

## IMPORTANT UPDATE: ATO INTEREST CHARGES SET TO LOSE TAX DEDUCTIBILITY

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Interest is a key expense of carrying on a business and borrowing allows you access to additional opportunities which may have been otherwise out of reach. It then follows that because the income will be taxable, the interest used to earn the income should be tax deductible.

A recent Government announcement aims to end the deductibility of interest charged on ATO accounts, effectively treating it as a fine. Currently, general interest charges (GIC) and shortfall interest charges (SIC) are deductible, but this is set to change on July 1, 2025, pending legislation being passed.



### **Current Deduction Rules for GIC and SIC**

GIC and SIC apply to overdue tax obligations or errors in self-assessment that result in underpaid taxes. Currently, entities can deduct these interest payments. However, a December 2023 announcement set a deadline for these deductions. Starting in the financial year on July 1, 2025, deducting interest charges levied by the Australian Taxation Office will no longer be allowed.

Bank or non-ATO interest on borrowings used to pay tax debts related to running a business is currently deductible (per Taxation Ruling IT 2582), but this does not apply to individuals not operating a business.

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## **What is the Governments Rationale for These Changes?**

This policy change is expected to increase government revenue by \$500 million over four years, concluding in 2026–27. By eliminating these deductions, the government intends to encourage accurate tax assessments and timely payments, ensuring fairness among both individuals and businesses that consistently meet their tax responsibilities.

In practice pushing the financing obligation back to the taxpayer and reducing their working capital.

## **What Should You Do if You Have Outstanding Debts?**

If these measures pass into law, prompt action is essential to benefit from the current deductibility rules for GIC and SIC. Paying off outstanding GIC/SIC sooner rather than later is advisable. It's important to note that GIC currently stands at 11.38% and if not deductible and depending on your tax rate could effectively be a rate of 15-16%.

Paying off ATO interest charges now could mean a higher rate in the short term, with the possibility of refinancing to a more competitive rate after 12-24 months in some cases. Acting before July 1, 2025, allows you to claim available deductions. If you have outstanding GIC or SIC amounts, immediate action is important. Your Byfields Accountant can help you determine the best plan for your situation.