

# Have you ever heard of a *'Home loan offset account?'*

Many lenders in Australia will offer this as a feature or a bonus of their home loan packages, but what is it? And how does it compare to using a high interest savings account?

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The key difference between a home loan offset account and high interest savings account lies in what you receive vs. what you pay.

Let's take a couple, Mr and Mrs X, they have a mortgage on their home of \$350,000 at 4.20% pa. The plan is for them to save money, hopefully up to \$100,000 and then use this to help propel them into a bigger home to live.

*Should they save their money in a high interest account or an offset?*

Well, a savings account would give them a return on their money, they could probably find an account that would pay 2% pa. on their balance, and so by having \$100,000 they would receive an extra \$2,000 per year just in interest from the bank. That's not bad!

An offset account though, linked to their home loan, would actually save them 4.20% interest on their monthly repayments. The amount saved is based on how much is in the offset account, for example, if they had saved the same \$100,000 in offset instead, they would save \$4,200 worth of interest on their home loan.

*So, what happens to this money?*

It is deducted from the capital value of the home loan. Meaning that the home loan is now \$4,200 lower than it would have been if they saved this money elsewhere.

In this example, Mr and Mrs X are better off by \$2,200 because the interest on a home loan is higher than that of a savings account, but it gets even better!

The interest received is taxable income, so if this couple are both earning a wage and paying tax at say, 30% then the \$2,000 of interest also gets taxed at 30% and so they only end up with \$1,400 in their pocket.

The interest saved by having an offset account is not taxable in any way! Therefore, Mr and Mrs X are in fact, **\$2,800** better off just in one year of using an offset vs a high interest savings account!

This example makes it clear that an offset account can be a better option for Mr and Mrs X. However your situation may be different.

We encourage you to research your options when looking at where to place your savings or additional funds, and contact us if you need expert advice on budgeting, investing, taxable income or any other financial planning need.

**Contact us today:**

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