



Maximising Debt Efficiency: Favour Tax-Deductible Debt Over Non-Deductible Debt

When it comes to building wealth, it's not only how much debt you have—it's what type of debt. In Australia, interest is generally deductible when borrowed funds are used for an income-producing purpose, and it may need to be apportioned if a loan is used for both private and income-producing purposes.

Debt efficiency is the practice of prioritising faster repayment of **non-deductible debt** (typically your home loan) while structuring **deductible** investment debt appropriately, so your after-tax cashflow is improved and your strategy remains clean and auditable.

Checklist: Key things to consider

- **Offset account placement:** If you have an offset, consider allocating it against your owner-occupied loan first to reduce non-deductible interest while keeping flexibility. (Loan offset arrangements are a recognised structure; ensure your product is set up correctly.)
- **Split loan structure (avoid "mixed purpose"):** Keep separate loan splits for each purpose (home vs investment). Mixed-purpose facilities can create complex apportionment and record-keeping burdens.
- **Interest-only for investment / P&I for home:** Many borrowers use interest-only on investment loans to minimise cash outflow on deductible debt while directing more principal reduction to the home loan (non-deductible). (Suitability depends on goals and serviceability.)
- **Use surplus cash to reduce non-deductible debt:** Extra repayments (or offset savings) typically deliver the greatest "risk-free" benefit when applied to non-deductible debt first.

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Kista Finance acknowledges the **Wadawurrung People** as the Traditional Owners of the land and waters on which we live and work and pays respect to Elders past, present and emerging.

Important dates for May, 2026:

- 05May26 – RBA Cash-rate decision
- 12May26 – Federal Government Budget
- 21May26 – Monthly BAS & IAS
- 21May26 – FBT Return & payment due
- 28May26 – Quarterly BAS for electronic lodgers
- 01Jul26 – *Payday Super commences*

Interest Rate Outlook

Australia's Interest-Rate Outlook Tightens Further

Australia's interest-rate outlook for the remainder of 2026 has shifted decisively following yesterday's inflation data, which showed headline CPI accelerating to 4.6% in the year to March, its highest level since 2023, driven largely by fuel and transport costs linked to the Middle East conflict. While the RBA's preferred trimmed-mean inflation held at 3.3%, it remains above the 2–3% target band, reinforcing concerns that price pressures are becoming entrenched.

The RBA has warned that sustained energy disruption could lift inflation expectations, even as it weighs downside risks to growth. Labour-market conditions remain tight, with unemployment in the low-4% range, limiting the case for early easing.

Continued below.....



- **Borrowing for investment purposes (equity release):** Using home equity to fund income-producing investments can be tax-effective because deductibility generally follows the use of borrowed funds, not the security provided.
- **Redraw with care:** Redraw and lines of credit require disciplined tracing—if funds are redrawn for private use, deductibility may be reduced and apportionment may apply
- **If you turn your home into an investment property:** Before moving, consider whether selling (to buy the new home) or retaining (as an investment) creates a better long-term balance of deductible vs non-deductible debt, and ensure loan purposes remain clearly documented.
- **Funding tax-deductible costs with finance, while directing cash to non-deductible debt:** In many cases, borrowers may improve overall debt efficiency by using finance to fund costs that are wholly or partly tax-deductible, while preserving available cash to reduce non-deductible home loan debt. For example, where a vehicle is used for business or income-producing purposes, interest on a motor vehicle loan may be deductible to the extent of business use, provided appropriate records are kept and private use is excluded. By contrast, using surplus cash to pay down an owner-occupied home loan (or offset account) reduces interest that is not tax deductible. This approach can enhance after-tax cashflow while ensuring deductible borrowings remain clearly traceable to an income-producing purpose.
- **Record-keeping & advice team alignment:** Coordinating your broker + accountant is crucial so your structure, funds flow, and documentation align with ATO principles on purpose and apportionment.

Self-Care Tip for the Month.....

Practice self-reflection: Set aside time for self-reflection and introspection. Journaling or engaging in mindfulness practices can help you gain insight into your thoughts, emotions, and desires, leading to personal growth and self-awareness.



Joke of the Month.....

The Expense Category Chaos: I love how my budgeting app categorises stuff.

Coffee = "Investments"

Rent = "Lifestyle"

One snack = "Large Purchase"

My dignity = "Unclassified".

Interest Rate Outlook (cont'd)

Against this backdrop, all four major banks and most economists expect a 25-basis-point rate hike in May, taking the cash rate to 4.35%, with June viewed as a possible pause unless inflation surprises higher again. Rate cuts in 2026 are now widely seen as unlikely.

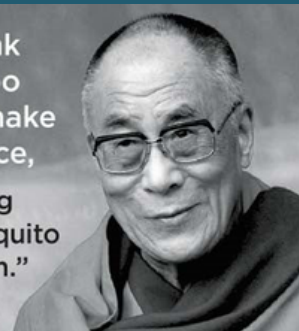
Quote of the Month.....

Thank you to Paul Synnott for the contribution:

"If you think
you are too
small to make
a difference,

try sleeping
with a mosquito
in the room."

-Dalai Lama



This may be a little controversial for some, but I connect this quote with one of my heroes....

Greta Thunberg



Important: This newsletter is general information only and isn't tax, legal, or personal financial advice. Please speak with your accountant/tax adviser before implementing any strategy.

Sources (ATO):

- Interest, dividend & investment income deductions: <https://www.ato.gov.au/.../interest-dividend-and-other-investment-income-deductions>
- Interest expenses (rental property): <https://www.ato.gov.au/.../rental-expenses/interest-expenses>
- TR 2000/2 (LOC/redraw deductibility & mixed purpose): <https://www.ato.gov.au/law/view/document?docid=TXR/TR20002/NAT/ATO/00001>
- TD 93/13 (security vs use test): <https://www.ato.gov.au/law/view/document?docid=TXD/TD9313/NAT/ATO/00001>
- TR 93/6 (loan account offset arrangements): <https://www.ato.gov.au/law/view/document?LocID=%22TXR%2FTR936%2FNAT%2FATO%22>
- Deductions for motor vehicle expenses (includes interest on motor vehicle loans, apportioned for business use): <https://www.ato.gov.au/businesses-and-organisations/income-deductions-and-concessions/income-and-deductions-for-business/deductions/deductions-for-motor-vehicle-expenses>
- Interest you pay on borrowed money (income-producing purpose and apportionment): <https://www.ato.gov.au/individuals-and-families/income-deductions-offsets-and-records/deductions-you-can-claim/investments-insurance-and-super/interest-dividend-and-other-investment-income-deductions>

Community.....

Wadawurrung On Country Tour

Wednesday 06May2026 or Tuesday 19May2026

A unique opportunity to deepen their cultural awareness and understanding of Wadawurrung Country through an authentic, guided experience led by Wadawurrung Traditional Owners.

<https://events.humanitix.com/wadawurrung-tour-cultural-education-walk>

Portarlington Football & Netball Club

Portarlington Recreation Reserve, Sproat St, Portarlington

Home Games:

- 02May2026: Football (women)
- 09May2026: Football (men) & Netball
- 23May2026: Football (women)
- 30May2026: Football (men) & Netball

National Celtic Folk Festival

5-8 June 2026 Portarlington

Explore the vibrant music and activity venues, where energy and creativity come to life! Enjoy live performances, music events, and engaging activities in spaces with stunning acoustics and state-of-the-art sound systems. Whether it's a concert or interactive workshop, each venue offers an unforgettable experience!

<https://www.nationalcelticfestival.com/>



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