With ATO interest no longer tax deductible is it worth refinancing?

ATO interest charged after 1st July, 2025 will no longer be tax deductible. A measure budgeted to raise $500million over the 3 years forward estimates period. The current ATO interest rate is 11.17% for the GIC, payable when you have not paid a debt you know you owe. The SIC is 7.17%, this applies to the period between the original assessment and when the ATO decide that is incorrect and amend your assessment ie the period you didn't know you owed the tax debt. It is important to note that these interest charges compounded daily!

If you have the ability to borrow it maybe better to refinance at a lower interest rate. Especially if you have enough equity to borrow at home loan interest rates. Refinancing over a more comfortable time period may be necessary anyway. When the ATO start recovery action you will be forced into a short term payment plan.

Nicole Watson from Mortar Finance (nicole.watson@mortarfinance.com.au) warns that it becomes challenging to be able to obtain a loan to purchase a house while you have an outstanding debt with the ATO.

Nicole says that there are second tier lenders who will provide unsecured commercial loans to pay tax debts but the interest rates are higher between 14.9% and 30%. The lenders take a charge over the business and a personal guarantee from the owners. When you consider the ATO's 11.17% compounds daily and the interest is not tax deductible these rates may be cheaper than the ATO, if the interest can be claimed as a tax deduction.

Alternatively Nicole suggests taking an equipment loan over 5 years on unencumbered plant or a vehicle that you already own. Or you could sell your vehicle to pay the tax debt and then use finance to buy a new vehicle. Note that in this case the interest on the loan would only be tax deductible if the vehicle was used for tax deductible purposes and a log book kept.

Generally speaking the interest on a loan to pay your tax debt will not be tax deductible. There is a small window of opportunity if you are in business, the tax relates to the business ie GST and the loan is necessary to maintain the business's cashflow. A quote from IT 2582

> 6. Where a taxpayer carries on a business for the purpose of gaining or producing assessable income and, in connection with the carrying on of that business, borrows money to pay income tax (whether to preserve the assets of the business, maximise the return on them, retain sufficient money to fund the business or otherwise) then it is considered that the

> interest incurred on those borrowings is a normal incident of conducting that business. That is, such an expense is an expense incurred in carrying on that business and hence qualifies for deduction under the second limb of subsection 51(1) of the Act. The judgment in Begg v. FC of T (1937) 4 ATD 257 is considered to add weight to this decision.

Let's consider if the tax debt is a business debt, the business is profitable, the profits flow through to you and your marginal tax rate is 32%. Even if you are paying 14.9% the tax office is giving you a refund of 4.8% on that (14.9% x 32%) bringing you down to 10.1% simply because the interest is now tax deductible. Even better still if you can refinance at lower, housing loan interest rates.