Your Knowledge Newsletter

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ATO doubles rental deduction audits

In the 2017-18 financial year, more than 2.2 million Australians claimed over $47 billon in deductions and the Australian Taxation Office (ATO) thinks that is too much - one in ten is estimated to contain errors.

A dividend is a shareholder's share of a company's earnings (profits). When a dividend is paid from an Australian company's after-tax profits, these are known as franked dividends and include a franking credit (imputation credit), which represents the amount of tax already paid by the company on the underlying profits that are being paid out in the form of a dividend.

4,500 audits of rental property deductions will be undertaken this year with the focus on over-claimed interest, capital works claimed as repairs, incorrect apportionment of expenses for holiday homes let out to others, and omitted income from accommodation sharing. Deliberate cases of over-claiming are treated harshly with penalties of up to 75% of the claim.

In one case exposed by the ATO, a taxpayer had to pay back $12,000 in claims for deductions against a holiday home that was not genuinely available for rent and was blocked out during the holiday season. In another, a taxpayer paid back $5,500 because they had not apportioned their rental interest deduction to account for redraws on their investment loan to pay for living expenses.

Agostinelli Perlen Pty Ltd
Chartered Accountants
Level 1, 200 Lygon Street Carlton Victoria 3053
+61 3 9654 2022
info@agpe.com.au
www.agpe.com.au