Debt Management

Debt plays an important role in helping you to achieve your lifestyle goals and objectives. It must however, be managed effectively as some debt structures are more efficient than others.

Inefficient debt results in high interest costs that hamper you achieving your goals and objectives.

Any debt used to purchase assets that generate an income can result in the interest costs being tax deductible. Where these assets also grow in value, this form of debt is considered to be efficient.

On the other hand, loans taken out to purchase non-income producing assets or services (for example a car or holiday) do not qualify for a tax deduction in relation to the interest cost. This form of debt is considered to be inefficient from a wealth creation perspective and is often a drain on accelerating your long-term wealth if not managed properly.

Wherever possible you should try to accelerate the repayment of inefficient debt, and consider replacing it with more efficient debt structures that can be used to create wealth, tax effectively.

When looking at ways to reduce inefficient debt, you need to manage and understand your cashflow to ensure that you are making the maximum possible loan repayments.

You also need to choose the loan that has the best structure for you. A lower interest rate does not necessarily mean that you will pay less interest over the life of your loan. Often it is the flexibility and the features offered in a loan that will determine how well various strategies can be put in place to reduce the outstanding loan as quickly as possible (and hence reduce the amount of interest payable).

You need to keep your daily loan balance to a minimum. As interest is calculated daily on the balance of your loan, the higher the daily balance, the more interest you pay, and the longer it will take to repay your loan.

Debt, structured effectively, can allow you to use any surplus funds to reduce your overall interest cost while at the same time retaining access to these funds should you need them in the future. You can further benefit from these facilities by utilising a credit card effectively in conjunction with your loan. Making use of the interest free component of your credit card for everyday expenses allows your money to reduce your average daily loan balance and as a result your interest bill and the loan term.