

1987 INCOME TAX

Guide to Deductions for Interest on Rental Property Investments (including Schedule N)

1. A deduction for interest on money borrowed and used to finance a rental property investment (*see* paragraphs 2 to 5) may not be fully allowable this year if:

- (a) a contract was entered into after 17 July 1985 to acquire the investment; or
- (b) the investment was made by financing the construction of a building, extension, alteration or improvement that commenced after 17 July 1985 unless:
 - before 18 July 1985 you entered into a contract to have the building, extension, alteration or improvement constructed (unless provided with a previous income tax return, attach a statement to your income tax return showing the address of the property, the name and address of the builder and the date on which the contract to construct the building was entered into); or
 - before 18 July 1985 you purchased your interest in the land on which the building, extension, alteration or improvement was constructed **and** entered into a contract to borrow the money to finance the construction (unless provided with a previous income tax return, attach a statement to your income tax return showing the address of the property, the name and address of the vendor of the land and the dates on which the contract to purchase the land and the contract to borrow money for the construction were entered into).

What is a rental property investment?

2. A rental property investment is:
 - (a) an investment in real property (that is land including buildings) used, or held ready for use, for rent-producing purposes during the year;
 - (b) a share in, or loan to, a rental property company;
 - (c) an interest in, or loan to, a rental property partnership; or
 - (d) a beneficiary's interest in, or a loan to, a rental property trust estate.
3. A rental property company, partnership or trust estate is one having, on the last day of the year of income, at least 75 per cent of its net worth in interests in real property used, or held ready for use, for rent-producing purposes (*see* paragraph 32).
4. A building is not used, or held ready for use, for rent-producing purposes during its construction, but it is when construction is finished and tenants are being sought.
5. An investment may be a rental property investment for a year of income even though it was not a rental property investment when it was acquired or constructed (e.g. a private residence acquired after 17 July 1985 and later used for rent-producing purposes).

Property acquired by reason of death

6. If a rental property investment was acquired by reason of the death of a person (e.g. under a will), it is treated as having been acquired before 18 July 1985 if the deceased person acquired it before that date.

How is the interest deduction affected?

7. A limit is placed on the income tax deduction allowed for interest incurred on money borrowed and used to finance rental property investments made after 17 July 1985 (in these notes called 1986-87 'post 17 July 1985 interest'). The deduction limit equals the net rental income from investments of this kind (in these notes called 1986-87 'post 17 July 1985 net rental income' — *see* paragraph 16). 1986-87 'post 17 July 1985 interest' in excess of the deduction limit (in these notes called 1986-87 'excess loan interest') is carried forward and treated as 1987-88 'post 17 July 1985 interest' incurred in that year of income.
8. Interest on borrowings financing a rental property investment in real property is 1986-87 'post 17 July 1985 interest' only to the extent that the property is used, or held ready for use, for rent-producing purposes.

Refinancing of a rental property investment

9. Interest on a loan replacing borrowings that financed a rental property investment made before 18 July 1985 is generally not 'post 17 July 1985 interest'.

10. If, under the one loan contract entered into after 17 July 1985, a pre 18 July 1985 rental property investment was refinanced **and** additional money was borrowed to finance an extension, alteration or improvement to the rental property or the acquisition of a further interest in the property in which the original investment was made, interest incurred on the total amount borrowed is 'post 17 July 1985 interest'. If the extension etc. was financed by a separate loan, only the interest on that loan is 'post 17 July 1985 interest'.

Share of 'excess loan interest' not allowable as a deduction to a partnership

11. If, as a partner in a partnership, you have a share of 1986-87 'excess loan interest' of the partnership, this amount is treated as being 1986-87 'post 17 July 1985 interest' incurred by you (this should be shown at (c) of Section 2 on your Schedule N).

Calculation of Interest Deduction

12. Schedule N shows how to calculate the amount of 1986-87 'post 17 July 1985 interest' allowable as a deduction this year and the amount of any 1986-87 'excess loan interest' to be carried forward.

13. The amount of 1986-87 'post 17 July 1985 interest' allowable as a deduction this year is limited to the amount of the 1986-87 'post 17 July 1985 net rental income' (*see* paragraph 16).

14. **1986-87 'Post 17 July 1985 Rental Income'** — Assessable income derived during the year of income from all of your rental property investments made after 17 July 1985 (*see* paragraph 1) is added together, regardless of whether money was borrowed to finance a particular investment. For 1986-87, this income includes:

- (a) rental income from real property;
- (b) distributions and interest from rental property partnerships and trust estates;
- (c) dividends and interest from rental property companies;
- (d) taxable profits from the sale of rental property investments other than capital gains made on investments acquired after 19 September 1985 and held for more than twelve months (show at (d) of Section 1 of Schedule N);
- (e) any recoupment or recovery of any loss or outgoing which is an eligible rental property deduction; and
- (f) any amount included in assessable income, other than capital gains made on investments acquired after 19 September 1985, in respect of the disposal, loss or destruction of depreciated property (where the depreciation is or was an eligible rental property deduction) that relates to the use of the property to produce your 1986-87 'post 17 July 1985 rental income'.

15. **1986-87 Eligible Rental Property Deductions** — Allowable deductions incurred during the year of income that relate to 'post 17 July 1985 rental income' are '1986-87 eligible rental property deductions'. They include deductions for expenditure on such items as maintenance and rates on a rent-producing property and a partner's share of any loss of a rental property partnership, but do not include 'post 17 July 1985 interest' or building depreciation. The deduction for building depreciation should be shown in the 'Deductions from Investment and Property Income' block in your income tax return (*see* the Return Form Instruction Booklet for more details).

16. **1986-87 'Post 17 July 1985 Net Rental Income'** — Eligible rental property deductions incurred during the year of income (*see* paragraph 15) are added together and deducted from 'post 17 July 1985 rental income' derived during the year of income (*see* paragraph 14) to calculate 1986-87 'post 17 July 1985 net rental income'.

Information to be shown in your return

17. Complete Schedule N and attach it to your return. The amount of any 1986-87 'post 17 July 1985 interest' claimed as a deduction this year (as calculated on Schedule N) should be shown in the 'Deductions from Investment and Property Income' block in your income tax return. If you are completing a Form A or B the amount of any 1986-87 'Excess Loan Interest' (as calculated on Schedule N), should be shown at Item 49 in your return form. You should keep a record of this amount for completion of next year's income tax return.

Examples of Calculation of Interest Deduction

Example 1

18. A taxpayer borrowed \$40 000 at 15 percent per annum to finance the acquisition of a rental property which was acquired on 1 January 1986. Rent received for the year ended 30 June 1987 was \$5000. Expenses incurred in respect of the investment were: rates and taxes \$400, insurance \$100 and interest \$5000. The taxpayer had no 'Excess Loan Interest' at 30 June 1986.

19. The taxpayer's interest deduction (\$4500) is calculated as follows:

1986-87 'Post 17 July 1985 Rental Income'	\$5000	
1986-87 Eligible Rental Property Deductions	\$ 500	
1986-87 'Post 17 July 1985 Net Rental Income'		\$4500
1986-87 'Post 17 July 1985 Interest':		
1986-87 Interest	\$5000	
'Excess Loan Interest' at 30.6.86	\$ 0	
Total		\$5000
1986-87 'Post 17 July 1985 Interest'	\$5000	
Interest allowable as a deduction	\$4500	
1986-87 'Excess Loan Interest'	\$ 500	

20. The taxpayer's allowable deduction for 1986-87 'post 17 July 1985 interest' is \$4500 for the year ended 30 June 1987. The 1986-87 'excess loan interest' of \$500 is carried forward to be treated as 1987-88 'post 17 July 1985 interest' and must be transferred to Item 49 'excess loan interest' (Schedule N) for a Form A or B taxpayer.

Example 2

21. The taxpayer in example 1 also received dividends of \$2000 from a rental property company during the year. The investment in shares in the company was made on 1 February 1986. The taxpayer incurred interest of \$1000 on money borrowed to acquire the shares.

22. The taxpayer's interest deduction (\$6000) is calculated as follows:

1986-87 'Post 17 July 1985 Rental Income':		
Rent	\$5000	
Dividends	\$2000	
Total		\$7000
1986-87 Eligible Rental Property Deductions	\$ 500	
1986-87 'Post 17 July 1985 Net Rental Income'		\$6500
1986-87 'Post 17 July 1985 Interest':		
1986-87 Interest	\$6000	
'Excess Loan Interest' at 30.6.86	\$ 0	
Total		\$6000
1986-87 'Post 17 July 1985 Interest'	\$6000	
Interest allowable as a deduction	\$6000	
1986-87 'Excess Loan Interest'	\$ 0	

23. The taxpayer's allowable deduction for 1986-87 'post 17 July 1985 interest' is \$6000 for the year ended 30 June 1987. There is no amount of 1986-87 'excess loan interest' in this example.

Example 3

24. Assume that the taxpayer in example 2 had 'excess loan interest' at 30 June 1986 of \$2000 and made a capital gain on the sale of the rental property of \$5000 (sold on 30 June 1987).

25. The taxpayer's interest deduction (\$6500) is calculated as follows:

1986-87 'Post 17 July 1985 Net Rental Income'	\$6500	
1986-87 'Post 17 July 1985 Interest':		
1986-87 Interest	\$6000	
'Excess Loan Interest' at 30.6.86	\$2000	
Total		\$8000
1986-87 'Post 17 July 1985 Interest'	\$8000	
Interest allowable as a deduction	\$6500	
Sub-total	\$1500	
Capital Gain to be offset	\$1500	
1986-87 'Excess Loan Interest'	\$ 0	

26. The taxpayer's allowable deduction for 1986-87 'post 17 July 1985 interest' is \$6500 for the year ended 30 June 1987. The taxpayer can reduce the capital gain (calculated from Schedule G) by \$1500. There is no amount of 1986-87 'excess loan interest' in this example.

Additional Information Relating to Partnerships, Trust Estates, Companies and Superannuation Funds

'Excess Loan Interest'

27. **Partnerships:** If a partnership has incurred 'post 17 July 1985 interest' during the year of income, Schedule N should be completed and attached to the partnership income tax return. The amount of 'post 17 July 1985 interest' allowable as a deduction this year (as calculated on Schedule N) should be shown in the 'Deductions from Investment and Property Income' block on the partnership income tax return.

28. If the partnership has an amount of 'excess loan interest', the individual interest of each partner in that amount is to be treated as 1986-87 'post 17 July 1985 interest' incurred by that partner and shown at (c) of Section 2 of Schedule N on the partner's Schedule N.

29. **Trust Estates, Companies and Superannuation Funds:** If the trustee, company or fund has incurred 'post 17 July 1985 interest' Schedule N should be completed and attached to the income tax return.

30. Any 'excess loan interest' will be carried forward and treated as 'post 17 July 1985 interest' incurred in the 1987-88 year of income. However, all or part of an amount of 'excess loan interest' may be transferred between companies in a wholly-owned company group on a similar basis to that which applies to ordinary losses. An amount may only be transferred to the extent that it can be absorbed by any 1986-87 'post 17 July 1985 net rental income' of the transferee company remaining after deducting any 1986-87 'post 17 July 1985 interest' incurred by that company.

31. **Rental Property Company, Partnership or Trust Estate:** A company, partnership or trust estate is a rental property company, partnership or trust estate in relation to a year of income if, at the end of the year of income, it has 75 per cent or more of its net worth (see paragraph 32) in investments (either direct or through interposed companies, partnerships or trust estates) in real property that are used, or held ready for use, for rent-producing purposes. Interposed companies, partnerships or trust estates do not themselves have to be rental property companies, partnerships or trust estates as defined and it is the net value (that is, net of any related liabilities of the entity itself and any interposed entity) of the entity's ultimate investment in property — not the investment in the interposed entity — that is taken into account in the application of the 75 per cent test.

32. Net worth in relation to a company, partnership or trust estate means the total 'value' of its assets less total liabilities. 'Value' for this purpose means actual value at the end of the year of income, which is not necessarily the value shown in the balance sheet of the company, partnership or trust estate.

Change in Beneficial Ownership

33. Where a change of 50 per cent or more occurs after 25 September 1985 in the beneficial ownership of a rental property investment made on or before 17 July 1985, the investment is treated as having been made after 17 July 1985 and the deduction limitation for interest on money borrowed to finance the investment may then apply. The change could be in the beneficial ownership of company shares or one that occurs upon the formation, dissolution or variation of a partnership or trust. However, a change in beneficial ownership on account of death is not treated as a change of beneficial ownership.

34. A partial ownership change of less than 50 per cent occurring in connection with the making of a rental property investment after 25 September 1985 generally causes the investment to be deemed to be made before 17 July 1985. That will not be so, however, if the total borrowings financing the investment are increased in the course of the ownership change or the person from whom the investment was acquired had acquired the investment after 17 July 1985.



AUSTRALIAN TAXATION OFFICE

1987 INCOME TAX RETURN CALCULATION OF INTEREST DEDUCTION

SCHEDULE N

For use with Forms:
A, B, P, T, C or F

This schedule forms part of the income tax return of:

FULL NAME (Use block letters)

FILE NUMBER

SIGNATURE OF TAXPAYER

- You must fill in this schedule if you have incurred interest on money borrowed and used to finance a rental property investment made after 17 July 1985. Details of rental property investments affected are explained in the '1987 Income Tax—Guide to Deductions for Interest on Rental Property Investments'.
- This schedule is for calculation purposes only. All income and expenses (e.g. rental income, rates, commission etc.) should be shown at the appropriate items in your income tax return. Attach this schedule to your income tax return.

SECTION 1—Calculation of 1986-87 'Post 17 July 1985 Net Rental Income'

1986-87 'Post 17 July 1985 Rental Income' (see paragraph 14 of the Guide) Show here income derived during the year of income from rental property investments made after 17 July 1985:—	Amount \$	Amount \$	Item
(a) Rent, Premiums (see Note 1) .....	.....	
(b) Interest or dividends from rental property companies .....	.....	
(c) Income from rental property partnerships (see Note 2) and trust estates .....	.....	
(d) Other income (see Notes 3 to 5) (give details).....	.....	
Total 1986-87 'Post 17 July 1985 Rental Income' (Add (a), (b), (c) and (d))			N1
1986-87 Eligible Rental Property Deductions (see paragraph 15 of the Guide) Show here deductions incurred during the year of income (excluding building depreciation and 'Post 17 July 1985 Interest') which relate to 'Post 17 July 1985 Rental Income' (see Note 1):—	Amount \$		
(e) Rates, Land Taxes, Insurance Premiums .....	.....	
(f) Repairs (not including improvements, etc.) .....	.....	
(g) Commission .....	.....	
(h) Other deductions (give details).....	.....	
Sub-Total (Add (e), (f), (g) and (h)) (i)			
(i) Was a rental property investment or any part of it used during the year of income for purposes other than rent-producing (e.g. private)?	YES <input type="checkbox"/> NO <input type="checkbox"/>	If YES, state that part of the above sub-total applicable to other use (attach details of the basis of calculation of this amount). ..	(ii)
		Subtract (ii) from (i) ..	(iii)
(j) Share of losses of rental property partnerships (see Note 2)			(iv)
Total 1986-87 Eligible Rental Property Deductions (Add (iii) to (iv))			N2
1986-87 'POST 17 JULY 1985 NET RENTAL INCOME' (Subtract Item N2 from Item N1—If your answer is less than zero, show '0')			N3

SECTION 2—Calculation of 1986-87 'Post 17 July 1985 Interest'

	Amount \$	
(a) Show here interest incurred during the year of income on money borrowed and used to finance rental property investments made after 17 July 1985 (see Note 5)	
(b) If a rental property investment was used during the year of income for purposes other than rent-producing (e.g. private) show here that part of the amount at (a) applicable to other use (attach details of the basis of calculation of this amount) (see Note 6)	
Sub-Total (Subtract (b) from (a)) .. (i)		
(c) Show here Partner's Share of Partnership 1986-87 'Excess Loan Interest' (see paragraph 11 of the Guide)		(ii)
(d) Show here the amount of 'Excess Loan Interest', if any, as at 30 June 1986 (Note: If this schedule is completed for a partnership return, then this Item MUST be zero)		(iii)
1986-87 'POST 17 JULY 1985 INTEREST' (Add (i), (ii) and (iii))		N4

SECTION 3—Amount Allowable as a Deduction for 1986-87 'Post 17 July 1985 Interest'

(Complete this section only if the amount at Item N3 is greater than zero. If Item N3 is zero, no interest is allowable as a deduction.)

Show here the lesser of Item N3 and Item N4

The amount at Item N5 is allowable as a deduction. Claim the amount as a deduction against Investment and Property Income in your income tax return (see Notes 6 and 7).

N5

SECTION 4—Calculation of 1986-87 'Excess Loan Interest'

(Complete this section only if the amount at Item N4 is greater than the amount at Item N3.)

(a) Show here your 1986-87 'Post 17 July 1985 Interest' from Item N4

(b) Show here the amount allowable as a deduction for 1986-87 'Post 17 July 1985 Interest' from Item N5

Sub-Total (Subtract (b) from (a)) .. (i)

(c) If, during the year of income, you made a capital gain(s) on the sale or other transfer of a rental property investment made after 19 September 1985, show here the lesser of the capital gain(s) (calculated from Schedule G) and the amount shown at (i) above. (Note: The amount you show here is the amount which can be transferred to Schedule G to reduce the capital gain(s).)

(ii)

1986-87 'EXCESS LOAN INTEREST' (Subtract (ii) from (i)) (see paragraph 17 of the Guide) ..

N6

N7

(Note: If this schedule is completed for a partnership return, the statement on the back at Note 8 should also be completed.)
If you are completing a Form A or B transfer your "1986-87 'Excess Loan Interest'" to Item 49 of your return form.

IMPORTANT NOTES ABOUT THE SCHEDULE

NOTE 1: If you made a rental property investment by financing the construction of an extension, alteration or improvement to your rental property that commenced after 17 July 1985 (see paragraph 1 of the Guide) you must include all of the income you derived during the year from the rental property as 1986-87 'Post 17 July 1985 Rental Income' (at (a) to (d) of Section 1, of Schedule N).

Any interest incurred on money borrowed to finance the purchase of the rental property (that is, not the extension, alteration or improvement) that is not to be treated as 1986-87 'Post 17 July 1985 Interest' (see paragraphs 9 and 10 of the Guide) should be included as an eligible rental property deduction at 'Other deductions' (at (h) of Section 1 of Schedule N).

NOTE 2: If you have a share of the net income or loss of a rental property partnership which was allowed a deduction for depreciation on income producing buildings, your share of the depreciation must be added back in determining your share of the partnership net income to be included at (c) of Section 1 of Schedule N or partnership loss to be included at (j) of Section 1 of Schedule N.

Example 1: A taxpayer has a share of \$500 of the loss of a rental property partnership. In calculating the partnership loss a deduction for depreciation on a rental building has been allowed. The taxpayer's 'share' of this deduction is \$100.

The amount to be included as a deduction at (j) of Section 1 of Schedule N as the share of the loss of a rental property partnership is \$400 (i.e. the 'share' of depreciation of \$100 is added back to the actual share of the partnership loss of \$500 to calculate the deduction of \$400).

Example 2: A taxpayer has a share of \$150 of the loss of a rental property partnership. In calculating the partnership loss a deduction for depreciation on a rental building has been allowed. The taxpayer's 'share' of this deduction is \$200.

The amount to be included at (c) of Section 1 of Schedule N as the distribution from the rental property partnership is \$50 (i.e. the 'share' of depreciation of \$200 is added back to the actual share of the partnership loss of \$150 to calculate the income distribution of \$50).

NOTE 3: If you made a profit from the sale of rental property investments which were purchased and sold within twelve months, or were acquired before 20 September 1985 for the purpose of profit-making by sale and the investment meets the description of 'rental property investment' in paragraph 1 of the Guide, show the gain at 'Other income' — (d) of Section 1 of Schedule N.

NOTE 4: If you were an employer and you borrowed money to finance the purchase of a rental property after 17 July 1985, to provide a fringe benefit to an employee during the year by leasing the property to the employee (generally called 'housing fringe benefit' for the purposes of the Fringe Benefits Tax), you can treat the amount of the taxable value of the fringe benefit as if it were 'post 17 July 1985 rental income' for the purpose of calculating your interest deduction on Schedule N. Include this amount at 'Other income' — (d) of Section 1 of Schedule N. (Note: The amount is NOT to be included as income on your tax return form.)

Example 3: An employer borrows \$10,000 on 1 January 1987 to finance a rental property investment, which is used to provide a housing fringe benefit to an employee. The employee pays rent of \$1000 from 1 January 1987 to 30 June 1987 (when the market rent is \$1500 for the same period). The employer pays fringe benefits tax on \$500.

The amount to be included in 'Rent, Premiums' (at (a) of Section 1) is \$1000 and the amount to be included in 'Other income' (at (d) of Section 1) is \$500 (i.e. market rent of \$1500 less actual rent received of \$1000). The amount of income to be shown on the employer's tax return is \$1000.

NOTE 5: At the time this form was printed, legislation affecting the treatment of relevant foreign exchange gains and losses for the purpose of calculating a taxpayer's allowable interest deduction was under consideration by the Parliament. Further details can be obtained from the nearest Taxation Office once the law has been passed.

NOTE 6: The deduction for 1986-87 'Post 17 July 1985 Interest' calculated on Schedule N (amount at Item N5) should not be further reduced on account of other use (e.g. private) when claimed as a deduction against Investment and Property Income in your income tax return.

NOTE 7: If a portion of the amount shown at (a) of Section 2 is interest related to an investment in a rental property partnership or trust estate, your allowable 1986-87 'Post 17 July 1985 Interest' deduction (amount at Item N5) must be similarly apportioned in your income tax return against income received from the rental property partnership or trust estate and income received from other rental property investments.

NOTE 8: If this schedule is completed for a partnership and there is an amount of 1986-87 'Excess Loan Interest' at Item N7, complete the following statement.

Distribution of 1986-87 'Excess Loan Interest'

Name of each Partner	File Number	Share of Excess Loan Interest
Total of 1986-87 Excess Loan Interest		



1987 INCOME TAX RETURN CALCULATION OF INTEREST DEDUCTION

SCHEDULE N

For use with Forms:
A, B, P, T, C or F

This schedule forms part of the income tax return of:

FULL NAME (Use block letters)

FILE NUMBER

SIGNATURE OF TAXPAYER

- You must fill in this schedule if you have incurred interest on money borrowed and used to finance a rental property investment made after 17 July 1985. Details of rental property investments affected are explained in the '1987 Income Tax—Guide to Deductions for Interest on Rental Property Investments'.
- This schedule is for calculation purposes only. All income and expenses (e.g. rental income, rates, commission etc.) should be shown at the appropriate items in your income tax return. Attach this schedule to your income tax return.

SECTION 1—Calculation of 1986-87 'Post 17 July 1985 Net Rental Income'

1986-87 'Post 17 July 1985 Rental Income' (see paragraph 14 of the Guide) Show here income derived during the year of income from rental property investments made after 17 July 1985:—		Amount \$	Amount \$	Item
(a) Rent, Premiums (see Note 1)	.....	.....
(b) Interest or dividends from rental property companies	.....	.....
(c) Income from rental property partnerships (see Note 2) and trust estates	.....	.....
(d) Other income (see Notes 3 to 5) (give details).....	.....	.....
Total 1986-87 'Post 17 July 1985 Rental Income' (Add (a), (b), (c) and (d))				N1
1986-87 Eligible Rental Property Deductions (see paragraph 15 of the Guide) Show here deductions incurred during the year of income (excluding building depreciation and 'Post 17 July 1985 Interest') which relate to 'Post 17 July 1985 Rental Income' (see Note 1):—		Amount \$		
(e) Rates, Land Taxes, Insurance Premiums	.....	.....
(f) Repairs (not including improvements, etc.)	.....	.....
(g) Commission	.....	.....
(h) Other deductions (give details).....	.....	.....
Sub-Total (Add (e), (f), (g) and (h))			(i)	
(i) Was a rental property investment or any part of it used during the year of income for purposes other than rent-producing (e.g. private)?	YES <input type="checkbox"/> NO <input type="checkbox"/> If YES, state that part of the above sub-total applicable to other use (attach details of the basis of calculation of this amount).		(ii)	
Subtract (ii) from (i)			(iii)	
(j) Share of losses of rental property partnerships (see Note 2)	.....	.....	(iv)	
Total 1986-87 Eligible Rental Property Deductions (Add (iii) to (iv))				N2
1986-87 'POST 17 JULY 1985 NET RENTAL INCOME' (Subtract Item N2 from Item N1—If your answer is less than zero, show '0')				N3

SECTION 2—Calculation of 1986-87 'Post 17 July 1985 Interest'

(a) Show here interest incurred during the year of income on money borrowed and used to finance rental property investments made after 17 July 1985 (see Note 5)	.....	Amount \$	
(b) If a rental property investment was used during the year of income for purposes other than rent-producing (e.g. private) show here that part of the amount at (a) applicable to other use (attach details of the basis of calculation of this amount) (see Note 6)	.....	
Sub-Total (Subtract (b) from (a))			(i)
(c) Show here Partner's Share of Partnership 1986-87 'Excess Loan Interest' (see paragraph 11 of the Guide)	.....		(ii)
(d) Show here the amount of 'Excess Loan Interest', if any, as at 30 June 1986 (Note: If this schedule is completed for a partnership return, then this Item MUST be zero)	.....		(iii)
1986-87 'POST 17 JULY 1985 INTEREST' (Add (i), (ii) and (iii))			N4

SECTION 3—Amount Allowable as a Deduction for 1986-87 'Post 17 July 1985 Interest'

(Complete this section only if the amount at Item N3 is greater than zero. If Item N3 is zero, no interest is allowable as a deduction.)

Show here the lesser of Item N3 and Item N4

The amount at Item N5 is allowable as a deduction. Claim the amount as a deduction against Investment and Property Income in your income tax return (see Notes 6 and 7).

N5

SECTION 4—Calculation of 1986-87 'Excess Loan Interest'

(Complete this section only if the amount at Item N4 is greater than the amount at Item N3.)

(a) Show here your 1986-87 'Post 17 July 1985 Interest' from Item N4	.....
(b) Show here the amount allowable as a deduction for 1986-87 'Post 17 July 1985 Interest' from Item N5	.....
Sub-Total (Subtract (b) from (a))		(i)
(c) If, during the year of income, you made a capital gain(s) on the sale or other transfer of a rental property investment made after 19 September 1985, show here the lesser of the capital gain(s) (calculated from Schedule G) and the amount shown at (i) above. (Note: The amount you show here is the amount which can be transferred to Schedule G to reduce the capital gain(s).)	.....	(ii)
1986-87 'EXCESS LOAN INTEREST' (Subtract (ii) from (i)) (see paragraph 17 of the Guide)		N6
		N7

(Note: If this schedule is completed for a partnership return, the statement on the back at Note 8 should also be completed.)
If you are completing a Form A or B transfer your "1986-87 'Excess Loan Interest'" to Item 49 of your return form.

IMPORTANT NOTES ABOUT THE SCHEDULE

NOTE 1: If you made a rental property investment by financing the construction of an extension, alteration or improvement to your rental property that commenced after 17 July 1985 (see paragraph 1 of the Guide) you must include all of the income you derived during the year from the rental property as 1986-87 'Post 17 July 1985 Rental Income' (at (a) to (d) of Section 1, of Schedule N).

Any interest incurred on money borrowed to finance the purchase of the rental property (that is, not the extension, alteration or improvement) that is not to be treated as 1986-87 'Post 17 July 1985 Interest' (see paragraphs 9 and 10 of the Guide) should be included as an eligible rental property deduction at 'Other deductions' (at (h) of Section 1 of Schedule N).

NOTE 2: If you have a share of the net income or loss of a rental property partnership which was allowed a deduction for depreciation on income producing buildings, your share of the depreciation must be added back in determining your share of the partnership net income to be included at (c) of Section 1 of Schedule N or partnership loss to be included at (j) of Section 1 of Schedule N.

Example 1: A taxpayer has a share of \$500 of the loss of a rental property partnership. In calculating the partnership loss a deduction for depreciation on a rental building has been allowed. The taxpayer's 'share' of this deduction is \$100.

The amount to be included as a deduction at (j) of Section 1 of Schedule N as the share of the loss of a rental property partnership is \$400 (i.e. the 'share' of depreciation of \$100 is added back to the actual share of the partnership loss of \$500 to calculate the deduction of \$400).

Example 2: A taxpayer has a share of \$150 of the loss of a rental property partnership. In calculating the partnership loss a deduction for depreciation on a rental building has been allowed. The taxpayer's 'share' of this deduction is \$200.

The amount to be included at (c) of Section 1 of Schedule N as the distribution from the rental property partnership is \$50 (i.e. the 'share' of depreciation of \$200 is added back to the actual share of the partnership loss of \$150 to calculate the income distribution of \$50).

NOTE 3: If you made a profit from the sale of rental property investments which were purchased and sold within twelve months, or were acquired before 20 September 1985 for the purpose of profit-making by sale and the investment meets the description of 'rental property investment' in paragraph 1 of the Guide, show the gain at 'Other income' — (d) of Section 1 of Schedule N.

NOTE 4: If you were an employer and you borrowed money to finance the purchase of a rental property after 17 July 1985, to provide a fringe benefit to an employee during the year by leasing the property to the employee (generally called 'housing fringe benefit' for the purposes of the Fringe Benefits Tax), you can treat the amount of the taxable value of the fringe benefit as if it were 'post 17 July 1985 rental income' for the purpose of calculating your interest deduction on Schedule N. Include this amount at 'Other income' — (d) of Section 1 of Schedule N. (Note: The amount is NOT to be included as income on your tax return form.)

Example 3: An employer borrows \$10,000 on 1 January 1987 to finance a rental property investment, which is used to provide a housing fringe benefit to an employee. The employee pays rent of \$1000 from 1 January 1987 to 30 June 1987 (when the market rent is \$1500 for the same period). The employer pays fringe benefits tax on \$500.

The amount to be included in 'Rent, Premiums' (at (a) of Section 1) is \$1000 and the amount to be included in 'Other income' (at (d) of Section 1) is \$500 (i.e. market rent of \$1500 less actual rent received of \$1000). The amount of income to be shown on the employer's tax return is \$1000.

NOTE 5: At the time this form was printed, legislation affecting the treatment of relevant foreign exchange gains and losses for the purpose of calculating a taxpayer's allowable interest deduction was under consideration by the Parliament. Further details can be obtained from the nearest Taxation Office once the law has been passed.

NOTE 6: The deduction for 1986-87 'Post 17 July 1985 Interest' calculated on Schedule N (amount at Item N5) should not be further reduced on account of other use (e.g. private) when claimed as a deduction against Investment and Property Income in your income tax return.

NOTE 7: If a portion of the amount shown at (a) of Section 2 is interest related to an investment in a rental property partnership or trust estate, your allowable 1986-87 'Post 17 July 1985 Interest' deduction (amount at Item N5) must be similarly apportioned in your income tax return against income received from the rental property partnership or trust estate and income received from other rental property investments.

NOTE 8: If this schedule is completed for a partnership and there is an amount of 1986-87 'Excess Loan Interest' at Item N7, complete the following statement.

Distribution of 1986-87 'Excess Loan Interest'

Name of each Partner	File Number	Share of Excess Loan Interest
Total of 1986-87 Excess Loan Interest		