

Interest Deductibility

For interest to be deductible it must have been incurred in gaining or producing assessable income or necessarily incurred in carrying on a business for such purpose. [section 58, *Income Tax Act 1997*]

The purpose or use that the funds have been borrowed for is the primary element that the Collector will look at when considering claims for an interest deduction. If funds have been borrowed by a shareholder or intermediary, who then on-lends the funds to the company, the Collector would need to see documentation supporting a claim by the company that the funds were borrowed for this purpose. A loan agreement between the company and the shareholder or intermediary would typically be requested, along with evidence of interest incurred, and evidence that the funds were used by the company in gaining or producing assessable income, or necessarily incurred in carrying on a business for such purpose.

In the absence of a loan agreement, the Collector may request other documentation that may evidence the loan, e.g., the company's minute book, initial journal entries, or any other documentation evidencing the loan.