Australian Government
Australian Taxation Office

Rental properties

Borrowing expenses

What are borrowing expenses?

You incur borrowing expenses when you take out a loan to buy a rental property.

They include:

- loan establishment fees
- lender's mortgage insurance (insurance the lender bills to you)
- stamp duty you pay on the mortgage, (**not** stamp duty to transfer the property into your name – this is used to work out your cost base for capital gains tax purposes)
- title search fees your lender charges
- costs for preparing and filing mortgage documents (including solicitors' fees)
- mortgage broker fees
- fees for a valuation required for a loan approval.

Amounts that are not borrowing expenses

Borrowing expenses for a rental property **don't** include:

- the principal amount you borrow and any repayments
- interest expenses (claim these at **interest on loans**)
- annual loan package fees (claim these at **Sundry expenses**)
- insurance policy premiums that provide for your loan to be paid out if you die, become disabled or unemployed (this is a private expense and can't be claimed).

The following expenses are **not** borrowing expenses, however you can include them in the cost base for capital gains tax (CGT) purposes when you sell or dispose of your rental property:

- stamp duty
  - your state or territory government charges on the transfer (purchase) of the property title
  - you incur to acquire a leasehold interest in a property, such as an Australian Capital Territory 99-year crown lease (if you rent the property, you may be able to claim this as a lease document expense at **Sundry expenses**)
- legal expenses, including solicitor and conveyancer fees you incur to buy the property.

Claiming borrowing expenses

If your total borrowing expenses are:

- more than $100, spread the deduction over 5 income years or the term of the loan, whichever is shorter
- $100 or less, claim a full deduction in the income year you incur the expenses.

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 that year.

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.

Work out borrowing expenses

To work out your borrowing expenses, you must apportion any deductions for parts of the loan used for private purposes. For example, private purposes may include to buy a car, pay for school fees, or remodel the kitchen in your home. You can't claim private expenses.

To help work out your claim, use our Deductible borrowing expenses calculator (xlsx,154KB).

Example: apportionment of borrowing expenses

The Hitchman's (as joint tenants each with 50% interest) secure a 20-year loan of $209,000 to buy a rental property for $170,000 and a car for $39,000.

They pay for establishment fees, valuation fees and stamp duty on the mortgage. Their borrowing expenses on the loan total $1,670.

As their borrowing expenses are more than $100, they must apportion their deduction over 5 years because it's less than the period of the loan (20 years).

As they use part of the loan ($39,000) for a private purpose, they can't claim a deduction for borrowing expenses on this portion of the loan.

They secure the loan on 17 July 2023, so they work out the borrowing expense deduction for the first year as follows:

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

As joint tenants, they need to report their share (50%) in each of their tax returns.

They work out their borrowing expenses deduction as shown in the table below.

Borrowing expense calculation

Year	Calculation	Available deduction for the year
1 (leap year)	$1,670.00 × (350 ÷ 1,827) = $319.90 $319.90 × ($170,000 ÷ $209,000)	$260.20
2	$1,350.10 × (365 ÷ 1,477) = $333.64 $333.64 × ($170,000 ÷ $209,000)	$271.38
3	$1,016.46 × (365 ÷ 1,112) = $333.64 $333.64 × ($170,000 ÷ $209,000)	$271.38
4	$682.82 × (365 ÷ 747) = $333.64 $333.64 × ($170,000 ÷ $209,000)	$271.38
5 (leap year)	$349.18 × (366 ÷ 382) = $334.55 $334.55 × ($170,000 ÷ $209,000)	$272.12
6	$14.63 × (16 ÷ 16) = $14.63 $14.63 × ($170,000 ÷ $209,000)	$11.90

This is a general summary only.
For more information:

- see ato.gov.au/rental
- watch our short videos at ato.gov.au/rentalvideos
- download our Rental properties guide at ato.gov.au/rentalpropertyguide
- read our Capital gains tax guide at ato.gov.au/cgtguide.

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