Borrowing to Invest

Borrowing to invest, also known as 'gearing,' can help you to grow your wealth by having more money working for you, but it's not without risk.

The more you borrow, the greater the risk becomes as you have to repay the loan regardless of the performance of the investment. However borrowing to invest can be a tax-effective strategy, as the interest on borrowings for investments is usually tax-deductible. The strategy usually involves borrowing money to invest in shares or an investment property. If you are thinking about borrowing to invest it's important to understand whether the investment will be negatively or positively geared.

Negative gearing

Negative gearing occurs when the expenses associated with an investment (such as interest on the loan or other expenses) are greater than the income generated from the investment (such as rental income or dividends). The loss can be used to reduce your taxable income, which in turn will reduce the amount of tax you pay to the government.

Positive gearing

Positive gearing is where the income generated from the investment is greater than the expenses associated with the investment.

While this means you will benefit from additional funds, the income generated from the investment will be added to your net taxable income, which means you will pay more tax.

Risks of borrowing to invest

Borrowing to invest can be risky, and it's not suitable for everyone. So it's important to seek professional advice before deciding whether it's the right strategy for you.

Some key considerations to minimise risk:

- Only borrow what you can afford to repay.
- Diversify your investments.
- Invest in quality growth assets.
- Ensure your strategy is consistent with your risk profile.
- Invest for the long term to allow your assets enough time to generate adequate capital growth.

To find out more about investing please contact Geoff Sharpe on 07 3831 8598 or geoff@sharpefinancialsolutions.com.au.