Interest in advance

Subject to certain rules and lender approval, interest in advance is an option for anyone repaying an investment home loan on a fixed, interest only basis. The idea is that you can claim a reduction in your taxable income on the existing year by pre-paying the next 12 months of interest, before the year commences.

There are a few benefits for those able to pay this larger amount upfront:

- The interest rate is discounted somewhere between 0.1 - 0.2%
- It protects the borrower from any unforeseen interest rate rises
- If you have had a particularly high income earning year, for example you received a large bonus, then you may want to offset this with a tax deductable expense to lower the amount of tax you pay.
- Or if you know your income is going to be less than normal next year, if for example you are planning to reduce your work hours or take some maternity leave; then you may decide to claim the interest in the current year as it would amount to a greater saving in tax.

What to be aware of:

- You can only utilise this facility when you are on a fixed rate product and therefore unable to benefit from any potential rate reductions in the year ahead.
- There is usually limited features and flexibility to make any changes during the pre-paid year; often including the ability to repay any principal portion of your loan.
- Additional fees and charges will apply, so make sure you understand what they are and when they are payable.

Ultimately, interest in advance is only beneficial for a certain few and so it is always recommended to discuss your tax position first with an Accountant before looking into this option with your Mortgage Broker.

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