

ATO targets dodgy deductions for holiday homes

TAX

Thousands of dollars in claims “that would fail the pub test” contribute to \$1.6bn tax shortfall, assistant commissioner says.

By [Philip King](#) • 06 December 2022 • 6 minute read

Expense claims running to thousands of dollars for occasionally rented holiday homes fail the pub test and will fall foul of the ATO’s crackdown on property deductions, says assistant commissioner Kath Anderson.

She said 2.2 million property owners filed rental expense claims of \$42.6 billion in 2021, but full compliance by the sector would add \$1.6 billion in revenue and she called on tax agents to help bring owners into line.

“Holiday homes might sound minor in the scheme of things,” Ms Anderson said at last week’s Accountants Daily Strategy Days in Melbourne and Sydney. “But if we applied the pub test, I don’t think we would find many Australians would think it’s OK for someone to claim thousands – in some cases hundreds of thousands – of dollars in deductions for their holiday home.

“Many of the returns that have errors in them have actually been prepared by agents. Quite often clients are not telling their agents or providing them with all of the information that they should.

“We need your help to educate clients about what is a valid rental deduction and what’s not. We also need your help to get the message out there that claiming deductions and effectively taking money from the community to pay for your holiday home is not OK.”

Ms Anderson said rental property claims were high on the ATO’s hitlist for 2022-23 as it attempted to reduce the tax gap – the difference between what is collected and what full compliance would yield – down from \$33 billion.

“The gap represents an unfair advantage that those not doing the right thing have over those who are doing the right thing. And in the context of a business, especially a small business, this unfair advantage can be significant.

“As you would expect, integrity and levelling that playing field will continue to be a high priority for us.”

The recent budget had delivered funding to extend the personal income tax compliance program for two years and, as well as rentals, omitted income and work expenses were also key targets.

She said work-related claims accounted for \$3.7 billion of the tax gap and while many were “optimistic” characterisations of personal expenses some were more creative, “like the Maltese terrier guard dog or weekends away for stress relief”.

Increasing digitisation of ATO processes was a key feature of the compliance mission but would also make the work of tax agents easier.

“In 2022-23, you'll see us continuing to use data as much as we can. We'll provide it in prefill will harness advances in digitalisation and data to provide more real time nudges and prompts for income and claims that seems to be a little bit outside of the norm,” she said.

“We've been delivering nudges and individual income tax returns for some time now, but we're also starting to use nudges in relation to GST reporting by delivering those upfront messages for clients that are due to get a refund, just helping them to check their claims before they finish lodging.

“Enabling them to self correct where they've made an error removes the need for follow-up contact from us, which nobody likes.”

As of October, GST lodgement nudge messaging had resulted in corrections of about \$57 million and approximately 400,000 individual income tax returns had been fixed up in real time before being finalised.

With lodgement deferrals at a record high number of almost 2 million over the past year, another ATO initiative would make the process smoother.

“We know that the lodgement deferrals process can be an irritant for you,” she said. “We've not only listened, but we've actually taken active steps to address your concerns. A new lodgements deferrals function in online services for agents will be delivered in the first part of 2023.

“I'm sure you'll be happy to hear that a new lodgements deferrals function in Online Services for Agents will be delivered in the first part of 2023. Now this is a digitised version of that current clunky spreadsheet, which is more intuitive lodgement deferral experience and it will also deliver real-time visibility and quicker processing times.”