Property Prosper Retire

Kevin Young

The Investors Club®

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Chapter 6

Getting started

The first thing you must aim for is to stop paying tax and instead collect the fruits of all your hard labour by creating your own wealth base.

For example, last year my income tax was 0.5 per cent. Your tax would probably have been around 35 per cent.

At my many free seminars each year I ask: "Am I a good or bad Australian?"

Occasionally I am told I am a bad Australian because everyone has to pay tax.

I point out that not only am I a good Australian but I am doing much more for the country than they are. The Australian Bureau of Statistics has calculated that every new $150,000 property creates, on average, 4.5 full time jobs per year. With the average person paying $10,000 a year in tax, this means the purchase of one property creates $45,000 in additional tax going into Canberra.

In 2002, Kathy and I purchased 32 properties: 32 x $45,000 = $1.4 million.

This is $1.4 million extra tax that went to Canberra because I elected to create my own retirement wealth. What a great deal for the tax man. In return, the government probably allowed me to take $150,000 in tax credits.

Keating was forced to repeal his poorly thought through Negative Gearing Legislation. It certainly stopped people like me from claiming those tax credits. It also stopped us from buying new properties and forced us to sell rental properties, reducing the available stock and increasing rents.

In addition, many tradesmen went from paying $10,000 a year in tax on their earnings to being unemployed and claiming the dole. This temporary hiccup in the construction industry from poor legislation created huge amounts of misery as people were laid off. The government went from receiving a lot of money to receiving very little and, in addition, having to pay out more in social welfare. A red faced Keating rushed to announce the repeal of the legislation in September 1987.

Our plan, as outlined in this book, is definitely safe from future political meddling.

Overview of the plan

The first part of this book is very simple. It is a brief overview to maintain your interest, but more importantly it will give you a quick grasp of how simple my plan is. Those wanting more detail and critical analysis will find the data substantiating the plan in the second half of the book.

(a) Pay minimal income tax

You have to be disciplined when choosing your type of property. Reject those properties advertised as "suit first home buyer or investor". This is invariably an older property and if pre-1985 cannot give you depreciation benefits on the building cost. You need these credits to reduce your tax liability. For this reason, I will show you our Property Investment Analysis (PIA) program and how it will cost you more to own an older property. Armed with this simple knowledge you will be able to buy properties that can improve your tax position.

(b) Accumulate wealth faster

You can accumulate wealth faster by making the choice not to buy older property. I personally do not like older properties as you have to pay out money week after week for maintenance and repairs. This keeps you poor. I prefer the safe, simple way to wealth that does not impact your living standards.

So you buy a property with a lot of depreciation credits that does not create a cash flow headache for you, and has the tenant paying most of the bills.

Remember, positively gearing can be positively dangerous.

(c) What you will see from the Property Investment Analysis (PIA)

The tax man and the tenant will be paying most, if not all, of your costs in owning your investment.

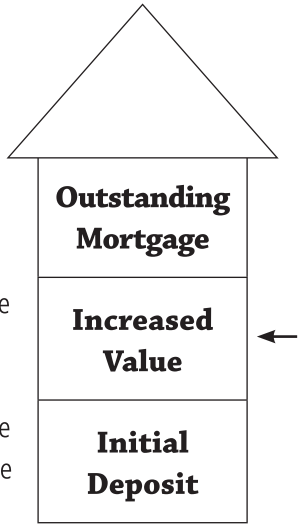
(d) Working options

In the eighth year you are ready to look at your working options. You will no longer be required to travel and work ten hours a day to pay a rapacious tax office. You could be retired and on the golf course, or in your boat fishing, or making money and enjoying making money.

How to buy a property

For most of us, our home is our main store of wealth. This is referred to as equity.

- Equity is made up of our initial deposit, the capital portion of mortgage repayments, and growth – the increase in the value of the property since it was purchased.
- Use this equity as security for the deposit on a new or post-1985 property.



The equity in your home is made of: Increased Value and your Initial Deposit

50 per cent of you reading this book will be paying off your own home. 50 per cent of you won't be in that position but will be saving to do so. Don't!

Your home is not your castle. In fact, it is your poverty pit. You have to work and earn $100, then pay $30 tax, just to have $70 to put towards your mortgage.

As the diagram shows for those who own their own home, the value of your property has increased. If this increased value was cash in the bank you would be expecting a return on this money to help you towards a happy retirement.

95 per cent of people are too scared to do anything and think that they are risking their house if they use it to invest. And they are.

That is why careful research must go into the ups and the downs of your potential retirement vehicle. This book will warn you of the traps associated with property.

What if you don't "risk" your home to buy a property? You do not enjoy its growing wealth. You instead retire poor in an aging home draining you of cash to pay rates, repairs and maintenance. A dangerous plan is to do nothing.

At my workshops, I occasionally meet people who are in their late fifties who just own their own home, yet they are not panicking even at this late stage of their life.

Summary

- Be brutally honest with yourself in acknowledging that you do have a financial problem.
- 95 per cent of people do not confront the reality of their financial situation and float through life from crisis to crisis.
- Once you accept you have a problem, you have to come up with a plan. Many people come up with plans that simply do not work.
- Always test your plan before you execute it.
- The Investors Club plan is based on accumulating wealth through property investment.

Real life success stories

David Macefield

I bought my first Club property in September 2003. At the time, I could only afford to buy a property in Perth as the Sydney and Queensland property markets were out of my reach. I had never been to Perth and here I was about to invest in an area I didn't know.

To most, this would be a nerve-wracking time. However, I had been a member of the Club for a number of years and was totally confident investing with The Investors Club. What impresses me the most about the Club is the total package that is provided, especially the work of the researchers.

Buying the right property to maximise capital gain is what enables you to buy multiple properties.

Well done to Kevin Young and everyone involved with The Investors Club for steering me in the right direction to financial independence.

Joe and Marianne Sacca

Marianne and I started investing in residential property even before we got involved with The Investors Club, but it was only when we discovered the Club and Kevin Young's plan that we started to move ahead.

We have always tried to educate our children about investing. They feel that they are quite lucky to have had the knowledge passed onto them at an early age.

A few years ago we were discussing how difficult it was becoming for the younger generation to achieve the great Australian dream of owning your own home. Our eldest son Daniel was only 17 when we advised him how to get started.

We told him that if he wanted to get somewhere he would have to become an investor before he became an owner-occupier, perhaps living at home a bit longer or sharing a house with others to save money. We helped Daniel with his first investment property purchase by lending him some of our equity. He has now purchased his third property, with the last two properties through The Club. We have also recently helped our younger son purchase his first property through the Club at the age of 19.

It is much easier funding an investment property where the tenant is contributing by paying rent and the government helps with tax deductions. Buying your own home means you do not get any help making your mortgage payments, nor any deductions such as depreciation, maintenance and interest.

Purchasing your own home can be a rather heavy burden on your lifestyle and can prevent you from investing for a very long time. So whether our children decide to just keep purchasing investment properties, or at a later stage consider buying a home to live in, it will be their own choice.

However, if they decide to keep investing they will have the security behind them even if they never purchase their own home to live in. This disproves the general myth that most young people will never be able to own property. On the contrary, it can be achieved with the right strategy and a little help.

The Investors Club has helped us become successful and by becoming support members it has enabled us to pass on our knowledge and experiences to make other members successful too.