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# ***How to retire wealthy through property investment and mortgage reduction***

***Need a Mortgage Pty Ltd  
Mercantile Group Pty Ltd***

***1800 097 522***

Mercantilegroup



**MORTGAGE REDUCTION PROGRAM**



**Mercantile Group services include real estate investment and finance advice...**



**We're here to give you information designed to improve your *lifestyle* NOW and in the future.**

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## Introduction

Mortgage Reduction was developed as an alternative method of funding for buyers of residential, investment, commercial or industrial property.

To enable us to institute the “Plan” we have arrangements in place with reputable Lenders that have the required facility available and with whom we are fully accredited.

The basis behind the “plan” is to restructure funding of property in such a way that:

- **The loan is paid off years sooner than it normally would be.**
- **Saves the property purchaser/owner \$000s in repayments you would normally have to pay using conventional funding.**
- **Makes funds available very quickly for other uses.**

The “Plan” in its concept is very simple and, subject to the security offered and the suitability of the current financial circumstances of the borrower’s ability to service the funding can be instituted very quickly.

The success of Mortgage Reduction is achieved through its ability to direct cash flow to areas where it can provide the most efficient use of your dollar. The major point that needs to be understood is that we are changing the way that you have conducted your banking and borrowing affairs in the past.

Previously, you have deposited money in the bank to pay your bills, living expenses and as a place to store your savings. If this is a savings account the bank in turn credited you with interest on the balance of your account, usually in the vicinity of 3% - 4%.

You will now be reversing the system and depositing your money into your mortgage account. This in turn increases cash flow - the key to Mortgage Reduction

In other words you will be putting your money where it can be of most use to you, not where the banks tell you to put it.

Firstly, through the restructuring we arrange for a new loan to be put in place which allows us to fund up to normally 80% of the value of the security i.e. If the security property has a value of \$150,000 then the funding may be up to \$120,000, although in certain circumstances the funding may be up to 90% of the security value.

The advantage of this funding type is that the borrower is able to put all income received into this loan account and redraw from the account to the maximum of the funding facility arranged. As the borrower only has to pay interest on the amount outstanding, by banking all income into the loan account, it automatically reduces the amount of interest payable i.e.

Loan amount	\$120,000
Income in for month	\$5,000
Interest Payable on	\$115,000

**Obviously the borrower has to pay bills. To facilitate this, a Cheque Book is arranged in conjunction with the loan. Also a bill paying card such as a VISA or Bank Card which has a 55 day interest free credit facility. The advantage of this card is that the funder can use it to pay accounts wherever possible, taking advantage of the banks free credit arrangement. In other words, where an account may be paid by a credit card, the account is actually paid the following month.**



Here is an example of borrowers who have arranged funding for \$120,000 @ 7% interest per annum. He has an income of say \$40,000 p.a. Gross or \$29,600 after tax and she has an income of \$20,000 p.a. Gross or \$16,800 after tax, they have living expenses of \$400 per week of which \$250 are paid on credit card.

### Funds

Month	Loan	Interest	Income	Expenses	Balance	Available
1	120,000	700	3870	650	117,480	2,520
2	117,480	685	3870	1732	116,027	3,973
3	116,027	677	3870	1732	114,566	5,434
4	114,566	668	3870	1732	113,096	6,904
5	113,096	660	3870	1732	111,617	8,383
6	111,617	651	3870	1732	110,130	9,870

As can be seen from the above example, the investor has purchased a \$200,000 investment property, which is rented out for \$230 per week.

When the tax benefits are taken into consideration the investor is \$21.00 per week better off than before they purchased their investment property and in this example the tenant and the taxman truly are paying off the property.

For salaried workers the tax savings are able to be claimed on a weekly/ fortnightly/monthly basis dependant on the pay period. This is achieved by filling out a Tax Variation Application for tax relief. In other words the PAYG tax paid in this example is reduced by the \$127 per week and that extra amount is included in the wage packet each week, to use against the cost of finding the property.

Naturally for the self employed their tax relief comes at the time of doing their tax returns, reducing the amount of tax payable at the end of the year.

It is important that each case is treated on its own merits, as each individual's situation is different. To this end Need A Mortgage will arrange an individual assessment as a guide to your own tax relief

We will show you how you can increase your wealth over the next few years and how to put in a plan for your retirement that will ensure you are able to do so maintaining a standard of living which you have become accustomed to.

The Mortgage Reduction Program will also allow you to plan for your next property purchase. Dependent on the mitigating factors such as your income, expenditure etc. it is normally at year 2 to year 3 you will be in a position to purchase your next investment property, continuing building on your portfolio and taking advantage of the tax incentives offered.

As demonstrated in this example, by restructuring your loan correctly you not only pay out your loan much sooner than a traditional 25 year loan (in this case only 5 years 7 months), the dollar savings are enormous i.e. Over 25 years total interest paid to banks is \$134,820, using the "Plan" the interest paid is only \$24,050, an interest saving of approx. \$110,000!!

Also, the other major advantage of Mortgage Reduction is you now have available \$9,870 immediately on writing a cheque. In other words you are allowed to redraw on your funds back to the amount of the original loan. Obviously, if you draw on the funds available then you will extend the time the loan is repaid, however as in this case if you drew down the full amount available (\$9,870), after only six months you will have recouped your position. A far better option than taking out a personal loan which you would repay in 3-- 5 years at a far higher interest rate.

## Investment properties and business people

An added advantage of the “Plan” is the ability to split the loan. This feature allows a loan to be split up into four different accounts, each account may have its own cheque book and in most cases their own credit card so income and expenditure may be kept separate for accounting purposes.

An added bonus for business people is often the business account may be run through the “Plan” optimizing the savings available on interest payable. An example of this is if the company has a monthly turnover of \$60,000 per month and it is banked directly into the business account within the loan then that \$60,000 is credited against the loan for that month i.e. if the loan is \$110,000 and \$60,000 is banked from your business, then interest is paid only on the \$50,000. Also any profit retained reduces the loan balance so it is paid off far quicker than normally is the case.

There are obviously many other advantages for the discerning borrower, which can help reduce the loan much quicker than through traditional lending, and it is important these are taken advantage of by qualified borrowers.

Our consultants will give a personal assessment to interested parties and for those who do qualify; they will receive a personalized computerized plan for them to follow so they are able to achieve their goal -- Freehold Property.



## What is negative gearing?

Simply defined:

Negative Gearing is the capacity to claim losses as Tax Deductions when there is an expectation that in the future Profits Will Be Made.

The important words are “Tax Deductions”. Below is an overview of these deductions and how the investor is able to take advantage of them to create their own real estate portfolio.

The short fall between the rental income and the loan repayment rates/ insurance/maintenance and letting fees are 100% tax deductible in that year.

### **Deductions on Purchasing Costs (Tax deductible over 5 years)**

- Valuation Fees
- Stamp Duty on Mortgage
- Bank Application Fees
- Mortgage Insurance
- Consultancy Fees

### **Depreciation Costs:**

- Building Costs (2.5% p.a. over 40 years)
- Fixtures & Fittings (20% p.a. over 5 years)
- Furniture (20% p.a. over 5 years)
- Inspection Costs (100% write off annually)
- Other acceptable costs (as per tax schedule)

## **Gearing for tax savings.**

Gearing of Investment Property was introduced by governments of Australia and New Zealand as an initiative to encourage income earners to purchase investment property to enhance the availability of rental property for people who are not in a position to purchase their own home.

The obvious advantage to the governments is they do not have to supply or maintain housing to these people thereby saving millions of dollars in funding plus mammoth administration and infrastructure costs.

To encourage the private sector to invest in property for rental, the governments have made available extremely viable tax incentives for the investor.

It is through these available tax incentives, investors are able to purchase property at very little cost to themselves and in many cases at virtually no cost to themselves.

***Simply put; the tax man and the rental income pay for your investment property!!***

## An example of how gearing for tax savings works...

*N.B. When Gearing Investor End Return may be Positive/Negative/Balanced*

### Property Purchase:

Purchase Price	\$200,000
Deposit (Home Equity)	
Acquisition Costs	\$12,000
<b>TOTAL BORROWING</b>	<b>\$212,000</b>

### Weekly Outgoings:

Loan Repayment	\$285
Body Corp Levy	
Rates/Insurance/Maintenance	\$34
Letting Fee	\$17
<b>TOTAL WEEKLY OUTGOINGS</b>	<b>\$336</b>

### Income:

Less Rental Income	\$230
<b>WEEKLY SHORTFALL</b>	<b>\$106</b>
<b>YEARLY SHORTFALL</b>	<b>\$5,527</b>

### Annual Deductions:

Yearly Shortfall	\$5,527
Depreciation on Building	\$2,500
Depreciation Fixture/Fittings	\$4,800
Purchasing/Legal Costs	\$1,169
Inspection Costs	\$1,500

**ANNUAL TAX SAVINGS \$15,496**

Current Taxable Income	\$50,000	Current Tax Payable	\$14,771
Less Tax Deductions	\$15,496		

New Taxable Income	\$34,504	New Tax Payable	\$8,190
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Annual Tax Savings	\$6,581
Weekly Tax Savings	\$127

Total Outgoings Weekly	\$336
Less Weekly Rental Income	\$230
Less Weekly Tax Savings	\$127

**INVESTORS CONTRIBUTION (Positive Return) (\$21.00)**

## In conclusion

Many people have become wealthy through property investment and you can too. Remember, if you do not secure your financial future, you will be at the whim of fund managers and Government policy.

You do not have to have a huge income to invest in property if you do it correctly.

Recently there was an article in the Financial Review reporting on statistics released from the Australian Bureau of Statistics, whereby a study which was conducted found that: “two thirds of Australia’s 752,100 owners of rental properties earned less than \$38,000 per annum, while 44% had an annual income of less than \$25,000.70% of these investors owned one investment property, 13% (over 97,000) owned two, and 4% (over 30,000) of investors owned more than five.”

I hope this information is of some help to you and it assists you towards your first step in securing your financial future through residential property investment.

Yours sincerely,

Glen Miller LREA

DIP FIN (Financial Planning)

DIP FIN (Finance/Mortgage Broking Management)