

Newsletter

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Interest deductions: risks and opportunities

This tax season, we've seen a surge in questions about whether interest on a loan can be claimed as a tax deduction. It's a great question as the way interest expenses are treated can significantly affect your overall tax position. However, the rules aren't always straightforward. Here's what you need to know.

The purpose of the loan

The most important thing when looking at the tax treatment of interest expenses is to identify what the borrowed money has been used for. That is, why did you borrow the money?

For interest expenses to be deductible you generally need to show that the borrowed funds have been used for business or other income producing purposes. The security used for the loan isn't relevant in determining the tax treatment.

Let's take a very simple scenario where Harry borrows money to buy a new private residence. The loan is secured against an existing rental property. As the borrowed money is used to acquire a private asset the interest won't be deductible, even though the loan is secured against an income producing asset.

Redraw v offset accounts

While the economic impact of these arrangements might seem somewhat similar, they are treated very differently under the tax system. This is an area to be especially careful with.

If you have an existing loan account arrangement, you've paid off some of the loan balance and you then use a redraw facility to access those funds again, this is treated as a new borrowing. We then follow the golden rule to determine the tax treatment. That is, what have the redrawn funds been used for?

An offset account is different because money sitting in an offset account is basically treated much like your personal savings. If you withdraw money from an offset account you aren't borrowing money, even if this leads to a higher interest charge on a linked loan account. As a result, you need to look back at what the original loan was used for.

Example: Lara's redraw facility

Lara borrowed some money five years ago to acquire her main residence. She has made some additional repayments against the loan balance. Lara redraws some of the funds and uses them to acquire some listed shares. Lara now has a mixed purpose loan. Part of the loan balance relates to the main residence and the interest accruing on this portion of the loan isn't deductible. However, interest accruing on the redrawn amount should typically be deductible where the funds have been used to acquire income producing investments.

To do

It's worth reaching out to us before entering into any new loan arrangements. In this area, mistakes are often difficult to fix after the fact, which can lead to poor tax outcomes. That's why getting advice from a tax professional before committing to a loan is essential. We can work alongside you and your financial adviser to ensure your loan is structured in a way that makes financial sense and protects your tax position.

Superannuation rates and thresholds updates

Super guarantee rate now 12%: what it means for employers

From 1 July 2025, the superannuation guarantee (SG) rate officially rose to 12% of ordinary time earnings (OTE). This is the final step in the gradual increase legislated under previous reforms.

What's changed?

Old rate: 11.5% (up to 30 June 2025)

New rate: 12% (from 1 July 2025)

This increase affects cash flow, payroll accruals and employment contracts, especially where total remuneration includes superannuation.

Employer checklist

Update payroll software: ensure systems are calculating 12% SG correctly from 1 July 2025 pay runs

Review employment agreements: if contracts are set to inclusive of super, the take-home pay of employees may reduce unless renegotiated or the employer decides to bear the cost of the increased SG rate

Budget for higher super contributions: consider possible cash flow impacts

Remember that significant penalties can be imposed for late or incorrect SG payments, including loss of deductions, interest and other administration charges.

Personal superannuation contributions

The annual concessional contribution cap will remain at \$30,000 for the 2025/2026 financial year. The annual non-concessional contribution (NCC) cap is set at four times the concessional contribution cap meaning it will also remain at \$120,000.

Although the annual NCC cap has not changed, NCCs can now be made by individuals with a total super balance (TSB) of less than \$2,000,000 on 30 June 2025 (assuming they have not reached the age 75 deadline and any prior bring forward periods are considered). This is due to the fact that the upper TSB limit links to the general transfer balance cap (TBC) which has increased to \$2,000,000.

Superannuation guarantee: due dates and considerations for employees and employers

On 1 July 2025 the superannuation guarantee rate increased to 12% which is the final stage of a series of previously legislated increases. Employers currently need to make superannuation guarantee (SG) contributions for their employees by 28 days after the end of each quarter (28 October, 28 January, 28 April and 28 July). There is an extra day's allowance when these dates fall on a public holiday.

To comply with these rules the contribution must be in the employee's superannuation fund on or before this date, unless the employer is using the ATO small business superannuation clearing house (SBSCH).

The ATO has been applying considerable compliance resources in this space in recent years which can have an impact on both employees and employers.

Employers

To be eligible to claim a tax deduction on SG contributions the quarterly amount must be in the employee's super account on or before the above quarterly due dates. The only exception to this is where the employer is using the ATO SBSCH. In that case a contribution is considered made provided it has been received by the SBSCH on or before the due date.

Employers using commercial clearing houses should be mindful of turnaround times. Commercial clearing houses collect and distribute employee contributions and may be linked to accounting / payroll software or provided by some superannuation platforms. Anecdotally it seems that turnaround times for some clearing houses could be up to 14 days, so it is recommended that employers allow sufficient time before the quarterly deadlines when processing their employee SG contributions.

If these deadlines are missed (yes even by a day!) that will trigger a superannuation guarantee charge (SGC) requirement which will result in a loss of the tax deduction and other penalties. The SGC requirements are outlined in the ATO link below:

[The super guarantee charge | Australian Taxation Office](#)

Employers do have the option to make SG payments more frequently than quarterly and this is something that employers will need to become used to if the proposed 'payday' superannuation reforms become law. This change is proposed to commence from 1 July 2026 and would require SG to be paid at the same frequency as salary or wages. There is some discussion on the payday super proposal (noting that this is not yet law). The SBSCH will close at this time so employers using this service should start to consider transitioning to a commercial clearing house, please let us know you would like assistance with this.