

Fact Sheet

Offset v Redraw

Our resident CPA Accountant Adrian Sibbick of Hudson Financial Pty Limited has provided the following advice regarding the subtle difference between redraw and offset facilities.

This should strictly be considered as general advice and your individual circumstances may differ. We therefore recommend you speak to your accountant or financial planner for your own personal advice.

1. REDRAW OPTION

You can make additional repayments directly into the loan account at which time you will be able to redraw the funds at a later date. This is your traditional home loan.

The Purpose Test

When you redraw funds you need to advise the ATO whether the purpose of the redraw was for investment or personal use.

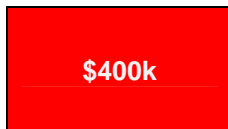
If you currently have a mortgage on your residential property it is a good idea to pay it off as quickly as you can. With most mortgages you can make extra repayments in one of two ways:

2. OFFSET OPTION

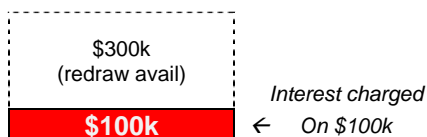
You can place the money in an offset account linked to the mortgage. An offset account is linked to your home loan. The amount in your offset account reduces the amount of interest payable on the linked loan. For example a \$400,000 loan with \$300,000 cash in an offset account will only need to pay interest on the \$100,000 (See Figure 1 below).

EXAMPLE – With Redraw

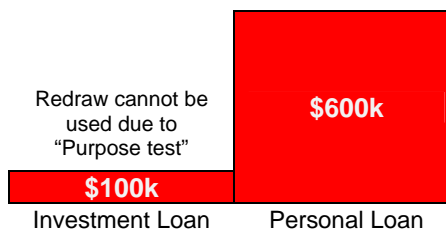
Start with an Original Loan of \$400k



Assume years go by and you have Repaid \$300k



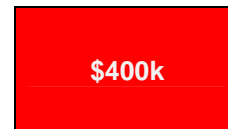
Now you want to buy for \$600k and keep both Purpose of \$600k to buy a personal residence



Total Debt is \$700k – you could potentially claim the interest on the \$100k investment loan only

EXAMPLE – With an Offset Account

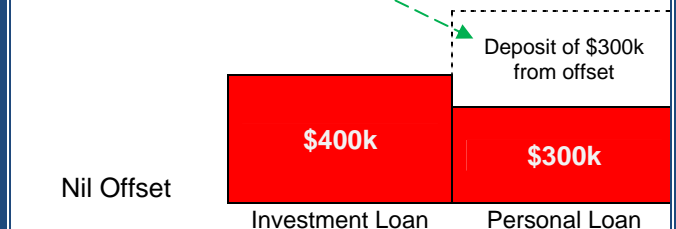
Start with an Original Loan of \$400k



Assume years go by and you have Repaid \$300k



Now you want to buy for \$600k and keep both Purpose of \$600k to buy a personal residence



Total Debt is \$700k – you could potentially claim the interest on the \$400k investment loan