



Australian Government
Australian Taxation Office

Rental interest expenses



You can claim interest paid on the amount borrowed, or a portion of it, that relates to earning assessable income.

What you can claim

When you take out a loan for a rental property, you need to pay interest on the amount you borrow from your bank or lender. We refer to these as interest expenses.

You can claim the amount of interest you pay on your loan that's used to:

- buy a rental property
- buy a holiday home that is used, or held for use, mainly to produce assessable rental income
- buy a depreciating asset for the rental property (for example, a new air conditioner)
- make repairs to the rental property (for example, roof repairs due to storm damage)
- finance renovations to the rental property
- pre-pay expenses for the rental property up to 12 months in advance.

What you can't claim

You can't claim interest on any part of your loan used to:

- pay for private expenses (like school fees, or a holiday) regardless of whether these were part of the initial loan or you refinance later
- buy a holiday home that isn't used, or held for use, mainly to produce assessable rental income
- buy a new home or holiday home that doesn't produce assessable income, even if you use your rental property as security for the loan
- buy [vacant land](#), until the time construction of your rental property is complete and available for rent.

You also can't claim any of the repayments you make to pay off the principal (balance) of your loan.

Refinancing your loan

When you refinance your investment loan, there may be some changes that affect the amount of interest you can claim, such as:

- accessing equity from the loan – for example, if you borrow additional amounts against the loan and use that money to pay for personal things, you'll need to apportion your interest
- lowering the interest rate – this will reduce the interest payable each month.

Apportioning interest

If you have a rental property loan account that you have also used for private purposes, you **must** apportion your interest expenses. Keep accurate records to help you to calculate the interest that applies to the rental property portion of the loan.

You can't only repay the portion of the loan for your private purchases. All loan repayments must be apportioned across both the rental and private portions of the loan for the length of the loan.

Example: claiming part of the interest incurred

Yoko takes out a loan of \$400,000, with \$380,000 to be used to buy a rental property and \$20,000 to buy a new car for her private use.

Yoko's property is rented for the whole year from 1 July. Her total interest expense on the \$400,000 loan is \$35,000.

To work out how much interest she can claim as a tax deduction, Yoko must do the following calculation:

**Total interest expenses ×
(rental property loan ÷ total borrowing)
= deductible interest**

$\$35,000 \times (\$380,000 \div \$400,000)$
 $= \$33,250$

Yoko works out she can claim \$33,250 as an allowable deduction.

In the next year when Yoko's interest expense is \$30,000 she can claim the same proportion (95%) as a deductible expense.

$\$30,000 \times 95\% = \$28,500$

In the next year Yoko claims \$28,500 as an allowable deduction.

Example: interest incurred on a mortgage for a new home

Zac and Lucy take out a \$400,000 loan, secured against their existing property to buy a new home.

Rather than sell their existing home, they decide to rent it out.

They have a mortgage of \$25,000 remaining on their existing home, which is added to the \$400,000 loan under a facility with sub-accounts (split loan). This means the 2 loans are managed separately but are secured by the one property.

Zac and Lucy can claim a deduction for the interest charged on the \$25,000 loan for their original home, as it is now rented out.

They can't claim a deduction for the interest charged on the \$400,000 loan used to buy their new home. Even though the loan is secured against their rental property, it isn't being used to produce income.

For more information on when your interest deduction for a linked or split loans may be disallowed, see [TR 98/22 Income tax: the taxation consequences for taxpayers entering into certain linked or split loan facilities](#).

Co-owning the property

When you own a property with someone else, you need to apportion interest paid and only claim your share according to your ownership percentage of the property:

- as joint tenants, your legal interest will be an equal split
- as tenants in common, you may have different ownership interests.

Example: joint borrowers, joint owners – claiming share of interest incurred

Kosta and Jenny take out an investment loan for \$350,000 to buy an apartment they hold as joint tenants.

They rent out the property for the whole year from 1 July. They incur interest of \$30,000 for the year.

Kosta and Jenny can each make an interest claim of \$15,000 on their respective tax returns for the first year of owning the property.

Example: joint borrowers, sole owner – claiming share of interest incurred

Simone decides to purchase a rental property. When she approaches her bank for a loan, they require her husband Jarrod to be a co-borrower, even though the rental property will be solely in Simone's name.

When Simone and Jarrod enter into the loan agreement with the bank, they also enter into a separate legally enforceable written agreement with each other. The agreement is witnessed by a justice of the peace and states that Simone, as the sole owner of the rental property, is 100% liable for the loan repayments and interest.

As the sole owner of the property, Simone must declare 100% of the rental income in her tax return.

Simone can also claim a deduction for 100% of the interest expenses. Simone's agreement with Jarrod shows her intention to be liable for all of the loan repayments and interest charged on the joint loan. Simone's bank statements also support her intention as they show that she paid all the repayments and interest expenses from her own bank account.

This is a general summary only.

For more information:

- see ato.gov.au/rental
- watch our short videos at ato.gov.au/rentalvideos
- download our Rental properties guide at ato.gov.au/RPguide
- read our Capital gains tax guide at ato.gov.au/CGTguide

