Australian Government
Australian Taxation Office

Rental properties

Interest expenses

You can claim interest paid on the amount you borrow, or a portion of the interest, where the interest relates to earning assessable income. You can't claim any payments for paying off the principal of your loan.

What you can claim

You can claim interest expenses you incur on the loan that you use to:

- buy a rental property
- 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.

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

What you can't claim

You can't claim interest:

- for periods you use the property for private purposes, even if it's for a short time
- on any part of the loan
  - used for private purposes when you took out the loan or refinanced it
  - that's redrawn for private purposes, even if you're ahead in your repayments
- 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 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 something else, such as a car, you can't just repay the part relating to your personal purchase, even when you refinance. All loan repayments are apportioned across both purposes until all the loan has been repaid and you are no longer claiming interest expenses for that property.

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 periods you can directly connect to generating income.
- **Timing** – interest can be claimed in the year charged by the lender and any pre-paid interest expenses up to 12 months in advance.

Preparing your return (continued)

- **Apportionment** – apportion your claim where:
  - your property was available for rent for part of the year
  - only part of your property was rented out
  - you used the property or kept it vacant for yourself
  - you rented it at below market rates.

Report your income and expenses in line with your ownership interest.

3. Keep records to prove it all

You should keep records of all 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

$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.

This is a general summary only.
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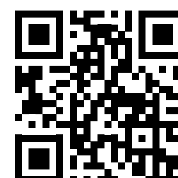

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