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Redraw vs Offset

Pros and Cons + Tax Implications

A **Redraw** refers to a feature available on many Australian home and investment loans that allows you to withdraw (or "redraw") any extra repayments you've made above the minimum required repayments.

How Redraw Works

When you make extra repayments on your home loan:

- Those extra payments reduce your loan balance (and interest charged).
- But they're still accessible — you can "redraw" them if needed (e.g., for renovations, emergencies, investing).

Benefits of Redraw

- **Interest savings:** Extra repayments reduce your loan balance, saving interest over time.
- **Flexibility:** You can access these funds later.
- **No tax implications:** Redrawing from your own home loan for personal use is not taxed (but see traps below).

Redraw Traps

1. **Restricted access:** Some lenders limit how much or how often you can redraw.
2. **Online vs manual redraw:** Some banks only allow redraws through certain channels.
3. **Mixing personal/investment use:** For investment loans, redrawing funds for personal use can compromise tax deductibility of the interest.
4. **Offset vs Redraw:** Funds in an **offset account** are more flexible and instantly accessible without affecting loan purpose, better for tax and liquidity.

Tip for Property Investors

Using your redraw facility from an investment loan for **personal expenses** can **taint the loan**, meaning part of the interest may no longer be deductible. In this case, an **offset account** is safer for tax integrity.



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An **offset account is a transaction account linked to your home or investment loan. The money in this account offsets your loan balance when interest is calculated.**

🔧 How It Works:

If your loan balance is \$500,000 and your offset account has \$50,000, you only pay interest on **\$450,000**.

Benefits of an Offset Account

Feature	Offset Account
Interest Savings	Reduces interest by offsetting the balance daily
Full Access	Money is yours, deposit and withdraw freely like any bank account
Tax Efficiency	Ideal for investment loans, doesn't "taint" deductibility if used properly
Flexible Structure	Can be used for budgeting, multiple accounts (in some cases)
No Need to Redraw	Funds remain liquid and do not require lender approval to access

Offset Account Considerations

- **No interest earned:** You don't earn interest; instead, you save interest on your loan.
- **Fees may apply:** Some loans with offset accounts have higher fees or rates, compare carefully.
- **Discipline required:** You must avoid withdrawing offset savings unless necessary to preserve benefit.

Offset vs Redraw: Quick Comparison

Feature	Offset	Redraw
Access	Immediate & full	May be restricted or delayed
Tax Efficiency (investment loan)	✅ Safe	❌ Risk of tainting deductibility
Saves Interest	✅ Yes	✅ Yes
Ease of Use	✅ Like a normal account	❌ Sometimes clunky
Best for	Ongoing access + tax planning	Making extra repayments to reduce debt faster



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Pro Tip (especially for property investors):

Use **an offset account** to hold funds for future use (e.g. another deposit, reno, emergency buffer), this **keeps your interest tax-deductible** on the original loan and avoids messy redraw history.

Tax and Offset vs Redraw – What You Need to Know

Feature	Offset Account	Redraw Facility
How interest is calculated	Loan balance minus offset balance	Loan balance minus extra repayments
Is interest on the loan still deductible?	✔ Yes , if the loan is for investment and not changed	✘ Maybe not , if you redraw for personal use
What happens if funds are withdrawn?	No impact on tax deductibility	Taints the portion of loan used for private purposes
ATO scrutiny	✔ Safer — no change to the original loan purpose	✘ High risk — redraw changes the nature of loan use
Best for investment property loans?	✔ Yes — keeps purpose and deductions clean	✘ Only safe if redrawn for investment use again

Example: Investment Loan Scenario

Offset Account

- \$500,000 investment loan
- \$100,000 in offset → Interest charged only on \$400,000
- You **can withdraw** that \$100k at any time, no tax issues, and **loan remains fully deductible**

Redraw Facility

- \$500,000 investment loan
- You make \$100k in extra repayments
- You **redraw** \$50k later to buy a car (private use) → **Now only 90% of the interest is deductible**
(because 10% of the loan is used for private purposes)

Key Tax Insight

The ATO doesn't care *where* you got the funds from, they care *what you use them for*.

So, if you redraw for **non-investment purposes**, part of your loan becomes **non-deductible**, and it can't be "re-deducted" later.



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General Recommendation

- Use **offset accounts** for storing funds you might need later - no tax consequences.
- Use **redraw** only if you are disciplined and understand how your redraws affect deductibility.

Scenario Setup

- **Loan:** \$500,000 Investment Loan
- **Property:** Positively geared investment property
- **Offset account:** \$100,000 cash
- **Future goal:** Use funds for a deposit on another investment or personal purchase (e.g. car, reno)

Recommended Loan Structure (Split Loan Strategy)

Split	Amount	Purpose	Offset Attached?	Interest Deductible?
Loan Split A	\$400,000	Current investment property	✔ Yes	✔ Fully deductible
Loan Split B	\$100,000	Flexible future use	✔ Yes	✘ Deductibility depends on how funds are used

Strategy:

- Park the **\$100k cash in Offset B** (not against full loan) to reduce interest.
- You haven't made extra repayments, so the **loan's original purpose stays clear**.
- If you need to withdraw \$50k, you simply **spend it from the offset**, not redraw, avoiding loan contamination.

Why Not Just Use Redraw on a Single Loan?

If you put \$100k into extra repayments and later redraw \$50k for a personal holiday:

- 10% of your loan is now for **private use**.
- You lose that portion of deductibility.
- You'll need to apportion interest going forward, often a record-keeping nightmare.



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ATO-Backed Rule of Thumb:

Tax deductibility is determined by the purpose of the borrowed funds, not where the funds came from.

So:

- **Offset = cash** = your money → Spend it how you like, no tax issues.
- **Redraw = loan money** → If used for personal purposes, deductibility is lost on that portion.

Summary Tips:

1. Use **offsets for future flexibility**.
2. Use **loan splits** to isolate investment purposes.
3. Never **redraw from an investment loan** for private expenses.
4. Consider **personal budgeting** around your offset to stay disciplined.

I hope this information was helpful, if you need assistance please contact me, I am here to help.