

TD 95/27 - Income tax: does the interest paid by a taxpayer on a loan to purchase a motor vehicle used for income-producing purposes (but not in carrying on a business) continue to be an allowable deduction under subsection 51(1) of the Income Tax Assessment Act 1936 after disposal of the vehicle?

⚠ This cover sheet is provided for information only. It does not form part of *TD 95/27 - Income tax: does the interest paid by a taxpayer on a loan to purchase a motor vehicle used for income-producing purposes (but not in carrying on a business) continue to be an allowable deduction under subsection 51(1) of the Income Tax Assessment Act 1936 after disposal of the vehicle?*

⚠ This ruling contains references to repealed provisions, some of which may have been rewritten. The ruling still has effect. Paragraph 32 in [TR 2006/10](#) provides further guidance on the status and binding effect of public rulings where the law has been repealed or repealed and rewritten. The legislative references at the end of the ruling indicate the repealed provisions and, where applicable, the rewritten provisions.

⚠ This document has changed over time. This is a consolidated version of the ruling which was published on *29 November 2006*

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).

[Note: This is a consolidated version of this document. Refer to the Tax Office Legal Database (<http://law.ato.gov.au>) to check its currency and to view the details of all changes.]

Taxation Determination

Income tax: does the interest paid by a taxpayer on a loan to purchase a motor vehicle used for income-producing purposes (but not in carrying on a business) continue to be an allowable deduction under subsection 51(1) of the *Income Tax Assessment Act 1936* after disposal of the vehicle?

1. The deductibility of the interest expenses after disposal of the vehicle will depend upon whether the borrowed money is still used for income-producing purposes.
2. After the vehicle is sold, the taxpayer may use the money received from the sale to gain or produce assessable income. In that case, the interest paid by the taxpayer is still deductible. However, if the money is used for some other purpose, such as a private purpose or to gain or produce exempt income, the interest will not be deductible under subsection 51(1).

Example:

Jerry has been employed for some years by PDQ Building Company as a plumber. In 1990 Jerry borrowed \$30,000 to buy a four-wheel-drive vehicle which he used wholly in the course of his employment.

In June 1994 PDQ transfers Jerry to its building maintenance division, where he no longer needs the vehicle to perform his duties. Jerry sells the vehicle on 20 June 1994, but does not use the money he receives to repay the balance of \$15,000 then outstanding under the loan contract.

- (a) *If Jerry sells the vehicle for \$15,000 and uses the money to buy shares in a company that pays dividends, the borrowed money continues to be used to gain or produce assessable income and the interest expenses are still deductible.*
- (b) *If he sells the vehicle for \$15,000 and uses the money to discharge a mortgage over a residential property that is not used for income-producing purposes, the borrowed money is now applied for private or domestic purposes. Tax deductions are not allowable for interest incurred on the loan after 20 June 1994.*

Note: The Notice of Partial Withdrawal that issued on 29 June 2001 changed this Determination with effect from 29 June 2001.

Commissioner of Taxation

22/06/95

FOI INDEX DETAIL: Reference No. I 1015899

Previously issued as Draft TD 94/D106

Subject Ref: allowable deductions; interest expenses

Legislative Ref: ITAA 51(1)

ATO Ref: NOR J36/355/16; NAT 94/8039-1

ISSN 1038 - 8982