

RSM FINANCIAL

Offset
Accounts



Offset Accounts

Offset accounts are similar to your normal everyday savings or spending account, but with one big advantage. The money held in this account offsets the balance of your mortgage and this reduces the interest you pay each month. Effectively, offset accounts act in the same way as a redraw facility attached to a loan, but with one big difference, the loan is never repaid!

Offset Accounts - A benefit in more ways than one

Now think into the future. If you were in a financial position where you could keep your family home as an investment property and purchase a new family home to accommodate your changing needs, would you?

Yes is the answer for a lot of people but many dismiss the idea because it seems too farfetched! Now think about retirement.

A benefit most don't consider

Offset accounts never repay the loan but allow you to reduce the interest component as if you had repaid the loan. When you purchase the new family home or are downsizing most people need to borrow more because the debt would be paid off. Consequently, any new borrowings associated with that property are not tax deductible as the purpose of the new loan is for the new primary residence.

However, by using offset monies in replacement of a new loan for the purchase or part thereof it reduces the need to borrow additional non-deductable debt. The purpose of the debt attached to the old primary residence is now tax deductible, as this home has been converted into an investment property.

Why is this a benefit?

As the loan was never reduced due to repayments being held in the offset account, it allows the use of these monies for the purchase on the new family home without added borrowing. The purpose of the loan and property never changed, which converts the deductability of the loan as the old home is used for investment purposes!

If the loan had been repaid, and the monies accessed through a redraw facility, there would be no ability to create a tax deduction. The reason is that when you redraw monies to buy a new home, the purpose of redraw (borrowing money), is for a new principle residence. The tax office view the redrawn monies as borrowing associated with the new property, not the old family home. The loans purpose is not to generate an income and therefore is not tax deductible!

Case Study

RSM Financial suggest to Matt and Kate that they consider the power of offset accounts. In addition, RSM Financial set Matt and Kate the goal of saving \$150.00 per week. Matt and Kate, know that this is achievable from the software provided and the budget they set for themselves. Matt and Kate ask RSM Financial for advice and help in implementing this course of action.

New Loan Structure

Home Loan P&I 3.85%	\$497,000 \$2,271 P/M
Credit Card & Personal Loan 3.85%	\$12,000 \$300 P/M
Car Loan P&I 3.85%	\$17,000 \$550 P/M
Total Borrowing capacity	\$780,000.00
Total Debt	\$526,000.00
Total Monthly Repayment	\$3,121

Assets & New Offset Acc

Principle Residence	\$980,000.00
Joint Offset Acc	\$7,153
Superannuation	Matt \$65,000 Kate \$38,500
Matt Shares	\$12,500
Kate Offset Acc	\$22,500
Matt Offset Acc	\$12,500

The Benefit of Budgeting & Offset Accounts

Savings in 15 years \$159,153.00

Safety Net \$244,000

Interest Saving \$255,419
(life of loan)

Ability to Repay 100%
of the loan 13 years earlier



RSM

FINANCIAL

GET IN TOUCH!

RSM FINANCIAL

Address, 380-382 CANTERBURY RD, SURREY HILLS VIC 3127

Phone 03 9276 0908

Email financialservices@rsmgroup.com.au

Web www.rsmfinancial.com.au

RSM FINANCIAL PTY LTD IS A CORPORATE AUTHORISED REPRESENTATIVE (NO.250998) OF CAPSTONE FINANCIAL PLANNING PTY LTD. ABN 24 093 733 969. AUSTRALIAN FINANCIAL SERVICES LICENCE NO. 223135.

INFORMATION CONTAINED IN THIS DOCUMENT IS OF A GENERAL NATURE ONLY. IT DOES NOT CONSTITUTE FINANCIAL OR TAXATION ADVICE. THE INFORMATION DOES NOT TAKE INTO ACCOUNT YOUR OBJECTIVES, NEEDS AND CIRCUMSTANCES.

WE RECOMMEND THAT YOU OBTAIN INVESTMENT AND TAXATION ADVICE SPECIFIC TO YOUR INVESTMENT OBJECTIVES, FINANCIAL SITUATION AND PARTICULAR NEEDS BEFORE MAKING ANY INVESTMENT DECISION OR ACTING ON ANY OF THE INFORMATION CONTAINED IN THIS DOCUMENT.

SUBJECT TO LAW, CAPSTONE FINANCIAL PLANNING NOR THEIR DIRECTORS, EMPLOYEES OR AUTHORISED REPRESENTATIVES, DO NOT GIVE ANY REPRESENTATION OR WARRANTY AS TO THE RELIABILITY, ACCURACY OR COMPLETENESS OF THE INFORMATION; OR ACCEPTS ANY RESPONSIBILITY FOR ANY PERSON ACTING, OR REFRAINING FROM ACTING, ON THE BASIS OF THE INFORMATION CONTAINED IN THIS DOCUMENT.