REIA SUBMISSION TO THE TREASURY'S EXPOSURE DRAFT ON HOUSING TAX INTEGRITY – DISALLOWING TRAVEL DEDUCTIONS AND LIMITING DEPRECIATION DEDUCTIONS

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REIA SUBMISSION TO THE TREASURY'S DRAFT LEGISLATION ON HOUSING-RELATED SUPERANNUATION MEASURES

The Real Estate Institute of Australia (REIA) is the peak national association for the real estate profession in Australia.

The REIA's members are the State and Territory Real Estate Institutes, through which around 75 per cent of real estate agencies are collectively represented. The 2011 Census records the Rental, Hiring and Real Estate Services Industry employment sitting at a total of 117,880. By occupation the key data recorded by ABS Census were 64,699 business brokers, property managers, principals, real estate agents and representatives.

The REIA represents an important element of the broader property and construction sector which together makes a significant contribution to Australia's social climate and economic development. Property contributes $300 billion annually in economic activity.

Importantly, REIA represents an integral element of the small business sector. Some 99 per cent of real estate agencies are small businesses and 11 per cent of all small businesses in Australia are involved in real estate.

REIA is committed to providing and assisting research and well-informed advice to the Federal Government, Opposition, professional members of the real estate sector, media and the public on a range of issues affecting the property market.

The REIA welcomes the opportunity to provide a submission to the Treasury's Exposure Draft on Housing Tax Integrity – Disallowing Travel Deductions and Limiting Depreciation Deductions.

Introduction

The Exposure Draft seeks stakeholder views on the exposure draft legislation and explanatory material on the 2017/18 Budgetary measures to disallow travel expense deductions relating to residential investment properties and limit depreciation deductions for plant and equipment used in relation to residential investment properties.

REIA has already been involved in consultation with Treasury on the matters and this submission reiterates the views put forward.

Travel Expenses Deductibility

Whilst REIA supports the curbing of abuse of deductions the REIA is of the view that these two initiatives are contrary to the principles of a good tax system and that the ATO has means for addressing abuses and excesses.

One of these principles is neutrality which in essence means that two tax payers in similar circumstances should be treated the same. These initiatives are contrary to this principle. Take, for example, a Sydney based taxpayer A who owns a residential investment property in Melbourne and another Sydney based taxpayer B who owns a commercial investment property in Melbourne. The Budget initiative of not allowing for travel to inspect residential investment property means that B can claim deductions for their annual site inspection travel costs to Melbourne but A cannot.

The REIA does not believe that this measure improves the integrity of negative gearing as claimed as the approach would apply even if B is highly geared and A's investment is cash flow positive.

As the ATO itself points out on its website there are many valid reasons why an owner of investment property would incur costs travelling to a residential rental property.

Whilst abuses and excesses should be eliminated there are other ways of achieving this through the ATO. The ATO has a myriad of information available to identify questionable claims. Conversely it will adversely impact those tax payers who are not abusing the system.

Ironically it will do nothing to improve affordability in Sydney and Melbourne and indeed it may make it worse as investors in these two cities are discouraged from investing in locations other than their home towns.

Anecdotal evidence is indicating that as Sydney and Melbourne prices have increased investors are turning to non-metropolitan locations. This regional investment brings employment for a multitude of regional services. This measure will put a brake on this trend.

Limit Depreciation Deductions

REIA's comments on the proposal to restrict depreciation claims to items purchased and installed in the property by the claiming taxpayer are similar to those on the prohibition of travel expenses. That is: it doesn't treat the investor buying a property that is 12 months old the same as one buying a new property; doesn't improve the integrity of negative gearing; the ATO has monitored this area and has the ability to identify abuses and excesses and deal with them; will distort the market by making properties that are not new less desirable, and; the impact on affordability is questionable and may even worsen affordability as existing investors hold on to their property and new investors push up the price of new property.

The removal of depreciation claims will have a double impact on investors in strata units. New investors in established units will lose both the claim for depreciable items inside their unit and depreciation of their share of common plant and equipment.

REIA recommends that the Government does not proceed with the measures to disallow travel expense deductions relating to residential investment properties and limit depreciation deductions for plant and equipment used in relation to residential investment properties.