Housing Tax Integrity - draft legislation (14 July 2017) -

Disallowing travel deductions and limiting depreciation deductions

Submission re Exposure draft

Travel Deductions

- The blanket disallowing of travel expense reductions appears an extremely heavy handed and blunt measure.
- Many investors incur travel expenses necessarily as an essential part of maintaining an investment property. These properties generate income and in many cases provide additional taxable income (as opposed to negative gearing). Even in the event of negative gearing, these investors are taking risk to provide future positive income and necessarily visit their properties to monitor their investment.
- Take for instance investors that undertake trips to perform maintenance, cleaning, rubbish removal, co-ordinate repairs, renovations etc. It is illogical to assert that travel is not a necessary part of earning the assessable income.
- A much better approach would be to introduce integrity measures such as not allowing deductions in situations such as:
  - where the claim is on a prorata basis – ie. the investor is holidaying at the same time and would have claimed a percentage only of the travel incurred, or
  - where the property has some element of private use (ie. a part holiday home)
- In this way only travel specifically and completely for inspections and maintenance are claimable. It stops the potentially rorting of deductions and achieves the desired outcome of throttling over claiming, whilst still allowing legitimate deductions.
- Additionally, perhaps the cents per km method as a way of claiming motor vehicle expenses could be removed so costs are only on an actual incurred basis.
- Another aspect of this measure that requires consideration is when do investors end up in a business of property investment if they have many properties and this is their only income source? This needs clarification as to deny travel deductions where investors are continually travelling to work & maintain investment properties seems unreasonable.

Limiting Depreciation Deductions

- It appears reasonable to limit depreciation where a property is acquired with particular items intact, particularly with the many aggressive campaigns to alert investors to these deductions.
- It may however create perverse outcomes for the property where "new" properties are desirable for investors.

- Perhaps a way around this and to provide some integrity would be that depreciation can be claimed only where an existing schedule of depreciation is received from the seller and continues on, or where a seller nominates the dollar value of depreciable items (subject to professional certification).
- This would prevent depreciation schedules being compiled by quantity surveyors without reference to actual expenditure already incurred. It eliminates the potential over claiming, whilst still allowing a legitimate claim.
- In actual fact the investor has still paid for these items, even if not “explicitly” outlaid, as the items will be, in some way at least, reflected within the purchase price.

Yours sincerely

David Porter

Dated 10/8/2017