



Money Matters

with Bruce Cruickshank



Using equity in own home to fund an investment property

Investing in real estate is a popular strategy to create wealth. In the current 'buyers market', this could be a great wealth creating strategy.

Depending on how much of the mortgage has been paid off and the capital growth of the property, most households are sitting on untapped wealth by way of equity. Accessing this equity to invest in another property is a feasible proposition. A qualified mortgage professional will be able to assist in working out the financial affordability of the project.

Lender Criteria

When purchasing an investment property by using equity in the home, the owners will have to meet the lending criteria of the banks. These are:

1. The level of equity available - the difference between the value of the property and the current home loan.
2. The capacity to service the two loans. This is calculated by taking into account the household income, including the anticipated rental from the investment property, less all household liabilities.

The different ways of accessing the equity is dependent on the circumstances and the future investment strategies of the borrowers.

i. Cross-collateralizing the Properties

This simply means using the available equity in the home as a deposit for the purchase of the investment property. The home loan remains the same and a new loan set up for the investment property.

ii. Equity Release as a Lump Sum

The home mortgage is increased by the amount required to fund the purchase of the investment. This enables the two properties to be independent of each other and can even be with different lenders.

iii. Line of Credit Equity Release

A line of credit facility with an upper limit can be set up to be used as and when required by the borrower. This may be for the purchase of one investment property or more. This method gives the borrower flexibility in handling the investment strategy.

It is important to remember that investing in real estate carries a certain amount of risk. Therefore, before taking any irrevocable steps it is necessary to establish the affordability of the higher repayments. Getting professional advice from financial planners, tax accountants and mortgage brokers can help minimise the risk and exposure and assist in the wealth creation strategy.



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Retirement planning for a better financial life

Financial independence in later life does not come from how much is earned but from good money management. It is never too early or late to start a good retirement plan.

There is a big difference between "making a good living" and "enjoying a good life." Making a good living refers to a person's earning capacity - whether it is in a profession or business. Enjoying a good life on the other hand is how the money is spent. Money can be spent in various ways and the two most common ways are:

- Spending on luxuries with no savings, and
- Living very comfortably and not putting some aside for a "rainy day."

Making conscious and deliberate choices about how the money is spent is the basis for a financially independent life in retirement. The four key elements of sensible money management are:

1. Giving priority to savings. "Pay yourself first" is a common edict. Set aside a sum of money as savings to use to create wealth.
2. Living within one's means. That is buying only what one can easily afford.
3. Investing wisely. Money in a bank account earning minimum interest will not help to create wealth. It has to be invested in assets that grow in value over time.
4. Using some of the money to make a difference. Being grateful for what one has and showing that gratitude by helping those who are less fortunate.

Bearing in mind that for a better life it is necessary to be financially independent in retirement it is never too late to put into place a saving and wealth creation plan, with the help of a professional if necessary, to achieve one's financial goals.

Tax deductible business expenses from a home office

When working from home, setting up an area to work from has many advantages, including the opportunity to claim a portion of the normal household outgoings as tax deductible business expenses.

Expenses That Can be Claimed

Depending on the type and scope of the business, all or a combination of the expenses noted below can be a claimable tax deductible expense.

- Mortgage or rent payments
- Utilities
- Telephone and Internet services
- Insurance
- Council and water rates
- Maintenance and repairs
- Depreciation
- Upkeep of the premises (cleaning, lawn mowing, landscaping, etc.)

Other Expenses that Could be Charged to the Business

Depending on the type of business and whether a vehicle is necessary to run the business, motor vehicle expenses can also be charged to the business and claimed as a tax deduction.

This involves a keeping a log of the distance travelled for business purposes as opposed to the private use of the vehicle. Unless of course the vehicle is used solely for business purposes. For example, a van or utility used by a tradesman.

The above home office expenses are in addition to the normal expenses of running a business such as stationery, postage, advertising, purchase of raw materials and equipment specifically for the business and not used for private purposes.

If in doubt as to whether a home office expense is claimable as a tax deductible business expense, a tax professional or the taxation office will be able to help.

New Website for Total Finance

Anyone who visited our website in the past would have found a one page site with our phone number and details and a heading, "Website Coming Soon!!". Well now you can view our new website that has been 8 years coming.

Whilst a website is not the foremost marketing tool for our business it is essential for any business's credibility as many researchers of your business, business partners as well as customers, will evaluate the professionalism, performance, capability, products and feel of a business by initially looking up your website.

The new site provides a lot of information, downloads, links, and past newsletters for anyone interested in finance for a cross section of borrowers for many different purposes. It's nothing flash just full of handy information if you like reading that sort of detail. Go to: www.total-finance.com.au



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