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Mortgage Interest Offset Accounts

How does a Mortgage Interest Offset account work?

A Mortgage Interest Offset account is a savings account which is linked to your home or investment loan. The balance of the savings account is offset against the balance of your loan account, resulting in Interest being calculated on the net amount outstanding.

For example, if you owe $300,000 on a home loan, and you have $20,000 in a mortgage interest offset account, the bank will calculate interest based on $280,000.

Importance of using a Mortgage Interest Offset account

The importance of an offset account relates to ensuring you can obtain the maximum deduction for interest expenses related to a rental property.

For example, if you change homes due to a franchise move, and choose to rent out your family home, it is important to NOT redraw any money out of your current home loan for personal use, even if you are ahead on repayments.

The reason for this is that any redraws which are not used for the property are deemed private. The interest on the redraw portion will not be tax deductible.

The use of an offset account allows you to contribute your Harvey Norman quarterly distribution cheques into the offset account of your home loan, reducing the interest to be calculated, without affecting the actual home loan balance.

If you previously used an offset account for your deposits, the balance of the offset account can be taken or even transferred to the offset account for your new home loan, therefore reducing the interest payable on your private home.

This is valuable as interest on your private home loan is not tax deductible.

Please note, the Australian Taxation Office pays particular attention to interest deductions for rental properties.

Please call McDonald Ross on 02 9262 5566 if you have any questions.