CRISP
FINANCIAL

Interest Deductibility and Your Loan Structure

The rate is settled. Your accountant knows it.
What decides whether you can actually claim the deduction is how the loan was structured and what the money was used for. Those are lending decisions, made months earlier.

Finance explained. Decisions, supported.

This is not tax advice. It is the lending half of a two-part decision.

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TWO PRINCIPLES

Everything here follows from these

There is no shortage of articles explaining what percentage of your interest is deductible. That question is settled, your accountant already knows the answer, and this document is not about it. These two principles are where the money actually is, and both of them are lending questions.

1. Deductibility follows the use of the money, not the security

This catches almost everyone. Which property the loan is secured against is irrelevant to deductibility. What matters is what the borrowed money was used for, and whether that use has a connection to earning taxable income. Borrow against your own home to fund a rental purchase, and the interest is generally deductible against the rental income. Borrow against the rental to fund a car, and it is not. The security tells you nothing. The use tells you everything.

This is why the loan structure decides your tax outcome. Inland Revenue is explicit that for a variable balance loan you must trace each individual withdrawal and deposit to the loan account to work out how much interest you can claim. A deduction you cannot trace is a deduction you may not be able to prove.

2. Full deductibility did not increase your borrowing capacity

Interest deductibility returned to 100% from 1 April 2025. Your after-tax cash flow improved. Your ability to borrow for the next property moved by approximately nothing, and page six explains exactly why. If you have been waiting for the tax change to unlock your next purchase, this is the page to read twice.

The lane this document stays in

Crisp Financial provides advice on lending. Your accountant provides advice on tax. The rate, the ring-fencing, the apportionment method and the return itself belong to them. What belongs to us is the structure of the borrowing, which is decided before any of that becomes relevant and is nearly impossible to unwind afterwards. Read this alongside your accountant, not instead of them.

WHERE THINGS STAND

The rate is settled. Your records are not.

A short factual summary, so that nobody has to go looking. Confirm every line of it with your accountant before you rely on it, because this is their territory and settings change.

From 1 April 2025	Inland Revenue states you can claim 100% of the interest you incur on funds borrowed for a residential rental property. For a 31 March balance date, that is the year ended 31 March 2026 onward.
1 April 2024 to 31 March 2025	Eighty percent was claimable. If your return for that year applied 80%, that was correct at the time.
Interest denied during the phase-out	Stays denied. It cannot be reassessed. But Inland Revenue notes that where a sale is taxable under the bright-line test or another land sale rule, previously disallowed interest may become claimable. Keep those records, and do not let a refinance or a change of accountant lose them.
The deduction still has to qualify	Interest must not be private in nature, and the general deductibility rules still have to be met. Full deductibility restored the rate. It did not remove the need for a genuine connection to earning income.
Ring-fencing has not gone away	Residential rental losses remain quarantined. A larger interest deduction on a negatively geared property produces a larger loss, not a larger refund. The benefit is carried forward. Ask your accountant what that means for your cash position this year, because the answer is often "nothing yet".

Why the last row matters more than the first

People restructure their borrowing chasing a deduction, then discover the resulting loss is ring-fenced and delivers no cash this year, while the restructure has permanently damaged their serviceability. The tax tail should not wag the lending dog. Get both answers before you move anything.

THE STRUCTURE MATRIX

Four ways to hold the borrowing. Four different tax outcomes.

The loan does the same job in every row. Only the traceability changes, and traceability is what your accountant needs in order to claim anything.

Structure	What it is	How traceable is the interest?	The contamination risk	Lending view
Separate term loan per property	One fixed or floating term loan drawn specifically to buy one property. Nothing else touches it.	Cleanest possible. The lender issues an annual interest certificate for that loan. The use of the funds is obvious from the drawdown.	Almost none, provided you never top it up for another purpose.	Every lender offers this. It costs nothing extra. It is the default for a reason.
Split facility (one loan, several parts)	A single facility divided into named portions, each drawn for a stated purpose.	Clean, if the split was done at drawdown and each portion stays dedicated to its purpose.	Moderate. Splits get merged, refixed together, or topped up carelessly at rollover.	Widely available and free to set up at the time of drawdown. Ask for it before settlement, not after.
Revolving credit or flexi facility	A variable balance account you draw down and repay at will, often used as a transaction account.	Difficult. Inland Revenue requires you to trace each individual withdrawal and deposit to the loan account to work out how much interest you can claim.	High. One private purchase run through the facility contaminates the balance and forces apportionment. Salary deposits complicate it further.	Useful for cash flow, genuinely dangerous for deductibility. Never mix private spending into an investment facility.
Single loan, mixed purpose	One loan funding both a private purpose and an income-earning purpose. Often the result of a top-up.	Poor. The interest has to be apportioned between the deductible and non-deductible uses.	Highest. Every subsequent drawdown and repayment changes the apportionment, and the records have to follow it for the life of the loan.	The bank neither notices nor cares. Your accountant will. Split it before you draw, not at year end.

Every one of these choices is made at drawdown, by you and your adviser, in a conversation that takes ten minutes. Every one of them is expensive or impossible to reverse later. Your accountant inherits whatever you decided, and can only report what the records show.

Lending choices that decide your tax outcome

1. Which property you secure against

Irrelevant to deductibility. Highly relevant to your LVR, your rate and which lender will take the deal. Do not let anyone tell you that securing against the rental is required to claim the interest. It is not.

2. Whether you split the facility at drawdown

A split costs nothing at the time and is often awkward afterwards. If any part of a loan will fund something private, split it before the money moves. This is the single highest-value ten minutes in the whole process.

3. Whether you use redraw or revolving credit for private spending

The moment a private purchase runs through a facility that funded an income-earning asset, you have created an apportionment problem that follows the loan for its life. Keep a separate personal account. Always.

4. What you do with an equity release

Releasing equity from your home to fund a deposit on a rental is generally fine, because the use is income-earning. Releasing equity from the rental to fund a renovation on your home is a different animal. Same bank, same security, opposite tax result. Ask before you draw.

5. Which loan you repay first

Interest is deductible. Principal never is. If you hold both deductible and non-deductible debt, the order in which you repay them has consequences that are worth putting to your accountant explicitly. And remember that principal repayments do nothing for your tax position while consuming the cash flow a lender is testing.

The connection to serviceability

Principal repayments are the quiet killer in both directions. They give you no deduction, and a lender adds back the interest on your business and investment debt but never the principal. Cash leaves, the tax position does not improve, and the serviceability model does not credit you for it. Our Addback Worksheet shows exactly what that gap looks like on your numbers.

THE MYTH

Why full deductibility did not raise your borrowing capacity

This is the most consequential misunderstanding in investor lending right now. Deductibility improved your after-tax cash flow. It did almost nothing to the number a bank will lend you. Three reasons, and each one is independent of the others.

1. The DTI test ignores deductibility entirely

A bank's debt-to-income calculation takes gross income and gross rent, and divides your total debt by it. Not net rent. Not after-tax rent. Gross. Your interest deduction does not appear anywhere in that equation. If DTI is the ceiling binding your next purchase, the tax change moved it by exactly zero.

2. Serviceability tests a rate you are not paying

Lenders assess your repayments at a stress rate well above the market rate, and on a principal-and-interest basis even when your loan is interest-only. Your deduction is calculated on the interest you actually incur. The bank is modelling an interest cost you do not currently have, on a repayment structure you may not have either. The two numbers barely speak to each other.

3. Rental income gets shaded before tax is even considered

Before any tax treatment is applied, a lender typically counts only 70% to 80% of your gross rent, to allow for vacancy, rates, insurance and management. The deduction improves what you keep from the rent that actually arrives. It has no effect on the haircut the lender applied before that point.

What that looks like in practice

Suppose your accountant confirms that full deductibility improves your after-tax position by roughly $10,000 a year on your current portfolio. Real money, and worth having. Now put the same portfolio through a lender's model. The DTI income figure is unchanged, because it uses gross rent. The serviceability figure is unchanged, because it shades that rent and then tests it against a stress rate. Your borrowing capacity has moved by roughly nothing, and if the property is negatively geared, ring-fencing may mean you see none of that $10,000 as cash this year in any event.

Find out which ceiling is actually binding you

DTI, LVR and serviceability are three separate tests, and only one of them is stopping you. Our Investor DTI Ceiling Calculator runs all three on your portfolio and names the binding constraint. If it comes back "serviceability", no tax change and no amount of equity will fix it, and you should know that before you buy.

THE TWO CONVERSATIONS

Ask the right person the right question

These are not interchangeable. If your accountant is designing your loan structure, or your adviser is telling you what is deductible, someone is working outside their lane.

ASK YOUR ACCOUNTANT	ASK YOUR ADVISER
• Given how my loans are structured today, how much of my interest is actually claimable? • Is any of my borrowing mixed-purpose, and how are you apportioning it? • Do I have records of interest denied between 2021 and 2025, and where are they held? • My property is negatively geared. Does ring-fencing mean I see no cash benefit this year? • If I restructure my lending, what changes for my return, and what evidence will you need? • Will you write your requirements down so my adviser can structure the loan to meet them?	• Can this facility be split at drawdown, by purpose, at no cost? • If I release equity from my home to fund this deposit, which loan does the new borrowing sit in? • Will this revolving credit facility be used for anything private, and should it be? • When we refix or restructure, will the split portions stay separate? • Which of the three ceilings, DTI, LVR or serviceability, is binding my next purchase? • Will you tell me if a structure that suits the bank creates a problem for my accountant?

Structure the loan before you need the deduction

Splitting a facility by purpose at drawdown costs nothing and takes ten minutes. Unpicking a contaminated revolving credit facility three years later costs a refinance, an apportionment exercise, and sometimes the deduction itself. Tell us what you are buying and what your accountant needs, and we will structure the lending so the deduction is provable and the serviceability still works. We are not your accountant. We are the reason they have something clean to work with.

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