ROTHMANS UPDATE
ROTHMANS CHARTERED ACCOUNTANTS UPDATE OCTOBER 2009

ROTHMANS
everyone counts

OFFSET OF SAVINGS AND BORROWINGS

With savings rates having dropped to an all-time low, many individuals are actively looking for a better way of using their savings. For those savers who also have borrowings, there are two options to consider:

1. Do you wish to use your savings to pay off your borrowings; or
2. Continue to separate your savings and borrowings by taking out an offset mortgage.

Like many good ideas, the offset mortgage is simple to understand and is relatively straight-forward in its operation. Any monies you hold on linked current or deposit accounts are automatically offset against the amount you owe on your mortgage, thereby reducing the net debt with a consequent reduction in the interest you pay.

The reason that offset mortgages are particularly attractive in today's climate is that the saving on the interest payable is greater than the amount that could be earned on a savings account and, in addition, is free of tax. Also of course you retain access to savings, which in these uncertain times can provide a degree of flexibility.

The tax effects assuming an offset mortgage interest rate of 4.5% are as follows. If you are a basic-rate taxpayer you would have to find a savings account that paid 5.6% gross to match a net rate of 4.5%. If you are a higher-rate taxpayer the figure climbs to 7.5%. In today's marketplace such returns are extremely difficult to find, unless there is a high level of risk involved.

The offsetting is carried out automatically by the lender on a daily basis rather than monthly or annually as with a typical savings account, which normally results in a better return.

Our advice:
If you do have savings and also have a mortgage, consider changing to an offset mortgage, but speak to us if you require further advice or assistance. You should also remember that should interest rates rise on savings then offset mortgages may become less attractive.