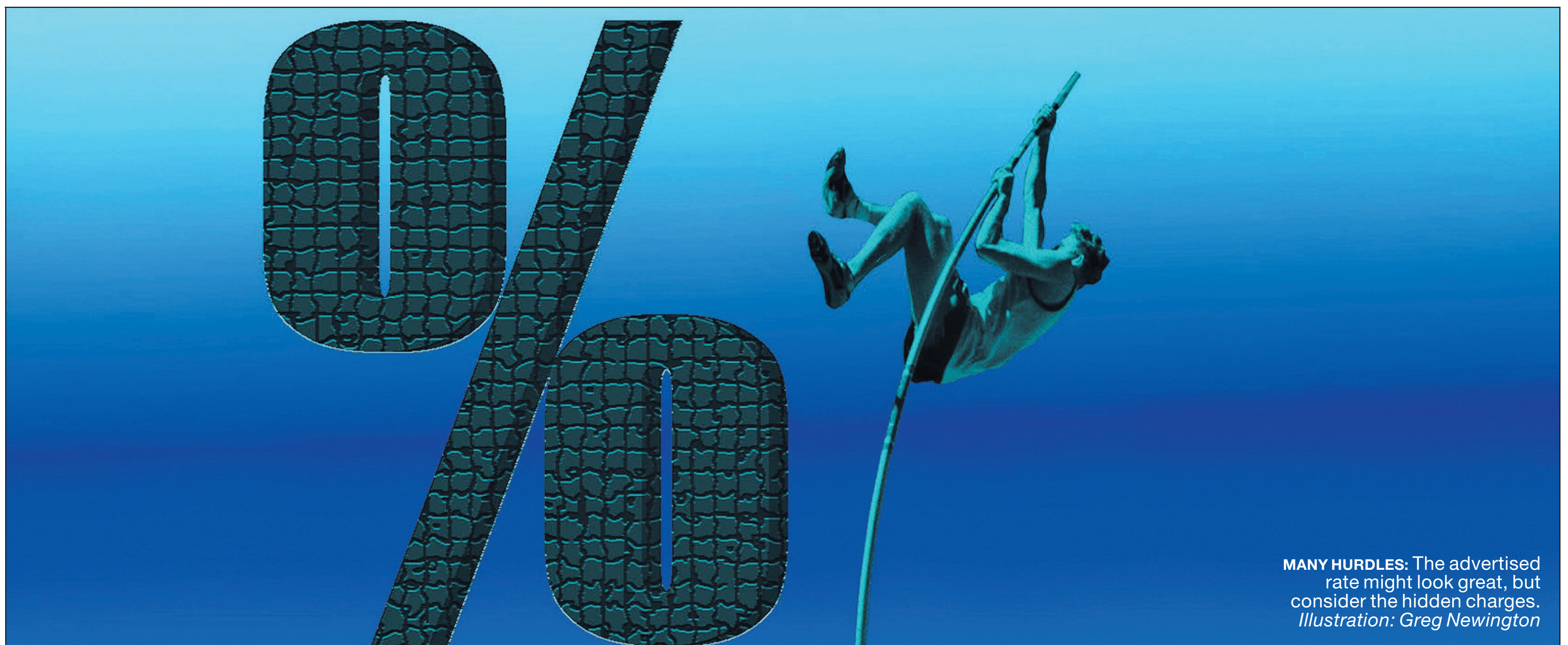

MANY HURDLES: The advertised rate might look great, but consider the hidden charges. *Illustration: Greg Newington*

Beat banks at their own game

Choosing the best home loan product is much more than ticking boxes.

NOEL WHITTAKER

INTEREST rates are at record lows, with some economists predicting they will go even lower.

Consequently, the papers are full of advertisements for cheap home loans. This begs the question of whether you should stick with a variable rate, or move to a fixed one.

On the face of it, fixed rates look attractive.

After all, how could you go past the Commonwealth Bank's latest offer of 4.99 per cent, fixed for five years? But, look at the ad closely and you will see, next to it, the comparison rate: 5.62 per cent. This is the true rate when all the fees and charges are factored in.

Let's start again, and go to ratecity.com.au, where hundreds of lending products are compared. There, you will find UBank offering a no-frills 4.62 per cent variable rate loan, with the cream on the cake being that 4.62 per cent is also the comparison rate. No hidden fees and charges here.

Unfortunately it's not as easy as it sounds. If you dig a little deeper, you'll find that UBank requires at least 20 per cent deposit, and the loans are only available for PAYG earners. This eliminates a large share of the potential market.

This highlights the challenges faced by anybody seeking a home loan because for most, their only source of research will be newspaper advertisements and the internet.

When deciding whether to go fixed or variable, keep in mind that the banks employ teams of economists and actuaries to determine the level of the interest rates they are prepared to offer. Anybody locking in to a fixed rate is taking a bet against the bank.

It's a fact that more than 80 per cent of people who took out fixed rates in the past 10 years would have been better off choosing a variable rate. This means the banks have been the winners in 80 per cent of cases. Your chance of beating the banks is just 20 per cent.

To get an idea of the type of loan that is most suitable for you, think about the next 10 years. Most fixed rate loans are inflexible, and there can be heavy penalties for early repayment. Is it possible that you may change your circumstances in the short to medium term and change properties, or enjoy an improvement in your financial circumstances that would enable you to make extra payments on the loan?

One of the most valuable loan facilities you can have is an offset account. This enables you to park surplus monies in the offset account, guaranteeing an after-tax return which is the same rate as you are paying on your mortgage. Also, it offers you flexibility if your intention, long term, is to keep the original house as a rental and upgrade to a more expensive home.

When this happens, the money in the offset account can be withdrawn to boost the deposit on the new home, leaving a large loan against the original home to maximise the negative gearing benefits when it becomes a rental, and the interest can be claimed as a tax deduction.

Very few fixed rate loans offer an offset account, and if they do the effective rate is lower than if you had a variable rate loan.

A great strategy is to build a safety buffer by making extra loan repayments, or by paying fortnightly. This is not possible with most fixed rate loans.

The message here is that choosing a loan is like choosing an investment product.

There is a lot more to it than the advertised rate.

Think about flexibility and what features you need to cater for your own goals.

Q I am 18 and working in the oil and gas industry. I have saved $16,000 in five months and was thinking of buying a house. After looking around I'm not sure if this is a good idea and wonder if I should invest it, or buy and start a business. Any advice you can offer would be appreciated.

A Congratulations on what you've achieved – there are few people of your age who are prepared to save. Buying or starting a business is a huge step, and it's a sad reality that 80 per cent of newly established businesses fail. I suggest you spend two or three years working in the type of business you would like to buy, and accumulate as much money as possible in the bank in that period. When you are confident of your knowledge, you can re-examine your options.

Q I am 60 with a mortgage of $10,000, $230,000 in a transition to retirement scheme and $450,000 in an accumulation scheme as I'm still working. I expect to be made redundant soon and receive $80,000. My house is worth $900,000 and I have a $120,000 share in another property. I am considering turning the $450,000 into a transition to retirement pension and living off the $80,000 while leaving my super to increase. Would it be better to put all money into super, and/or pay out the mortgage? What is the best way to invest the $80,000? I also want to downsize my house before turning 65 and may need to use my super – would this be OK for any future pension assessment?

A The benefit of a transition to retirement pension (TTR) is that the fund becomes a tax-free fund, and the income will be tax-free as you are 60. This seems to be the best option as you'll be maximising your after-tax returns. Any surplus income from the TTR could be recontributed to super as a non-concessional contribution, as could the redundancy payout after using $10,000 to get your mortgage out of the way. If you downsize your house, you'll be turning a totally exempt asset into a lower-value exempt asset, and freeing up financial assets which will be assessed for Centrelink purposes. Even today, because of your assets, you are ineligible for a single person pension so I would rule out considering this in your investment choices.

Noel Whittaker is the author of *Making Money Made Simple* and numerous other books on personal finance. His advice is general in nature and readers should seek their own professional advice before making any decisions. Email noelwhit@gmail.com.

Finding those deductions will pay off with a bigger tax refund

By **MELISSA BROWNE**

THIS time of year is when accountants feel like the popular kids as many people scurry to make appointments to complete their annual tax return.

The eager beavers have already lodged their returns and received their refunds but most people will do something about their tax during the coming months.

Putting in a bit of effort before you visit your accountant, or sitting down to complete the online return, will mean more money in your pocket.

So if you're wondering where to start or what you should do with that refund when you receive it, here are my top five tips for maximising your refund.

❑ If you're hopeless at keeping receipts which, let's face it, many of us are, it doesn't necessarily mean you can't claim a deduction. If you've paid cash but you know there will be a record of your payment, then contact the supplier and ask them to email you a copy of the receipt. Or alternatively, if you've paid by eftpos or credit card, then go through your statement and if you can identify the tax deductible claims on your statement, then the Tax Office will accept the statement as proof of the deduction.

❑ If you haven't kept a log of your mileage, but you've used your car for work trips, you may still be able to claim up to 5000 kilometres. You'll need to work out what trips you have completed and calculate the kilometres travelled but as long as you can do that, you can make the claim. Don't forget to include any tolls you may have paid that will be automatically recorded on your toll statement.

❑ If you have a rental property that is less than 40 years old, make sure you have a depreciation report prepared by a quantity surveyor. This report will detail the cost of the building as well as the cost of items within the building such as blinds and carpets and will identify the annual depreciation amount you can claim. This could potentially be worth thousands of dollars in additional refunds for a cost of about $500 to prepare the report. The good news is, it's not too late to organise the report and you can go back two years and amend returns to claim depreciation not already claimed.

❑ Become a sleuth and spend some time working out exactly what you're able to legally claim. If you're not sure, ask your accountant or check out the wide range of occupation guides the Tax Office provides free on its website. A great example is if you are on the road for work (or you work outside) you can claim sunscreen – so if your foundation, lip-balm or moisturiser has an SPF factor then you may be able to claim it.

❑ Make sure you do something positive with your refund. Many people rely on their tax refunds as a form of forced saving but make sure it doesn't simply disappear into your spending black hole. Work out before you receive it how you will use it. It might be to pay off your credit card debt, pay into your home loan as a spending buffer, invest in shares or put towards a deposit for an investment property. Of course, you might treat yourself to dinner or buy a pair of shoes but try to spend only a small amount. The good news is, it's not too late to make sure you are getting the best result from lodging your tax return.

You might not think the legwork is worth the effort and if you're prepared to leave that extra deduction to the public purse then that's very civic-minded of you.

However, I tend to agree with the late Kerry Packer who famously said, "Pay your taxes, just don't tip them. They're not doing that good a job".

Of course, if you need more help, make sure you call your accountant.