Australian Government
Australian Taxation Office

Rental properties

Borrowing expenses

What are borrowing expenses?

Borrowing expenses are directly incurred when taking out a loan to buy your rental property. They include:

- loan establishment fees
- lender's mortgage insurance (insurance taken out by the lender and billed to you)
- stamp duty charged on the mortgage
- title search fees charged by your lender
- costs for preparing and filing mortgage documents (including solicitors' fees)
- mortgage broker fees
- fees for a valuation required for a loan approval.

What is not included in borrowing expenses?

Borrowing expenses don't include:

- the amount you borrow for the property
- loan balances for the property
- interest expenses (these are claimed separately)
- repayments of principal against the loan balance
- annual loan package fees (claim these at Sundry expenses)
- stamp duty charged by your state/territory government on the transfer (purchase) of the property title (this is a capital expense and forms part of your cost base for CGT)
- legal expenses, including solicitors' and conveyancers' fees you incur to buy the property (this is a capital expense and forms part of your cost base for CGT)
- stamp duty you incur when you acquire a leasehold interest in a property, such as an Australian Capital Territory 99-year crown lease (you may be able to claim this as a lease document expense at Sundry expenses)
- insurance premiums where, under the policy, your loan will be paid out if you die, become disabled or unemployed (this is a private expense)
- borrowing expenses on any portion of the loan used for private purposes (for example, money you use to buy a car).

Preparing your return

Remember these 3 steps when preparing your return:

1. **Include all the income you receive**

   This includes income from short term rental arrangements (for example, a holiday home), sharing part of your home, and other rental-related income such as insurance payouts and rental bond money you retain.

2. **Get your expenses right**

   - **Eligibility** – only claim expenses for the period your property was rented or when you were actively and genuinely trying to rent it out.
   - **Timing** – some expenses must be claimed over a number of years.
   - **Apportionment** – apportion your claim where:
     - your property was rented out for part of the year
     - only part of your property was rented out
     - you used the property yourself
     - you rented it at below market rates.

You must also apportion in line with your ownership interest.

3. **Keep records to prove it all**

   You should keep records of both income and expenses relating to your rental property, as well as purchase and sale records to assist with calculating your capital gain or loss on sale.

Claiming borrowing expenses

If your total borrowing expenses are more than $100, the deduction is spread over 5 years or the term of the loan, whichever is less.

If the total borrowing expenses are $100 or less, you can claim a full deduction in the income year they are incurred.

If you repay the loan early and in less than 5 years from the time you took it out, you can claim a deduction for the balance of the borrowing expenses in the final year of repayment.

If you got the loan part way through the income year, the deduction for the first year must be apportioned according to the number of days in the year you had the loan.

Example: apportionment of borrowing expenses

To secure a 20-year loan of $209,000 to buy a rental property for $170,000 and a private motor vehicle for $39,000, the Hitchman's paid a total of $1,670 in establishment fees, valuation fees and stamp duty on the loan.

As the Hitchman's borrowing expenses are more than $100, they must be apportioned over 5 years or the period of the loan, whichever is the lesser.

As part of the loan ($39,000) was used for personal purposes, the Hitchman's can't claim a deduction for its part of the borrowing expenses. They obtained the loan on 17 July 2021, they would work out the borrowing expense deduction for the first year as follows.

Borrowing expenses × (number of relevant days in year ÷ number of days in the 5-year period) × (amount of rental property loan ÷ total amount borrowed) = deduction for the year.

Their borrowing expense deductions in the following years should be worked out as follows:
Borrowing expenses remaining × (number of relevant days in year ÷ remaining number of days in the 5-year period) × (amount of rental property loan ÷ total amount borrowed) = deduction for the year.

Year	Calculation	Available deduction for the year
Year 1	$1,670 × (349 ÷ 1,826) × ($170,000 ÷ $209,000)	$260
Year 2	$1,351 × (365 ÷ 1,477) × ($170,000 ÷ $209,000)	$272
Year 3 (leap year)	$1,017 × (366 ÷ 1,112) × ($170,000 ÷ $209,000)	$272
Year 4	$682 × (365 ÷ 746) × ($170,000 ÷ $209,000)	$271
Year 5	$348 × (365 ÷ 381) × ($170,000 ÷ $209,000)	$271
Year 6	$15 × (16 × 16) × ($170,000 ÷ $209,000)	$12

This is a general summary only.
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