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Manager
Individuals and Indirect Tax Division
The Treasury
Langton Crescent
PARKES ACT 2600

By email: housingtaxdeductions@treasury.gov.au

Dear Sir/ Madam

Treasury Laws Amendment (Housing Integrity Bill) 2017

On behalf of our members and in the broader public interest, CPA Australia welcomes the opportunity to provide this submission in response to the Treasury Laws Amendment (Housing Tax Integrity) Bill 2017 (the Bill).

Chapter 1 - Travel expenditure for residential rental property

CPA Australia acknowledges this proposal is essentially an integrity measure designed to 'address concerns that some taxpayers have been claiming travel deductions without correctly apportioning costs, or have claimed travel costs that were for private purposes.'

However, the proposed approach to disallow all travel expenses for individuals – either as a tax deduction, but also denying recognition of these losses and outgoings as part of the property cost base for capital gains tax purposes - is grossly inequitable.

The Bill fails to appropriately recognise that many individual taxpayers legitimately incur travel expenses in the derivation of their residential property rental income.

It also poses significant problems for the efficacy, longevity and growth of the sharing economy. For example, the law is clear that income derived from letting a property or a room via, say, Airbnb, Stayz or similar 'sharing economy' peer to peer platforms is assessable income. A substantial proportion of property owners who are utilising sharing economy listing services must regularly either clean, or arrange cleaning, replace linen, and provide supplies - much like the owner of a hotel or motel business. Because of the short-term nature of these rentals, it is invariable that in many cases travel expenses will be incurred.

The 'Economic effects of Airbnb in Australia'¹ report points out that Airbnb guests are now a significant driver of the tourism economy, with a total estimated contribution to Australia's GDP of \$1.6 billion in 2015-16 and supporting over 14,000 jobs. By disallowing all travel expenses for individuals who derive income from the sharing economy, the Bill has the potential to negatively impact the growth in the short stay rental market, with economic flow-on effects being felt in other industry sectors.

CPA Australia also notes that around half of the listings for Airbnb properties are found outside major cities², so any negative impact could be disproportionately felt in rural and regional Australia, where alternative sources of income are harder to find.

¹ <https://www2.deloitte.com/content/dam/Deloitte/au/Documents/Economics/deloitte-au-economics-airbnb-economic-effects-in-australia-010517.pdf>

² <http://www.abc.net.au/news/2017-07-05/half-of-airbnb-listings-in-australia-are-now-outside-cities/8676888>

A member has also given us details of a case where his client had incurred significant travel expenses visiting a tenant to collect rent in arrears after their real estate agent had failed to do so under its agency agreement with the property owner. The Bill will also prevent landlords from incurring travel expenses to track down tenants such as these who have not paid their rent.

In contrast to the disallowance of all travel expenses for individual residential property landlords, the Bill provides ongoing relief for these same expenses for other 'excluded entities', as well as for individuals for commercial property holdings, and also for residential properties that may derive other types of income such as where solar panels are installed.

CPA Australia has a track record of arguing against the imposition of statutory caps on the deductibility of expenses. This is reflected in tax policy positions taken by the organisation over many years. For example, in recent times it has argued against a standard deduction for all for work related expenses on equity grounds. Similarly, it has argued against caps that were proposed in the recent past that were to apply to the deductibility of self-education expenses.

However, CPA Australia acknowledges that there are instances where a cap is necessary to meet competing policy objectives. Under the circumstances, and acknowledging the Government's concern about the alleged abuse by some taxpayers, CPA Australia submits that travel expenses incurred for residential rental property purposes be subject to an appropriately designed cap.

CPA Australia submits that two possible travel deductibility cap options that should be considered are as follows:

1. a 7 per cent of rental income (based on the standard real estate agent rental commission) may be an appropriate benchmark, or
2. if a dollar cap was deemed more appropriate, a \$2000 per annum limit would represent be 6.4 per cent of a \$600 per week rental based on a full year rental). The cap should be indexed annually.

CPA Australia considered other cap options, including putting a limit on the number of trips a landlord could deduct each year, but these were deemed inappropriate.

Chapter 2. Limiting deductions for plant and equipment in residential premises

The integrity element of the provisions designed to limit deductions for plant and equipment in residential premises is noted, and it is CPA Australia's view that the draft Bill reflects the Government's budget announcement.

If you have any queries, please do not hesitate to me.

Yours faithfully



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