

# Refinance? 4 Key Factors to Consider for Financial Empowerment!

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The Reserve Bank of Australia (RBA) has been steadily increasing the cash rate since May 2022, causing a ripple effect that has left many investors with variable-interest loans on their investment properties wrestling with the consequences. As interest rates continue to climb, the prospect of refinancing becomes an enticing solution for those seeking to reduce interest expenses and secure more stable loan terms.

However, before embarking on this financial journey, it is crucial to consider the potential tax implications that accompany refinancing. Factors such as the cost of refinance and tax deductions for these costs need to be carefully evaluated to ensure a well-informed decision is made. In this article, we will explore the impact of rising interest rates, the advantages of refinancing, and the tax considerations involved, equipping you with the knowledge to navigate the evolving Australian financial landscape with confidence.

## What is Refinancing:

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Refinancing your home or investment property loan involves a straightforward concept: replacing your existing loan with a new one. This process entails paying off your current loan by securing a new loan that offers more favourable terms, such as a reduced interest rate, lower monthly payments, or a repayment schedule that better aligns with your financial objectives.



Many investors opt for refinancing as a strategic manoeuvre, aiming to save on interest expenses, tap into the equity accumulated in their properties, or adjust their loan terms to better suit their financial goals. However, it's important to note that refinancing comes with its own set of fees and closing costs, as you will need to go through the mortgage application process once again.

To make an informed decision about whether to refinance your home or investment loan, it is crucial to seek guidance from a knowledgeable mortgage broker. Their expertise will assist you in comparing different loan options, assessing the associated costs, and determining whether refinancing aligns with your specific financial circumstances. By leveraging their support, you can navigate the intricacies of refinancing and make the best decision for your financial well-being.

### **Advantage of Refinancing:**

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Refinancing offers a range of advantages that can significantly impact your financial well-being. From lowering interest rates to accessing equity and enjoying new loan features, refinancing opens up opportunities for savings and increased flexibility. In this blog post, we will delve into the key pros of home loan refinancing, empowering you to make informed decisions that align with your financial goals.

# BENEFITS OF REFINANCING



## 1 Lower Interest Rate

By refinancing at a lower rate, you can reduce your monthly repayments, potentially saving hundreds of dollars each month.



## 2 Adjust Loan Length

Reducing the loan term can help you save significantly on interest.



## 3 Access to Equity

Refinancing allows you to tap into this equity, providing access to funds that can be used for various purposes.



## 4 Utilize New Loan Features

Refinancing presents an opportunity to take advantage of new loan features offered by your lender.

1. Lower Interest Rate: One of the most appealing benefits of refinancing is the opportunity to secure a lower interest rate. By refinancing at a lower rate, you can reduce your monthly repayments, potentially saving hundreds of dollars each month. You can use these savings for essential or non-essential expenses or continue paying at your previous repayment level to pay off your loan faster and save on interest in the long run.

2. **Adjust Loan Length:** Refinancing grants you the flexibility to adjust the length of your loan. If you wish to increase your cash flow or save for additional property investments, extending the loan term can provide relief. Conversely, if you have the means to do so, reducing the loan term can help you save significantly on interest over the life of the loan, even if it leads to higher monthly repayments. Assessing the impact on interest savings is essential to ensure this strategy aligns with your financial objectives.
3. **Access to Equity:** Home equity refers to the difference between the value of your home and the remaining loan balance. Refinancing allows you to tap into this equity, providing access to funds that can be used for various purposes. Whether it's home renovations, a dream holiday, purchasing a car, or making further investments, leveraging your equity can help you achieve your financial goals. However, it's important not to exhaust all your equity at once, as it can serve as a powerful negotiation tool with lenders and provide a buffer for unexpected expenses.
4. **Utilize New Loan Features:** Refinancing presents an opportunity to take advantage of new loan features offered by your lender. Features such as redraw facilities and offset accounts can provide greater financial flexibility. An offset account acts as a transaction account attached to your home loan, offsetting the balance and reducing the interest charged. On the other hand, a redraw facility enables you to make extra repayments and access them if needed, as per your lender's discretion. While there may be some associated expenses, it's important to weigh the potential savings against any additional costs to ensure it's a beneficial option for you.

## **Cost of Refinancing:**

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When considering refinancing your home loan, it's essential to have a clear understanding of the associated costs. Refinancing fees can vary based on your unique circumstances and the financial institutions involved. In this blog post, we will explore the common costs associated with refinancing, empowering you to make informed decisions and avoid any unexpected financial surprises.

1. **Discharge Fees:** Discharge fees are paid to your current lender as an administration fee for fully paying off your existing loan and preparing the necessary documentation. The amount can vary among lenders, so it's crucial to inquire about this fee upfront.
2. **Application Fees:** Application fees are charged by the new financial institution for processing your new loan application. These fees can differ, so it's essential to consider them when assessing the overall cost of refinancing.
3. **Valuation Fees:** To assess the value of the property offered as security, the new institution may charge valuation fees. This fee covers the cost of obtaining an up-to-date valuation and can vary depending on the property and lender.

4. **Land Registration Fees:** When refinancing, you'll need to remove the existing mortgage from your current lender and register a new mortgage with the new lender. Land registration fees cover the administrative costs associated with this process and may vary depending on the state or territory where your property is located.
5. **Lenders Mortgage Insurance (LMI):** If your property has less than 20% equity, the new financial institution may require you to pay Lenders Mortgage Insurance (LMI). This insurance protects the lender against mortgage default. It's important to note that even if you paid an LMI premium when you first obtained your current loan, you may still be charged LMI when refinancing.
6. **Ongoing Fees:** Certain mortgage products, such as packaged home loans, may include ongoing fees. These fees contribute to the maintenance and management of your loan. It's important to consider the long-term impact of these fees when assessing the overall cost of refinancing.
7. **Break Fees:** If you currently have a fixed-rate home loan and choose to refinance during the fixed-rate period, you may be subject to break fees. Break fees compensate the lender for any loss of profit resulting from your decision to break the contract. The presence and amount of break fees can vary depending on interest rate movements at the time.

It's crucial to remember that the overall cost of refinancing will depend on various factors, including your current and new financial institutions and your location. By carefully considering these fees and conducting thorough research, you can make an informed decision about refinancing and ensure that the benefits outweigh the costs in the long run.

### **Tax Deduction for the Refinance Cost:**

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When refinancing your loan, it's important to consider the tax implications associated with these expenses. By understanding the rules and guidelines, you can maximize your tax deductions and effectively manage your finances.

# Tax Deduction for the Refinance Cost

Claiming Deductions for  
Refinancing Costs 1



2 Deduction Period for  
Exceeding Borrowing  
Expenses

Proportional  
Deduction for Loans  
Obtained During the  
Income Year 3



4 Repayment Period



1. Claiming Deductions for Refinancing Costs: If your total refinancing costs amount to less than \$100, you can claim the full deduction in the same income year that you incurred them. This provides immediate tax relief for smaller expenses.
2. Deduction Period for Exceeding Borrowing Expenses: When the total borrowing expenses exceed \$100, the deduction can be claimed over the loan term or five years, depending on which period is shorter. This allows you to spread out the deduction and receive tax benefits over an extended period.
3. Proportional Deduction for Loans Obtained During the Income Year: If you obtained the loan during the income year, the deduction for the first year needs to be divided proportionately based on the number of days the loan was held within that year. This ensures that you only claim the deduction for the portion of the year in which the loan was active.
4. Repayment Period Impact on Deductions: In the event that you repay the loan within a period shorter than five years from the time it was taken out, you become eligible to claim a deduction for the balance of the borrowing expenses in the last year of repayment. This allows for a final tax benefit on any remaining expenses as you conclude the loan.

Example: Suppose you had borrowing expenses with Bank A and claimed deductions over a period of two years. In the third year, you decide to refinance your loan with Bank B. During the year of refinance, you can claim the remaining borrowing expenses from Bank A in one go, consolidating the deduction and optimizing your tax benefits.

By understanding and adhering to these rules, you can ensure compliance and maximize your tax deductions when claiming borrowing expenses related to refinancing. Navigating the complexities of home loan refinancing and understanding the associated costs, tax implications, and potential benefits requires expert guidance. At Investax, we are dedicated to helping our clients gain a comprehensive understanding and claim the right deductions. Our knowledgeable team possesses the expertise to analyse different loan options, calculate costs, and evaluate the potential savings of refinancing. By working closely with us, clients can make well-informed decisions that align with their financial goals, optimizing their outcomes.



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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