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2017 Victorian Budget Property Tax Announcements

The current government has made more changes to property taxes than any other in recent history. The headline figures are of a massively increasing property tax take. Land Tax of $2.4 billion in the current year climbing to $3.2 billion over the following three years and Duty of $6.1 billion climbing to $7.5 billion over the same period. The additional Land Tax take of $200 million per year has been accelerated by a move to an annual valuation cycle.

These current and future property taxation numbers are unprecedented in Victoria's history. The good news is that they imply land values increasing by a third in 3 short years and the total value of property sale transactions increasing by a mighty $25 billion per annum. If the government has the economic modelling correct on this then there is much further good news ahead for the Victorian property industry. If they are wrong, then the projected surpluses could easily vanish.

Apart from the headline numbers there are many small changes flowing through the system, which will lead to winners and losers this year.

Major winners are **First home buyers** with:

- No duty for homes worth less than $600,000 and reduced duty up to $750,000 for contracts entered into after 1 July 2017;
- A doubling of the first home owners grant to $20,000 for new homes of up to $750,000 built in regional Victoria[1] for contracts entered into from 1 July 2017 to 30 June 2020; and
- Continuing first home owners grant of $10,000 in other areas.

Major losers include:

- **Local investors**, who will no longer receive the off the plan duty concession. This has been removed from investors in all types of property for contracts after 1 July 2017, so get signed up by 30 June 2017. Apart from the impact on residential apartment sales, this may also seriously impact the forward sale of major commercial office, mixed use and industrial properties and therefore how they are funded.
- **Foreign investors**, who will also no longer receive the off the plan duty concession. This has been removed from 1 July 2017 giving a total rate of 12.5% on all residential property, including residential development sites, and 5.5% on other property types.
- **Owners of vacant residential properties**, owners in CBD and suburban Melbourne[2] will be subject to a new vacant property tax of 1% of the Capital Improved Value (ie the full value) of their properties left vacant for more than a total of 6 months in a calendar year from 1 January 2018. There are a number of exemptions including:
  - Holiday homes (owned by those with a principal place of residence in Australia),
  - City units for work purposes;
  - Properties in deceased estates; and
  - Homes subject to legitimate temporary absences (e.g. medical care, overseas appointments)

  Note, the full extent of exemptions is subject to final decision.
- **Spouses**, who lose the exemption for transfers between spouses, other than for the family home.

More details will be provided at our Property Update Breakfast on Thursday 11 May 2017. If you are interested in attending any of our upcoming Property Update Breakfasts, please email: events@millsoakley.com.au

About the Author

Tom Cantwell is a Senior Property Partner at Mills Oakley. Tom has been an active member of the Property Council of Australia's State Taxes Committee for over 16 years, and has been chair of the Committee for over 10. Tom has been selected by his peers for inclusion in *The Best Lawyers in Australia* since 2012, and has also been endorsed as a Recommended Melbourne Property and Real Estate Lawyer in *Doyle's Guide* since *2015*.

1. A list of Council areas for the increased FHOG can be found here: http://www.sro.vic.gov.au/regional
2. The list of Council areas for the vacancy tax is: Banyule, Bayside, Boroondara, Darebin, Glen Eira, Hobsons Bay, Manningham, Maribyrnong, Melbourne, Monash, Moonee Valley, Moreland, Port Phillip, Stonnington, Whitehorse, Yarra