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The tax deductions available for interest, dividends and other investment income

The tax rules allow investing taxpayers to claim some deductions related to some of the expenses and costs that are generated when earning interest, receiving dividends or gaining other investment income.

Remember, interest from a bank or other financial institution is part of your assessable income for the year. Even if the funds earning the interest are not subject to tax, the interest that this money earns is. For example, if you won some prize money and banked it, you wouldn't usually include the prize money on your tax return. But you are required to include the interest you earn on that money. There may even be scope, should you attend an investment seminar for example, for a possible claim for related travel and possibly other expenses. But this can be very much on a case-by-case basis, and you are only entitled to claim a deduction for the portion of travel expenses incurred in connection with investment income activities.

Interest income expenses

What you can claim

The ATO allows taxpayers to claim account-keeping fees where the account is held for investment purposes (for example, a cash management account). Usually you can find these fees listed on your statement or in your passbook.

If you hold a joint account, it is generally only possible to claim your share of fees, charges or taxes on the account. If, for example, you hold an equal share in an account with your spouse, you can only claim half of any allowable account-keeping fees paid on that account.

What you can't claim

You cannot claim any deduction for interest on your personal tax debt — for example on a loan to pay your personal tax debt.

Continued overleaf

Dividend & share expenses

You can claim a deduction for interest charged on money borrowed to purchase shares and other related investments from which you derive assessable interest or dividend income. But only interest expenses incurred for an income producing purpose are deductible. If you used the money you borrowed for both private and income producing purposes, the ATO expects that any interest will be apportioned between each purpose.

What you can claim

- Ongoing management fees or retainers and amounts paid for advice relating to changes in the mix of investment.
- A portion of other costs if they were incurred in managing your investments, such as:
  - some travel expenses
  - the cost of specialist investment journals and subscriptions
  - borrowing costs
  - the cost of internet access
  - the decline in value of your computer.
- If you were an Australian resident when a listed investment company (LIC) paid you a dividend, and the dividend included a LIC capital gain amount, you may be able to claim a deduction of 50% of the LIC capital gain amount.

What you can't claim

You can't claim a fee charged for drawing up an investment plan unless you were carrying on an investment business.

Some interest on money borrowed to purchase shares, units in unit trusts and stapled securities, which is attributable to capital protection under a capital protected borrowing, is not deductible and is treated as a payment for a put option. See us for guidance should this apply to your circumstances.

Managed investment trusts

The managed investment trust (MIT) structure allows members of the public to collectively invest in passive income activities, such as shares, property or fixed interest assets. MITs are managed investment schemes, meaning member contributions are pooled, and the day-to-day management of the trust's assets is handled by a professional manager rather than by yourself.

Generally, an investor in these products must show any income or credits you receive from any trust investment product on your tax return. This includes income or credits from a:

- cash management trust
- money market trust
- mortgage trust
- unit trust
- managed fund, such as a property trust, share trust, equity trust, growth trust, imputation trust or balanced trust.

What you can claim

Tax deductions for managed investment trusts can include management fees, specialist journals and interest on money you borrowed to invest.

If you made a prepayment of $1,000 or more in relation to your managed investment, there are special rules that may affect the amount you can deduct.

What you can't claim

You can't claim a deduction for expenses incurred in deriving exempt income or non-assessable non-exempt income, such as expenses incurred in deriving distributions on which family trust distribution tax or trustee beneficiary non-disclosure tax has been paid.

You also can't claim a deduction for amounts the trust has already claimed, or that only the trust can claim. Examples here include expenditure on landcare operations or water facilities.