



He's **so** conservative. Why can't we use it to build some investments ?

I think we should use the pay increase to pay off our mortgage!

we have a
PRIME TIP
for you

PAY OFF YOUR MORTGAGE OR INVEST?

Isn't it great to finally reach that time of life where your income actually exceeds your outgoings. You can finally rid yourself of your mortgage, or build independent investments.

This is the time to build the financial resources necessary to achieve your goals and dreams. But, which is the right approach – pay off the mortgage, or build investments ?

Naturally, this is going to be dependent on your circumstances, and before taking any action, you should receive specific professional advice to determine which combination of strategies is best for you. Here are some of the considerations to take into account.

	Pay off your mortgage with after-tax income	"Salary sacrifice" into super using pre-tax income	Borrow to purchase investments in your own name
After-tax investment	<p>Assume</p> <ul style="list-style-type: none"> • you have surplus gross income of \$1,000 per month. • your tax rate is 31.5% <p>Therefore, the amount available after-tax, to pay down your mortgage is \$685.</p> <p>If your tax rate is higher, you will have even less available for mortgage reduction payments</p>	<p>Because</p> <ul style="list-style-type: none"> • super is contributed from pre-tax income, and • Super is only taxed at 15% you will have \$850 invested (instead of \$685) out of every \$1,000 sacrificed 	<p>Assume</p> <ul style="list-style-type: none"> • you have borrowed \$84,000 at 7.5% over 10 years • your monthly loan repayments are \$1,000 per month. • your tax rate is 31.5% <p>Of the \$1,000 repayment per month:</p> <ul style="list-style-type: none"> • \$700 goes towards debt reduction • \$300 is for interest • The tax benefit of claiming that interest is \$94.50. • Therefore \$794.50 of every \$1,000 is available for loan reduction

Benefits	<ul style="list-style-type: none"> • For every \$1,000 of surplus income you will reduce your mortgage by \$685. • This will also reduce the interest being charged on your mortgage 	<ul style="list-style-type: none"> • For every \$1,000 of surplus income you will have \$850 invested. • The investment income will only be taxed at 15% (compared to 31.5% if invested in your own name) • More money invested and lower tax will produce greater overall wealth 	<ul style="list-style-type: none"> • For every \$1,000 of surplus income you can reduce your debt by \$794.50 • You have a greater amount invested from the start, and the potential for capital growth is therefore larger • If the investment is "negatively geared" tax benefits will be available at higher personal tax rates
Capital Growth	No potential for capital growth	Potential for capital growth on progressively increasing amount	Potential for capital growth on larger amount from day 1
Risks	<p>Mortgage reduction is a no-risk investment.</p> <p>Every \$685 paid off your mortgage will increase your net wealth by \$685. However, there is no potential for capital growth in this strategy</p>	<p>Investment risk - this will depend on the nature of your investments, and can be managed by: choosing lower risk portfolios, or operating your own self-managed super fund</p> <p>Legislative risks –</p> <ul style="list-style-type: none"> • the funds are not generally accessible until you reach "retirement age" • 55, if you were born before 1960 • 60, if you were born after 1964 • the tax treatment of super may change in the future. 	<p>Investment risk - this will depend on the nature of your investments</p> <p>Commercial risk – If you are operating a business, or are an "at-risk professional" it is unwise to hold investments in your own name, as they can be susceptible to attack from creditors</p>

What's **right** for you?

Sometimes it's difficult to objectively view your own circumstances and to know what's best.

Prime Partners are a totally integrated and co-ordinated team of experienced professionals who can

- Review your current position
- Help clarify your goals, and
- Get you on a clear path to achieving those goals

We can even help your work out ways of creating additional surplus cash flow!

Call Lisa or Virginia on 9879 7005 to organise a complimentary consultation or email us at service@primepartners.com.au

Prime Partners is a totally integrated financial services firm. We are a co-ordinated team of experienced, diverse professionals offering advice and strategies including:

**Business Coaching, Tax and Accounting,
Financial Planning, Risk Management,
Self-Managed Super, Business and Residential Lending**

**Visit our website at
www.primepartners.com.au
to find out more**



Smarter ways to Financial Success

Level 1, 230 Victoria Rd, Gladesville NSW 2111
Locked Bag 5030, Gladesville NSW 1675
Tel: (02) 9879 7005 • Fax: (02) 9879 7525