



Strategy 7 Offset your investment loan to retain cash-flow efficiency

If you have paid off your home loan, you can consider putting your emergency cash reserve in a 100% offset account linked to your investment loan.

What are the benefits?

By using this strategy, you could potentially:

- earn a higher after-tax return than a cash account, and
- withdraw the money for any purpose without affecting the tax deductibility of the loan.

How does the strategy work?

While you are still paying off your home loan you might want to hold your emergency cash reserve in your home loan or a 100% offset account linked to your home loan.

But what should you do if your home loan has been repaid and you only have an investment loan?

Holding your emergency cash in your investment loan or 100% offset account linked to your investment loan, could enable you to earn a higher after-tax return than using a separate cash account.

But if you want to access the money for non-investment purposes, paying it into a 100% offset account linked to your investment loan is likely to be a more tax-effective alternative than paying it into the investment loan itself.

The reason is that, because an offset account is separate from your investment loan account, you can make repayments (and access them if required), without affecting the size of the investment loan or the tax deductibility of the interest.

Conversely, if you pay money into the investment loan itself, you'll reduce the size of the loan and if you redraw the money for non-investment purposes, you can't claim the interest on the redrawn amount as a tax deduction.

This means you could end up in a situation where part of your interest is tax deductible and the rest is not (as the following case study shows).

- 1 Withdrawals for non-investment purposes are not tax deductible and generally do not impact on the tax deductibility of the interest for the portion of the loan for investment purposes.

	Investment loan	100% offset account linked to an investment loan
Can you access your emergency cash for any purpose?	Yes	Yes
Do withdrawals for non-investment purposes reduce the tax deductibility of the loan?	Yes	No ¹

For more information contact:

Your financial advisor or Equilibria Finance: support@equilibriafinance.com.au | www.equilibriafinance.com.au

Note: This is for general information purposes only and does not constitute advice. With all of these options there are a number of considerations outside the scope of what is covered in this article that you need to understand to ensure your personal circumstances are taken into consideration.





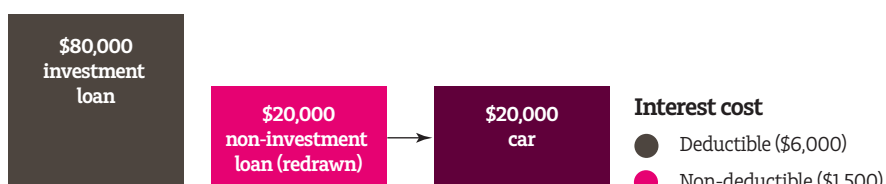
Case Study 7 | Offset your investment loan to retain cash-flow efficiency

After paying off her home loan, Laura, aged 45, used some of the equity in her home to set up an interest-only investment loan for \$100,000 and invested in a managed share fund. The interest rate on the investment loan is 7.5% pa.

She recently received an after-tax bonus of \$20,000 from her employer. She plans to buy a car in 12 months and wants to know what she should do with the money in the meantime.

If she pays the bonus directly into her investment loan, the balance will drop to \$80,000. However, when she redraws the \$20,000 to buy her car, she won't be able to claim the interest on this part of the loan as a tax deduction. As a result, she'll end up with a mixture of tax deductible and non tax deductible debts.

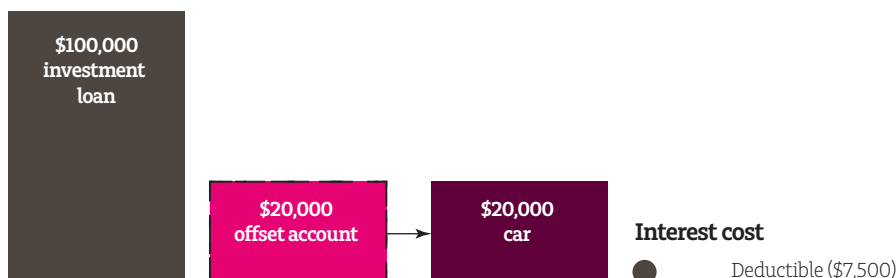
After withdrawing \$20,000 from investment loan



After assessing her goals and financial situation, Laura's financial adviser and mortgage broker in consultation suggest that she pay the bonus into a 100% offset account linked to her investment loan. By doing this, while her investment loan will stay at \$100,000, she'll save the same amount of interest. This is because interest is only payable on the difference between her loan account and the offset account (ie on \$80,000).

Also, when she withdraws the \$20,000 from her offset account to buy her car, the size of the investment loan will not be affected and the interest payments should continue to be fully tax deductible.

After withdrawing \$20,000 from offset account



Note: This case study illustrates the importance of speaking to a financial adviser and mortgage broker if you have an investment loan and want to know where you should hold any spare cash tax-effectively. They can also address a range of potential issues and identify other suitable strategies – see Tips and Traps.

Tips and traps

- To use this strategy, your investment loan must have a 100% offset account. If your current loan does not have this facility, you should check with your lender to see if it can be added.
- In many cases, the lender will only allow an offset account for the variable rate portion of the loan.
- Line of credit facilities don't generally offer a 100% offset account. Even if a personal sub-account is in credit, the lender may not offset this against the outstanding investment loan sub-account.
- If you need to borrow money for a non-investment purpose and don't have an offset account, it's usually better to borrow using a separate loan rather than redraw from your investment loan. This way it's easier to keep track of your deductible and non-deductible interest costs.
- If you have debt, you should ensure you have enough insurance to protect your income and enable the loan to be repaid in the event of your death or disability.

Important note: You should not enter into an investment loan arrangement if the dominant purpose of doing so is to obtain a tax benefit. Some structures have been considered by the ATO as being tax avoidance schemes and therefore you should consult with your financial adviser and a registered tax agent before entering into any new arrangement. We are not a registered tax agent.

For more information contact;

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