

Negative Gearing Calculator

Explanatory Notes: Model Description, Assumptions & Limitations

Australian Personal Income Tax Context · 2025–26 Tax Rates · Interest-Only Loan Basis

Disclaimer

This calculator is provided for general information and illustrative purposes only. It does not constitute financial, taxation, investment, or legal advice. Results are based solely on the inputs provided and the simplified assumptions described herein. Actual outcomes will of course differ. Before making any investment decision, you should seek independent advice from a qualified financial adviser, registered tax agent, and/or solicitor. The publisher accepts no liability for any loss arising from reliance on this calculator.

Tax rates and thresholds and CGT assumptions are based on publicly available ATO information for the 2025–26 income year. These may be subject to change by legislation. The publisher accepts no liability for any loss arising from reliance on this calculator.

1. Purpose of This Calculator

This calculator is a **simple linear financial model** designed to help an investor quickly understand the likely tax and cash-flow consequences of acquiring a negatively geared investment (typically residential property) in an Australian personal income tax context.

It is intended as a **planning and awareness tool** to inform the level of financial risk before committing to an investment decision. It is **not** a substitute for professional financial, tax, or legal advice.

2. What is Negative Gearing?

An investment is said to be **negatively geared** when the income it produces is less than the costs of holding it, including interest on the loan used to fund the purchase. The resulting **net loss** is deductible against the investor's other taxable income (such as salary), reducing the income tax payable in that year.

The investor therefore **accepts an ongoing annual cash cost** in exchange for the **expectation of a capital gain** when the asset is ultimately sold. The investment is regarded as viable when the after-tax capital gain on disposal exceeds the accumulated after-tax cash cost of holding the asset over the investment horizon.

3. How the Model Works

The calculator operates in four sequential stages:

Stage 1: Annual Profit & Loss Profile

The model computes an annualised profit and loss statement for the investment. Annual income ($A = R \times W$) is compared against total deductible expenses comprising investment expenses (B), loan interest on an interest-only basis (C), and depreciation (D). The resulting net figure ($F = A - E$) determines whether the investment is negatively or positively geared on both an accounting and a cash basis.

Stage 2: Single-Year Before & After Tax Comparison

The model calculates the investor's tax payable under two scenarios using the 2025–26 Australian marginal tax brackets plus the 2% Medicare levy:

- BEFORE: tax on the investor's ordinary income alone.
- AFTER: tax on the investor's income after adding the net investment profit or loss.

The difference in after-tax cash position between the two scenarios ($N = \text{After} - \text{Before}$) is the **net annual cash cost or surplus** of holding the investment. Depreciation, being a non-cash deduction, is added back when computing actual cash position.

Stage 3: Accumulated Cash Cost Over the Investment Horizon

The annual cash cost or surplus is multiplied by the assumed investment horizon in years ($P = N \times Y$) to produce a simple linear estimate of the total out-of-pocket cash position over the holding period. This is a **flat projection assuming constant annual figures** throughout the holding period.

Stage 4: Investment Projection & Overall Result

The projected future value of the asset is calculated using compound growth ($\text{Proj} = \text{Cost} \times (1 + g)^Y$). The capital gain before tax is then reduced by an estimated capital gains tax liability, and the accumulated cash cost is deducted to produce an **overall net result**, expressed as either a net profit or a net loss in today's dollars.

4. Input Assumptions

The following table summarises all input fields, their role in the model, and the default values loaded on first use.

Input Field	Variable	Description	Default
Investor's Taxable Income	Inc	Salary or other ordinary income before any investment adjustment.	\$100,000
Cost of Investment Asset	Cost	Total acquisition cost including stamp duty, legal fees, and any other associated costs.	\$500,000
Assumed Capital Growth	g	Expected annual compound growth rate of the asset value. Negative values permitted.	3%
Investment Horizon	Y	Planned holding period in whole years.	7 years
Assumed CGT Rate	N/A	Effective rate applied to the capital gain to estimate CGT liability. Set to zero to exclude CGT.	20%
Deposit	N/A	Amount funded by the investor's own equity. The loan = Cost - Deposit.	\$120,000
Loan Interest Rate	Int	Annual interest rate on the outstanding loan balance, interest-only basis.	7%
Weekly Income	R	Gross weekly income from the investment (e.g. weekly rent).	\$450
Weeks Income Received	W	Number of weeks per year income is actually received. Maximum 52.	40 weeks
Investment Expenses p.a.	B	All deductible annual running costs other than interest and depreciation (e.g. rates, insurance, management fees).	\$5,000
Annual Depreciation	D	Non-cash depreciation deduction available under a quantity surveyor's report. Reduces taxable income but is added back for cash purposes.	\$1,500

5. Tax Calculation Method

The model applies the 2025–26 Australian resident marginal tax rates as published by the ATO, plus the standard 2% Medicare levy.

Taxable Income Range	Tax Calculation
\$0 to \$18,200	Nil
\$18,201 to \$45,000	16c for each \$1 over \$18,200
\$45,001 to \$135,000	\$4,288 + 30c for each \$1 over \$45,000
\$135,001 to \$190,000	\$31,288 + 37c for each \$1 over \$135,000
Over \$190,000	\$51,638 + 45c for each \$1 over \$190,000
Medicare Levy (all incomes above approx \$26,000)	+ 2.0% of total taxable income

Note on CGT: If the investment produces a capital loss (i.e. the asset sells for less than cost), no CGT is estimated. Under Australian tax law, capital losses cannot offset ordinary income; they are carried forward to offset future capital gains only. The calculator reflects this by showing \$0 CGT in a loss scenario, with a note to this effect.

6. Model Assumptions & Limitations

Users should be aware of the following important simplifications and limitations inherent in the model:

6.1 Linearity: Static Annual Figures

All input values are assumed to be **averages over the investment period**. In practice, rent, expenses, interest rates, and the investor's income will all change over time. The accumulated cash cost ($P = N \times Y$) is therefore a linear extrapolation and **not a discounted cash flow** or a year-by-year simulation.

6.2 Interest-Only Loan

The model assumes the loan is **interest-only** for the entire holding period; the loan balance does not reduce over time. Principal-and-interest repayments would result in a progressively smaller interest deduction and a different cash-flow profile.

6.3 Single Investor, PAYG Income

The tax calculation assumes a **single resident Australian taxpayer** with one source of ordinary income. It does not account for joint ownership structures, trusts, companies, SMSFs, offsets, deferred tax, HELP repayment obligations, the Low Income Tax Offset (LITO), the Low and Middle Income Tax Offset (LMITO), or any other rebate or levy or surcharge.

6.4 Capital Growth: Compound, Uniform Rate

Capital growth is modelled as a **fixed annual compound rate** applied uniformly (i.e. assumed to an average over the period of investment). Real-world property values can be volatile, regionally diverse, and subject to significant economic cycles. Past growth rates are not a reliable guide to future performance.

6.5 CGT Estimate is Indicative Only

The CGT field accepts a user-defined rate and applies it to the gross capital gain. The model does **not** automatically compute the standard 50% CGT discount available to individuals holding an asset for more than 12 months, nor does it account for cost base adjustments, indexation, or the impact of the gain on the investor's overall taxable income for the year of disposal. The default rate of 20% (which can be adjusted) is illustrative only.

6.6 Depreciation

Depreciation is treated as a fixed annual non-cash deduction. The model does not distinguish between Division 43 (capital works) and Division 40 (plant and equipment) deductions, nor does it model the diminishing value or prime cost methods. A qualified quantity surveyor's report should be obtained for accurate depreciation schedules.

6.7 No Inflation Adjustment

All figures are in **nominal (today's) dollars**. The model does not discount future cash flows to present value, nor does it adjust for the erosion of purchasing power by inflation over the holding period.

6.8 Time Value of Money

Because the model accumulates cash costs linearly ($P = N \times Y$) without discounting, it **overstates** the burden of costs incurred in later years relative to a net present value analysis.

7. How to Interpret the Results

Negative vs. Positive Gearing

- If the cash-basis net figure is negative, the investment is negatively geared; the investor is out of pocket each year.
- If positive, the investment is positively geared; the investment income more than covers all cash expenses after tax.

Before & After Tax Cash Comparison

- The “BEFORE” position shows after-tax cash if the investment is not made.
- The “AFTER” position shows after-tax cash once the investment is held.
- The difference (N) is the real annual cost or benefit to the investor.

Overall Result

The TOTAL result combines the projected capital gain, the CGT estimate, and the accumulated cash cost. A **PROFIT** result suggests the investment may be financially viable under the stated assumptions. A **LOSS** result means the modelled capital growth is insufficient to recover the ongoing holding costs, which is a signal to reassess the growth assumption, the loan structure, or the investment itself.
