


TD 93/13 - Income tax: is interest paid on a loan used to acquire income producing property an allowable deduction where non income producing property (e.g. the family home) is used as security for the loan?

 This cover sheet is provided for information only. It does not form part of *TD 93/13 - Income tax: is interest paid on a loan used to acquire income producing property an allowable deduction where non income producing property (e.g. the family home) is used as security for the loan?*

This Determination, to the extent that it is capable of being a 'public ruling' in terms of Part IVAAA of the *Taxation Administration Act 1953*, is a public ruling for the purposes of that Part. Taxation Ruling TR 92/1 explains when a Determination is a public ruling and how it is binding on the Commissioner. Unless otherwise stated, this Determination applies to years commencing both before and after its date of issue. However, this Determination does not apply to taxpayers to the extent that it conflicts with the terms of a settlement of a dispute agreed to before the date of issue of the Determination (see paragraphs 21 and 22 of Taxation Ruling TR 92/20).

Taxation Determination

Income tax: is interest paid on a loan used to acquire income producing property an allowable deduction where non income producing property (e.g. the family home) is used as security for the loan?

1. Yes. The deductibility is determined by the use of the borrowed money. If the money is used to buy income producing property, the interest expense is an allowable deduction.
2. If the money borrowed is used only partly to produce assessable income, only that part of the interest which relates to the production of assessable income is an allowable deduction.

Example 1

Zeb owns his own home and does not have a mortgage outstanding. He decides to invest in a rental property. He obtains a bank loan in order to buy a rental property. The bank requires Zeb to mortgage his home as security for the loan to buy the rental property.

As all the money is used to buy a rental property, interest incurred on the loan is an allowable deduction.

Example 2

Debbie has finished paying off her home and has decided she would like to do some renovations to her home and buy a rental property. She borrows \$100,000 from the bank, using her home as the security for the loan. Debbie uses \$20,000 to renovate her home and the remaining \$80,000 to buy a rental property.

As only 8/10 of the loan was used for the purpose of buying the rental property, only 8/10 of the interest is an allowable deduction.

Commissioner of Taxation

28/1/93

FOI INDEX DETAIL: Reference No. I 1213945

Previously issued as Draft TD 92/D194

Related Determinations:

Related Rulings:

Subject Ref: deductibility of interest, income producing property, interest, security

Legislative Ref: ITAA 51(1)

ATO Ref: T95 Pt8 PNR

ISSN 1038 - 8982