

# Tax smart debt structure

The interest expense is the biggest outgoing in a negative gearing strategy and it is important to make it tax smart.\*

We have summarized some tax efficient strategies and common pitfalls:

### Effective strategies

- Maximize the percentage of the borrowing to the value of the rental property. Defer or slow down the repayment on the rental property loan while using the rental income to repay the loan on your home.
- Use an interest offset account to deposit all your income so as to reduce the interest payable on your home.
- Increase your rental property borrowings to include all the outgoings such as agent's commissions, repairs and strata levies etc.
- Consider prepaying the interest on the rental property if you have some abnormal income this year.
- Consider transferring some or all of your home to your spouse if you try to rent it out and it has a low debt after purchasing a new one.
- Consider opportunities - if any - to recycle non-deductible home loan into deductible debt. This keeps your debt levels and investment amounts the same but now you can claim the interest on the debt used for investment purposes.

### Common pitfalls

- Do not link the interest deductibility with the security. As the purpose of buying the rental property and making it available for rent are the only tests required to claim the interest deductions.



- Do not redraw on the rental property for other purposes as it will pollute the purpose of the loan and make the part of the interest non-deductible.
- Do not enter an arrangement where the investment return only comes from the tax saving without commercial justification.
- Be mindful of transaction costs on debt or ownership restructuring such as CGT and stamp duty.

### Find out more

If you want to know more about how to structure your debts as within your taxation strategy, please call us on **(02) 9957 4033** or send us an email at [enquiry@batescosgrave.com.au](mailto:enquiry@batescosgrave.com.au).

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*\* Negative gearing is a form of financial leverage where you borrow money to buy an investment asset, but the income generated by that asset does not cover the interest on the loan and other outgoings. Rental properties are commonly used as the investment assets.*

### Contact Us

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