Australian Government
Australian Taxation Office

Rental properties

Interest expenses

If you take out a loan to purchase a rental property, you can claim the interest charged on that loan, or a portion of the interest as a deduction. The property must be rented, or genuinely available for rent, in the income year you claim a deduction.

What can you claim?

You can claim the interest charged on the loan you used to:

- purchase a rental property
- purchase a depreciating asset for the rental property (for example, to buy a new air conditioner for the rental property)
- make repairs to the rental property (for example, roof repairs due to storm damage)
- finance renovations on the rental property.

You can also claim interest you have pre-paid for up to 12 months in advance.

What you can't claim?

You can't claim interest:

- for periods you used the property for private purposes, even if it's for a short time
- on the portion of the loan you use for private purposes when you originally took out the loan or if you refinanced
- on a loan you used to buy a new home if you don't use it to produce income, even if you use your rental property as security for the loan
- on the portion of the loan you redraw for private purposes, even if you are ahead in your repayments
- on funds used to buy vacant land, until the time construction of your rental property is complete and available for rent.

If your loan was used to buy a rental property and another purpose, such as to buy a car, you can't repay only the portion of the loan related to the personal purchase. Any repayments of the loan are apportioned across both purposes.

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 keep.

2. **Get your expenses right**

   - **Eligibility** – only claim expenses incurred 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 several years.
   - **Apportionment** – apportion your claim where your property was rented out for part of the year or only part of the property was rented out, when you used the property yourself or rented it 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.

Example: claiming all 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 the property.

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. 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

That is:
$35,000 × ($380,000 ÷ $400,000) = $33,250

Yoko works out she can claim $33,250 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, this means the 2 loans are managed separately but are secured by the one property.

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

They can't claim an interest deduction against the $400,000 loan used to buy their new home as it isn't being used to produce income, even though the loan is secured against their rental property.

Example: interest incurred on funds redrawn from the loan

Tyler has an investment loan for his rental property with a redraw facility. He is ahead on his repayments by $9,500, which he can redraw. On 1 July, Tyler decides to redraw the available amount of $9,500 and buys himself a new TV and a lounge suite.

The outstanding balance of the loan at end of the income year is $365,000 and total interest expense incurred is $19,000.

Tyler can only claim the interest expense on the portion of the loan relating to the rental property.

Total loan balance – redraw amount = rental property loan portion

That is: **$365,000 – $9,500 = $355,500**

To work out how much interest he can claim, he does the following calculation:

Total interest expenses × (rental property loan portion ÷ loan balance) = deductible interest

That is:
$19,000 × ($355,500 ÷ $365,000) = $18,505

As Tyler uses the redrawn funds for personal items the loan account is now a mixed purpose account. Tyler will need to apportion his interest expenses between the outstanding debt for the rental property and the personal items for the remainder of the life of the loan.

This is a general summary only.
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