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Rental property owners lose some deductions

Legislation that came into law in the last half of 2017 makes a reality measures first announced with the 2017 Federal Budget.

The "housing tax integrity" bill solidifies the government's intention to deny all travel deductions relating to inspecting, maintaining, or collecting rent for a residential investment property. As well, second-hand plant and equipment that came with an investment property are now off the table as far as depreciation goes.

The measures will apply from July 1, 2017, so will affect returns for the current financial year. However the changes to depreciation are dependent on when assets were purchased (more below).

The change to travel claims means that travel expenditure incurred relevant to gaining or producing assessable income from housing premises used as residential accommodation will not be deductible. The travel expenditure will also not be recognised in the cost base of the property for CGT purposes.

It should be noted that the amendments do not affect deductions for travel expenditure incurred in carrying on a business, including where a taxpayer carries on a business of providing property management services.

Depreciation change

The government has also limited plant and equipment depreciation deductions to outlays actually incurred by investors. In essence, unless you as the buyer have physically purchased the items, you can no longer depreciate them. In other words, if otherwise depreciable assets came with the investment property you purchase, there will no longer be an option to continue depreciating those assets in your hands.

Being new rules however, there are calendar dates that may determine if you are affected or not. The amendments will apply from 1 July 2017 for assets purchased after 7 .30pm 9 May 2017 (when they were announced in the Federal Budget 2017).

The changes apply to:

- previously used plant and equipment acquired at or after 7 .30pm on 9 May 2017 unless it was acquired under a contract entered into before this time
- plant and equipment acquired before 1 July 2017 but not used to earn income in either the current or previous year.

Investors who purchase new plant and equipment will continue to be able to claim a deduction over the effective life of the asset.

Exceptions

A taxpayer may continue to deduct travel expenditure and depreciate incumbent plant and equipment if:

- the losses or outgoings are necessarily incurred in carrying on a business for the purposes of gaining or producing assessable income; or
- the taxpayer is an "excluded class of entity".

The ATO explains these as being:

- a corporate tax entity
- a superannuation plan that is not an SMSF
- a public unit trust
- a managed investment trust, or
- a unit trust or a partnership, all members of which are entities of a type listed above.

The ATO says that its aim is to "improve the integrity of the tax system by addressing concerns that some taxpayers have been claiming travel deductions without correctly apportioning costs, or have claimed travel costs that were for private purposes".

However, it is also explained that these measures are not intended to affect deductions for institutional investors in residential premises, as "the same integrity concerns do not arise for such investors".