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## **Making the Most of Your Home and Investment Loans**

### **Understanding Offset Accounts, Redraw Facilities, and Cash-Out Options**

When it comes to managing your mortgage effectively, the right loan features can make a big difference to both your **cash flow** and your **tax position**.

Three of the most commonly discussed tools are the **offset account**, **redraw facility**, and **cash-out option**.

While they all provide ways to manage your funds, they operate very differently, and understanding when and how to use each one can save you significant money and tax complications in the long run.

### **1. For Your Own Home (Principal Place of Residence)**

#### **Offset Account**

An offset account is a transaction account linked directly to your home loan. The money you hold in the offset reduces the amount of interest charged on your loan balance.

#### **Example:**

If your home loan is \$600,000 and you have \$100,000 in your offset account, interest is only charged on \$500,000.

#### **Benefits**

- **Reduces interest payable** while keeping your money fully accessible.
- **Maximises flexibility:** funds can be withdrawn at any time without affecting your loan structure.
- **Protects future deductibility:** if you later convert your home into an investment property, your loan balance remains intact, allowing potential future tax deductions on interest.

#### **Considerations**

- Offset loans may carry slightly **higher interest rates or annual package fees**.
- Because the funds are accessible, it requires **discipline not to spend** the savings.
- Does not automatically reduce the principal unless you make additional repayments.

#### **Best suited for:**

Homeowners who want **flexibility**, plan to **build savings**, or may **convert their home into an investment** later.

#### **Redraw Facility**

A redraw facility allows you to access any **extra repayments** you've made above the minimum required loan repayment.

#### **Benefits**

- Extra repayments directly **reduce your loan principal** and interest.
- **Simple and automated** — great for those who like to make regular additional payments.
- Usually **fee-free** and included with most variable loans.

#### **Considerations**

- **Access restrictions** may apply — some lenders delay or limit redraws.
- **Contamination risk:** if you later redraw funds for personal use and the property becomes an investment, part of your loan may become **non-deductible** for tax purposes.
- Redraw balances are not separate accounts, so tracking purposes can be complicated.



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**Best suited for:**

Borrowers who want to **reduce their debt quickly** and have **no plans to convert the property** into an investment in future.

**Cash-Out (Equity Release)**

Cash-out involves refinancing or increasing your loan to access available equity in your home.

**Benefits**

- Provides **structured access to equity** for renovations, investments, or other goals.
- Can be managed as a **separate split** to keep different loan purposes clear.
- Offers flexibility in using your property's growth to fund new opportunities.

**Considerations**

- **Purpose matters:** lenders require a clear explanation of how the funds will be used.
- **Interest is not tax-deductible** if the funds are used for personal purposes.
- Can increase borrowing risk if not managed carefully.

**Best suited for:**

Homeowners seeking to **renovate, invest, or leverage their property** for strategic financial goals.

 **2. For Investment Loans**

**Offset Account**

Offset accounts can also be attached to investment loans. They work the same way but have unique tax advantages for investors.

**Benefits**

- **Reduces interest** while maintaining the loan's full balance, ensuring the **entire interest remains tax-deductible**.
- Enables investors to **hold rental income or surplus cash** while keeping investment debt efficient.
- Keeps **borrowed funds and personal cash separate**, simplifying accounting and ATO compliance.

**Considerations**

- May incur slightly **higher interest or fees**.
- Requires good discipline to avoid using offset funds for personal expenses.

**Best suited for:**

Investors wanting to **maximise tax efficiency** and maintain **liquidity** for future purchases or expenses.

**Redraw Facility**

While redraws can reduce interest on an investment loan, they can also create serious tax issues if misused.

**Benefits**

- Allows **extra repayments** to reduce interest and shorten the loan term.
- Convenient and automatic if used correctly.



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### Considerations

- **Purpose drives tax outcome:** if redraw funds are used for personal reasons (e.g. holidays, cars), the interest on that portion is **no longer deductible**.
- Mixing investment and personal redraws creates **“mixed-purpose loans”** — complex to track and calculate for tax purposes.
- **ATO scrutiny:** redraw activity must align with the income-producing purpose of the loan.

### Best suited for:

Investors who strictly use redraws for **investment-related expenses** and maintain **separate loan splits** for each purpose.

### Cash-Out (Equity Release)

Investors commonly use cash-out to fund deposits, cover purchase costs, or finance renovations on income-producing properties.

### Benefits

- Enables **portfolio growth** using existing equity.
- Keeps different purposes **cleanly separated** when structured as individual loan splits.
- Interest on funds used to **generate income** is **tax-deductible**.

### Considerations

- Lenders will assess and verify that the **cash-out purpose** is legitimate and investment-related.
- If used for personal purposes, the interest becomes **non-deductible**.
- Over-borrowing can increase exposure to rising rates and market fluctuations.

### Best suited for:

Investors seeking to **expand their portfolio, renovate investment properties, or diversify into other income-producing assets**.

### ✿ Summary Comparison

Feature	Own Home (PPOR)	Investment Property
<b>Offset Account</b>	Reduces interest while keeping funds accessible. Ideal for future flexibility and debt recycling.	Reduces interest without affecting deductibility. Keeps funds clean for ATO compliance.
<b>Redraw Facility</b>	Useful for debt reduction but risky if the home may later become an investment.	Avoid personal redraws — can break deductibility and complicate tax records.
<b>Cash-Out</b>	Access equity for renovations or investing; must justify purpose.	Powerful tool for expanding a portfolio if used solely for income-producing purposes.



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### **Key Takeaways**

- **Offset accounts** offer maximum flexibility and are generally the best long-term structure for both home and investment loans.
- **Redraw facilities** can help reduce debt faster but should be used carefully, especially if the property might later be rented or sold.
- **Cash-out** is a valuable tool for leveraging equity, but the **purpose of funds** must always be clear and well-documented for tax purposes.
- When in doubt, **keep personal and investment purposes separate**, ideally using different loan splits or offset accounts.

### **Final Thought**

Small structural differences in how your loan is set up today can have **significant tax and financial consequences in the future.**

Before making changes or accessing funds, it's worth reviewing your structure with your **financial adviser, mortgage broker, or accountant** to ensure it aligns with your goals and remains tax-efficient.