How to Survive the Rising Interest Rate

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As the record-low fixed interest rates of 2020 and 2021 come to an end, those who took advantage are facing a financial blow. The increase in monthly payments for mortgage or loan products could be significant. According to the news, Australian homeowners will have to pay fixed-rate mortgages of around $16,500 this year onwards.

With ever-increasing living expenses in Australia and increasing unemployment rates, this rising interest rate will surely slow the economic growth of the country. As a result, it is predicted that a recession will be going to consume the economy in the next two to three years. On top of that, the Central Bank of Australia has unleashed one of the most aggressive policies related to interest rates and mortgage loans.

There has been an estimation that economic growth would decline from 2.7 percent in 2022 to 1.6 percent in 2023 and 2024.

There has been some discussion about lowering inflation and interest rate that is not constrained by monetary policy. The function of fiscal policy can play an important role in this regard. By increasing the return, the Reserve Bank can help the other banks to increase their deposit rates, especially on savings accounts.

Tips on How to Survive the Rising Interest Rate

A lot of our clients are asking how we survive this storm. We have put together a few tricks and tips for homeowners and investors to survive this rising rate crisis.

Increasing Your Income

When it comes to making money or increasing revenue, Australia has proved to be a lucky country. An increased and improved level of income means better quality of life for you and your family. Some options can help you boost your income in so many ways. Although these options seem to be short-termed, if you plan properly they can sustain for a long time providing you with the revenue you are trying to achieve.

Increasing your income always helps

If you’re an employee, seek a salary increase or earn more bonuses at work. If all else fails, look for a new job that pays better. You can also invest in low-input businesses. Think about running an Airbnb for a better rate of return or increase rent for your investment properties. Another diversified way of increasing your income is to invest in the share markets.

Decreasing Your Expenses

If you are one of many Australians who have been constantly fighting with lifestyle expenses and increased interest rates, it’s time to think about how you can lower your expenses more effectively. Firstly you need to make a budget that will include all your expenses and monthly income. Then according to the plan try to cut off your expenses as much as possible. You should work on some regular expenses such as food, transportation, and utilities.

Saving Money helps you fight bad situations

There are a lot of ways to decrease your expenses. Some of them are given below

- Create a new budget
- Make new payment plans
- Determine potential savings
- Seek assistance from financial professionals
- Determine the leading causes of financial stress
- Make strategic plans to reduce debts

PAYG Withholding Variation

In Australia, when you make payments to workers, certain contractors, and other companies, you must deduct a set amount and submit it to the Australian Taxation Office (ATO). This is known as PAYG withholding Tax, and it aims to save employees from having to pay a large amount of tax at the end of the fiscal year. Varying your withholding rate or amount helps to ensure that the amount withdrawn throughout the fiscal year equals your tax bill at the end of the year. You can visit PAYG withholding variation application website to apply directly.

Make the best use of PAYG withholding Tax

If you have negatively geared property and expect a tax refund at the end of the year, you can lodge a PAYG variation with the Tax office to claim the refund with your regular wage payment. This will reduce the amount of your PAYG withholding tax deductions and effectively increase your take-home pay. It is important to note that this option only applies if you expect a refund, not if you owe money at year's end.

You can lodge the PAYG variation through your MY GOV id or request your accountant to do so.

The ATO looks at the below facts to process your PAYG variation application –

1. if you lodge online application the ATO generally takes 28 days to process
2. you must lodge all the outstanding returns, IAS and BAS before lodging the variation
3. did not receive a tax payable in your last tax assessment
4. do not have any outstanding tax debt or any ATO debts

Change of Circumstances

If your circumstances change during the income year, you must submit a new application. For instance, when you sell a rental property or your taxable income increases to the point that you will be subject to a $500 or higher debt assessment.

Navigating a change of circumstances with a proactive and positive mindset.

Class Variations

Your payer may submit a class variation application on your behalf if you and your coworkers desire the same variant. If you get an allowance and reasonably anticipate that your costs related to that allowance would be deductible, for instance, your and your coworkers' withholding may be excessive.

Rentvesting-

Another way to help manage your mortgage repayments is to rent out your home (Rentvesting). This can provide a steady source of rental income, allowing you to take advantage of lower rent outside until you are comfortable with the new mortgage repayments.

Renting out your properties is a steady source of income

Rentvesting allows you to avoid the impacts of a bad property market. You will still own your home, but its rental income can help cover mortgage payments and other expenses. This gives you more time and flexibility to wait for better conditions before selling the property if that's what you are planning due to high interest rate.

One of the biggest advantages of rentvesting is that all the expenses associated with your home that became an investment property are tax deductible (e.g. home loan interest payments, property maintenance, insurance, council rates, depreciation, etc.).

Refinancing the Existing Loans

Refinancing is the process of replacing your current loan with a new one. It may cut your repayments and shorten your loan term, allowing you to make extra mortgage payments and own your property sooner.

Check possible refinancing options to reduce recurring expenses

If you decide to refinance your existing loans, here are some benefits you will get to enjoy throughout the period

- A more favorable interest rate. Searching around allows you to get a house loan with a cheaper interest rate.
- Cashback deals are available. Lenders may also provide a cashback arrangement in return for your home loan account, which may bring an immediate cash boost.
- Keeping a high revert rate at bay. Fixed-rate and introductory-period loans often return to a conventional variable interest rate after a certain period, which is frequently significantly higher than the market average rate. Refinancing before your fixed rate or introductory period expires might help you obtain the “best of both worlds,” as it were.
- Refinancing allows you to reevaluate your loan duration and home loan payment frequency. If done correctly, this might save you money over the life of the loan.
- Access to additional lending features. Your existing home loan may not have features like an offset account, redraw capability, loan splitting, or the flexibility to make extra repayments. You may get a house loan with the features you desire by shopping around and refinancing.
- Consolidation of debts. If you have several existing loans with interest rates greater than your house loan, you may want to explore refinancing to consolidate all of your debt into a single loan with a reduced interest rate.

Make Use of an Offset Account

An offset account might be handy if you have a variable house loan. You can still use it as a regular transaction account, but simply having the money there minimizes the amount of interest you pay on the loan. Yet, you'll probably get more value out of it by balancing your loan than you would from a savings account.

Money in an offset account is not taxed.

In addition, unlike interest collected on money in a savings account, money in an offset account is not taxed. Thus, even if you had a 4% loan interest rate and earned the same on your savings, the latter would be taxed — so the effective profits could be only a little more than 2% if you are on the highest marginal tax rate.

Re-negotiate your rate

You can request your bank to revisit your interest rate to match rates with other banks. You can do the initial research and speak to an experienced mortgage broker to check the market rate for your property.

Some one-time and recurring expenses can be terminated

It’s critical to check the one-time and recurring expenses such as application fees, monthly fees, annual fees, and so on, and inquire whether ones can be eliminated. You need to look at the exit costs to ensure that you can refinance at a low cost in the future.

Pay the Principal and Interest

Make sure you’re repaying both the principal and the interest. If you only pay off the interest, your loan balance remains the same. If you’re already feeling financially strained, it might be worth calling your lender’s financial hardship team.

Make sure you are not paying off the interest only

Make additional repayments

Making extra loan payments in advance is a fantastic idea. It's referred to as a "pre-commitment tactic. That gets past our present bias, which is our preference for choices in the present over alternatives in the future. One example of this method is to continue paying the larger amount even if you get a better bargain on your interest rate. Alternatively, if you receive a tax refund or an unexpected bonus, you can elect to put some or all of it toward your mortgage.

Ultimately, understanding your finances is essential to making the best decisions for your long-term success. By assessing your financial situation and making smart spending choices, you can ensure that you are ready for whatever economic challenges come your way. Taking proactive steps now can go a long way in ensuring financial security in the future. The key is to remain informed. With the right strategies, households can confidently face this period of rising interest rates and fluctuating housing markets.

We offer a 15-minute free consultation to discuss your tax, property investment and business needs. Book your complimentary consultation now.

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