Is it in your interest TO PREPAY INTEREST?

If you own an investment property prepaying your interest can be a great way to maximise your tax deductions, however there are a few factors you need to consider before taking action.

1. In the majority of instances you can only prepay your interest if you have an interest only investment loan.
2. The maximum period you may prepay your interest in advance is 12 months.
3. Prepaying your interest will allow you to claim additional tax deductions in the year of payment, reducing your taxable income and tax payable. However in order to maintain this ongoing tax deduction you will need to continue prepaying your interest. No deduction will be claimable in the year you stop prepaying your interest.

The most important consideration in determining if you should prepay your interest is your current income and your expected income for the following year.

If you expect that changes to your income will place you in a higher marginal tax rate, then it is most likely that there is no benefit in prepaying your interest.

However if you expect that your income will place you into a lower marginal tax rate in the following year, for example if you are planning on taking an extended period of leave, then there is most likely to be a financial benefit equating to the difference in marginal tax rates.

The benefit of prepaying your interest will be partially offset by the cost associated with withdrawing the interest amount from your account.

Other expenses such as insurance, council rates, strata fees and water rates may also be prepaid and claimed as a tax deduction.

Call the office today if you would like to discuss the prepayment of your interest.