

> INVESTOR

The good debt, bad debt and the tax man

The ATO has done investors a favour with its decision on Austral's split purpose loans.

SENDING a shiver down the spine of every investor who had been claiming interest on interest, the Tax Office 10 years ago clamped down on a split purpose loan from Austral Mortgage that let you pay off the house quickly while the line of credit for investments was allowed to capitalise.

It's since come and gone to court and I've been meaning to get back to you. My how time flies.

Well, you can relax.

The ATO has put out an "interpretative decision" – which in its words can be incorrect, amended or repealed, but let's not quibble – prompting Austral to rejig the loan.

As the saying goes, every cloud has a silver lining. Or since we're in a drought make that every blue sky has, well, a cloud.

Anyway, quite by chance the ATO has done investors a favour, because the new version with one loan for the home and another for an investment has no minimum repayment at all, so long as you don't go over your overall credit limit.



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Even though it means you can pour all your repayments into the home loan side, paying it off years sooner, and let the interest on the line of credit capitalise, that seems to suit the ATO just fine.

Its objection before was that there was a compulsory minimum repayment, as is usual with a mortgage, which somehow or other made it contrived.

So now there's a split purpose loan where you can choose for yourself how much you want to pay, when, and on which part.

In the wrong hands it would be lethal, but for a disciplined investor it opens up a new tax shelter with water views and all.

The key is postponing good debt and paying off bad debt. The interest on good debt is tax deductible because it's earning an income.

Bad debt is your typical home loan because it doesn't produce income – true, it can save money, but then you could also argue it's more a liability – so the interest isn't a tax deduction.

The quicker you can get rid of the bad debt the better. And the more you can claim on the good debt, the easier it'll be.

You can use the rent you get to pay off the home rather than the investment loan, as well as the tax savings from the extra interest you haven't paid, just postponed, but can still claim.

Once the home loan is paid off, years ahead of time, you can then attack the investment loan with gusto.

Certainly the norm of having a mortgage on the home, plus an interest only loan or line of credit for the investment property, means you're paying more tax than you should.

For once you don't have to pay for the privilege of cutting your tax either. The Austral split loan rate is 7.67 per cent, more than a rate cut below the standard variable.

And you just have to love the irony that no minimum repayments makes the loan legit, yet pumping all you can into it brings the biggest tax breaks.