



Australian Government  
Australian Taxation Office

# Rental properties

## Borrowing expenses



### What are borrowing expenses?

Borrowing expenses are the expenses you directly incur 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 (stamp duty charged by your state or territory on the transfer of the property, is a capital expense)
- 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.
- stamp duty incurred when acquiring a leasehold interest in a property, such as an Australian Capital Territory 99-year crown lease (if you rent the property out, 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 and can't be claimed)
- borrowing expenses on any portion of the loan you use for private purposes (for example, to buy a car, pay for school fees or remodel the kitchen in your home).

### Borrowing expenses you can't claim

Borrowing expenses don't include:

- the amount you borrow for the rental property
- loan balances for the rental property
- interest expenses (claim these expenses at **interest on loans**)
- repayments of principal against the loan balance
- annual loan package fees (claim these at **Sundry expenses**)
- stamp duty charged by your state or 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)

### When to claim borrowing expenses

If your total borrowing expenses are:

- more than \$100, spread the deduction over 5 years or the term of the loan, whichever is shorter
- \$100 or less, claim a full deduction in the income year they are incurred.

If you repay the loan in less than 5 years, 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, apportion the deduction for the first year according to the number of days in the year you had the loan.

### Example: apportionment of borrowing expenses

The Hitchman's got approval for a 20-year loan of \$209,000 to buy a rental property for \$170,000 and a private motor vehicle for \$39,000. They paid a total of \$1,670 in establishment fees, valuation fees and stamp duty on the loan (borrowing expenses).

As the Hitchman's borrowing expenses are more than \$100, they must be apportioned over 5 years because it's less than the period of the loan (20 years).

As part of the loan (\$39,000) was used for personal purposes, the Hitchman's can't claim a deduction for this part of the borrowing expenses. They obtained the loan on 17 July 2023, so they work out the borrowing expense deduction for the first year as follows:

$$\text{Borrowing expenses} \times (\text{number of relevant days in year} \div \text{number of days in the 5-year period}) \times (\text{amount of rental property loan} \div \text{total amount borrowed}) = \text{deduction for the year.}$$

Their borrowing expense deductions for the subsequent years would be worked out as shown in the table below:

#### Borrowing expense calculation

Year	Calculation	Available deduction for the year
Year 1 (leap year)	$\$1,670.00 \times (350 \div 1,826) = \$320.10$ $\$320.10 \times (\$170,000 \div \$209,000)$	\$260.37
Year 2	$\$1,349.90 \times (365 \div 1,476) = \$333.82$ $\$333.82 \times (\$170,000 \div \$209,000)$	\$271.53
Year 3	$\$1,016.08 \times (365 \div 1,111) = \$333.82$ $\$333.82 \times (\$170,000 \div \$209,000)$	\$271.53
Year 4	$\$682.26 \times (365 \div 746) = \$333.81$ $\$333.81 \times (\$170,000 \div \$209,000)$	\$271.53
Year 5	$\$348.45 \times (365 \div 381) = \$333.82$ $\$333.82 \times (\$170,000 \div \$209,000)$	\$271.53
Year 6	$\$14.63 \times (16 \div 16) = \$14.63$ $\$14.63 \times (\$170,000 \div \$209,000)$	\$11.90

**i This is a general summary only.**

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