEXT?

We are creatures of habit. Sometimes it's easier to stick with what we know rather than take a risk with something that will ultimately benefit us.

If the figures in this report have indicated an opportunity to transform your financial future then please take advantage of this and make contact with me.

"Adam was an absolute gentleman to deal with. He has a heart of gold & really goes out of his way to get you the best deal possible. I found him to be someone who actually cares about his clients & the deal he managed to get myself & my partner was way beyond what I expected. I highly recommend Adam & wish him all the best in future."

G. Gallen and Family

"Adam was excellent , from start to finish Adam was professional and listened to what my wife and I needed. He kept us informed throughout every step of the process & made it easy for us to understand. I would recommend all my friends and family to Adam as he has excellent customer service. We are very happy thanks to all Adams help."

B. Davis and Family

Phone	0468 323 829
Email	adam@moneybright.com.au

Notes

- Interest rates as at 30/01/2022 and are subject to change.
- Loan B is to cover a 10% deposit plus costs on the investment property (Loan C). Loan C will also include an estimated Lender's Mortgage Insurance (LMI amount).
- Loan B rate may be based on purpose rather than security so may be higher - depends on the lender.
- The LMI amount is based on figures of one lender - neither the most expensive nor the cheapest. Your actual LMI amount will most likely differ.
- Investment rates are interest only rates (min 5 yrs) & can include fixed rates where they are cheaper.
- Owner occupied loans are principal & interest with an offset attached (there may be cheaper loans without the offset. Contact us direclty for an individual analysis if not needing an offset).
- Tax rates for the 2021/22 financial year. No Low & Middle Income Tax Offset applied.
- Property growth rate as indicated by you at 3% per annum.
- Inflation of rent and wages assumed to be 3% per annum.
- Depreciation figures have been based on data collected by BMT Quantity Surveyors. Our preset figures are based on a 180m2 newly constructed property with a medium level of finish in the capital city of your chosen state. We have averaged the data.
- The depreciation schedule for plant and equipment is based on the diminishing value method and takes into account the most common items deducted in a new construction. You should obtain your own report specific to your prospective property.
- All capital growth and investment metrics are illustrated at the end of the year in which you are projected to finalise your mortgage.
- If the property is positively geared (income > expenses) the extra tax payable has been deducted when calculating how much quicker your owner occupied home loan could be paid out. This is because you will end up paying extra tax at the end of the financial year.

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Disclaimer: No person should rely on the contents of this publication without first obtaining advice from a qualified professional such as an accountant or financial planner. If the results appear to warrant further investigation then a quantity surveyor can assist with a Depreciation Schedule to identify your non-cash deductions.
This report takes your input to illustrate your potential position with respect to a generic cash flow and growth position. Every attempt has been made to provide you with a reasonably accurate assessment. It is only reliable as the data you input.