



Apportioning rental interest expenses

Find out what your clients need to know about taking out a mortgage for a rental property and apportioning expenses.

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When to apportion interest expenses

Apportioning rental interest expenses is required when your clients do any of the following:

- co-own a property
- increase their rental property mortgage for private purposes
- use the property for private purposes
- rent out the property for only part of the year
- co-borrow to acquire a property, **unless** a 'separate legally enforceable written agreement' is in place.

Co-ownership of property

The level of ownership makes a difference to how much your clients can claim:

- Joint tenants each hold an equal interest in the property.
- Tenants in common may hold unequal interests in the property, for example, one may hold a 20% interest and the other an 80% interest.

Separate legally enforceable written agreement

For financial reasons, your client's lender may require them to have another person named on their loan.

When a co-borrower is named on the loan to assist the purchaser to obtain finance, but isn't listed on the title, a 'legally enforceable written agreement' may allow the legal owner to claim all the interest expenses.

The agreement:

- needs to outline that the full beneficial ownership lies with the legal owner, for example, state that your client is 100% liable for the loan repayments, interest and expenses
- must exist at the time the loan was obtained
- can be witnessed by a justice of the peace.

Including private expenses in the loan

Interest paid on private expenses can't be claimed as a tax deduction.

When your clients have a rental property loan, it's important to check each year if they have:

- included private items in their rental property loan
- refinanced or drawn down on their rental property loan for private purposes.

As soon as your clients use their rental property loan for any other purpose, there's an ongoing need to apportion interest for the **life of the loan**. You may want to suggest they have separate loans for their rental and their private purposes.

Private use of the property

Your clients can't claim a deduction for interest expenses for periods the property is used for private purposes, even if it's a short period of time. If your clients are only renting out part of their main residence, for example a single room, they must apportion the interest expense

according to the time and space dedicated to income-producing activities.

Part-year changes

If your clients have sold their property partway through the year or have changed its purpose (for example, moved into their rental property), interest on the mortgage must be apportioned according to the period the property was rented out.

More information

You can find more information to help discussions with your clients, including a video and fact sheet at **Interest expenses** on our website.

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