

**Practice Note: No. 31 – 3 October 1994**  
**Income Tax: Interest paid on moneys borrowed**

1. To qualify as a deduction in terms of section 11(a) of the Income Tax Act (the Act), expenditure must be incurred in the carrying on of any "trade" as defined in section 1 of the Act. In determining whether a person is carrying on a trade, the Commissioner must have regard to, *inter alia*, the intention of the person. Should a person, therefore, borrow money at a certain rate of interest with the specific purpose of making a profit by lending it out at a higher rate of interest, it may well be that the person has entered into a "venture" and is thus carrying on a trade (50 SATC 40). In other words, interest paid on funds borrowed for purposes of lending them out at a higher rate of interest will, in terms of section 11(a) of the Act, constitute an admissible deduction from the interest so received by virtue of the fact that this activity constitutes a profit making venture.
2. While it is evident that a person (not being a moneylender) earning interest on capital or surplus funds invested does not carry on a trade and that any expenditure incurred in the production of such interest cannot be allowed as a deduction, it is nevertheless the practice of Inland Revenue to allow expenditure incurred in the production of the interest to the extent that it does not exceed such income. This practice will also be applied in cases where funds are borrowed at a certain rate of interest and invested at a lower rate. Although, strictly in terms of the law, there is no justification for the deduction, this practice has developed over the years and will be followed by Inland Revenue.