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$47BN CLAIMED EVERY YEAR

Taxman warns on rental rorting

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Tax Commissioner Chris Jordan says the more than $47 billion in deductions claimed against rental income every year is next on his hit list, with almost nine out of 10 tax returns involving property investment claims containing "errors".

In a speech to the Tax Institute's national convention in Hobart yesterday, Mr Jordan said the focus on rental income and deductions followed an ATO campaign to get Australians to reduce their work-related expense claims.

The attack on rental deductions comes amid a furious political debate over negative gearing in the run-up to the May federal election, with Labor pledging that if it wins it will limit the tax deduction to new property and halve the capital gains tax discount for property bought after the policy takes effect.

Labor claims cutting the current negative gearing and capital gains tax arrangements, which cost the budget $10bn a year, will "level the playing field for first-home buyers competing with investors" while the government has painted the policy as a recipe for a "housing market crash".

Mr Jordan said that with 2.1 million taxpayers claiming $47.4bn in property deductions against $44.1bn in rental income, "you can get a sense of the potential revenue at risk".

"As part of our broader random inquiry program, our auditors have now completed over 300 audits on rental property claims and found errors in almost nine out of 10 returns reviewed," he said.

"We're seeing incorrect interest claims for the entire investment loan where it has been refinanced for private purposes, incorrect classification of capital works as repairs and maintenance, and taxpayers not apportioning deductions for holiday homes when they are not genuinely available for rent," Mr Jordan said.

The tax office said examples included buying a car or boat using the investment loan, renovating the property's bathroom and claiming the entire expense upfront rather than depreciating it over time, and claiming deductions for periods when the taxpayer was using their holiday time rather than renting it out.

"Further insights from our random inquiry program will be provided when we publish our update of the individuals not-in-business tax gap estimate later this year," an ATO spokeswoman said.

Yesterday, Mr Jordan also gave updated figures on the ATO's efforts to rein in work-related expenses and get small and large businesses to pay their taxes.

He said the ATO's crackdown on work-related expenses was "beginning to pay off".

"For the first time in almost 25 years, the average work-related claim decreased, falling on average by about $130 over the past two years," he said.

"The estimated revenue gain for that same period will be around $600 million."

He pointed the finger at small business for tax dodging, saying the tax office would soon release an estimate of the "tax gap" — the difference between the amount of tax collected and the amount the ATO thinks should be collected — that would be "much larger in percentage terms than in other market segments at between 10 per cent and 15 per cent".

"While we will be releasing the figures soon, to give an indication, we are expecting the small business income tax gap to be in the order of $10bn," Mr Jordan said.

"Although our small business population is very diverse, the tax gap program has highlighted some common issues, like not declaring all income or failing to account for private use of business assets or funds."

The most frequent errors

- Over-claimed interest deductions – for example, where a taxpayer has refinanced an investment loan to purchase a private asset such as a car or boat, and claims the full amount of interest on the loan
- Incorrectly classifying capital works as repairs
- Claiming personal expenses for rental properties

Source: ATO

BUSINESS

Property investors who have been slugged by a string of tax reforms from the government now have the ATO to worry about too.

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