IPTI Xtracts

Property Tax and Assessment News from Around the World

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Australian Expats and Foreign Investors in Oz Facing Major Property Tax Reforms

Under proposal, Australian citizens living abroad will no longer get a capital gains tax exemption; other reforms would impact foreign investors

Australian expats could see a jump in tax liability on the sale of their Australian homes under new housing affordability laws the government is considering.

Home owners who sell while they're living overseas could lose the capital gains tax exemption on a home which used to be their main residence in reforms targeted at foreign investors to "safeguard the opportunity for Australian buyers to purchase," according to budget papers.

The reforms are part of a host of changes to policy investment rules aimed at improving housing affordability, announced as part of the 2017-18 Federal Budget in May. And the details of the capital gains tax reform were released in July in an exposure draft inviting submissions.

Under current laws, Australian residents get a full exemption from capital gains tax on the sale of a home that was their main residence throughout the ownership period. Capital gains tax is a tax on the profits earned on an asset in the time that a person buys then disposes of it. It's not a separate tax but rather the capital gain is included in a person's taxable income in the year when the sale was made, then calculated as part of income tax.

Australian residents also receive a partial exemption if the home was their main residence for only part of the ownership period. And they benefit from an "absence rule," which allows them to treat a dwelling as their main residence for capital gains tax purposes for an unlimited period of time, as long as they keep it empty and don't rent it out.

Australians who move overseas for work opportunities can qualify as "non-tax residents," effectively removing their Australian tax liability for the period they live abroad. It is this group of Australian citizens most likely to be affected by the changes to capital gains tax rules if they own an Australian home, as the new regime will not longer grant them the "absence rule" nor will it offer a partial exemption for the period during which their home was their main residence.

Tax changes for foreigners who own in Australia

Temporary tax residents–residents who hold a temporary visa–who own property in Australia and use it as their main residence will keep the current capital gains tax exemption, as long as they are not foreign residents at the time they dispose of the property.

But among the affordability measures are other rules that will affect foreigners who hold Australian property. These include the introduction of an annual "ghost house" levy for foreign owners of Australian property in cases where the property is neither occupied or genuinely available for rent for at least six months of the year.

A non-final withholding tax on payments made to foreign residents who dispose of taxable Australian property has been increased from 10% to 12.5% of the sale value, and its threshold lowered from only affecting properties valued above $2 million to a $750,000 threshold.

The government will also remove a number of deductions commonly used by overseas investors to reduce the tax bill on a property, including travel expenses related to inspecting, maintaining or collecting rent for a residential rental property. Inspection costs by third parties will still be deductible.

Backlash to the proposed changes

PricewaterhouseCoopers has warned that the proposed measures reinstating capital gains taxes may make it harder for employers to get Australians to accept overseas assignments. Employers may also have to consider the effect on tax equalization arrangements for their staff, where salaries and bonuses are adjusted to the tax regime of another country to ensure the employee earns the same net yearly amount.

Mark Molesworth, a tax partner at BDO, an association of independently owned accounting practices said the measures will have an unreasonably sudden impact on the tax status for owners of Australian homes.

"It doesn't seem fair to me that someone who has owned their main residence for the last 30 years pays tax on the full gain of those last 30 years because they became a non-resident a few days or a week before the time they sell it," he said.

"That seems like an overly severe outcome from what they are trying to achieve from this policy."

Mr. Molesworth provided a hypothetical example of how the legislation would affect someone who owns a Sydney house worth A$2.5 million (US$1.99 million), having climbed from its $500,000 purchase price in 1990–a reasonable proposition for an inner city home given Sydney's house price growth in recent decades.

A husband and wife buy the house and raise children there, then move overseas in December 2019 for a job opportunity after the children have grown up and moved out. They sell it in January 2020, after the tax exemption is no longer in effect, for $2.5 million after a period of negotiation.

"Assuming that they became non-residents of Australia on Jan. 1, 2020 they will pay tax on the full $2 million capital gain, despite only having been non-residents for two weeks at the time that they sell."

He thinks a fairer approach would be to tax the capital gain proportionately based on the period of non-residency as a fraction of the entire ownership period, rather than looking simply at whether someone is a tax resident at the time a contract is signed.

He is not the only economist who believes this is an unfair approach. Saul Eslake, an independent economist and regular government adviser, also believes the simple test of whether someone is a resident or not at the time of sale is unfair.

"If someone lives in a house, has a house they bought nine years ago and after nine years of living in it, goes overseas for a few years, then if they have to pay capital gains tax without having a deduction for the interest they have paid during time they bought it, that, to me, would be very unfair," Mr. Eslake said.

Housing affordability is an increasingly heated issue in Australia. The latest Demographia International Housing Affordability Survey found Sydney was the second least affordable major housing market behind Hong Kong, and all five of Australia's major housing markets were "severely unaffordable."

Sydney house values have risen by a cumulative 110% since 2009, while Melbourne values are up 101%, according to data company CoreLogic.

The proposed amendments apply to properties purchased from budget night, May 9, however owners of property purchased before that time would have until June 30, 2019 to sell before losing the exemption.

As it stands now, the capital gains tax exemption doesn't just apply to the main residence. Investors who hold a home for more than 12 months, which isn't their main residence are entitled to a 50% deduction on their capital gains tax. However investors who are non-residents are not entitled to this discount.

A poll by the Economics Society of Australia Monash Forum found leading economists were divided on whether the capital gains tax discount should be kept, with 44% believing it should be removed entirely.

And the capital gains tax exemption is just one of a number of generous tax incentives for owners of Australian property. Tax breaks for "negatively geared" properties allow homeowners to claim a tax deduction against their other income for losses made on a property where expenses, including interest repayments, are higher than incoming rent.

Mr. Eslake believes generous tax incentives are a significant factor in Australia's housing affordability crisis, and the problem will remain as long as the government continues to shy away from reforming controversial items like the capital gains tax exemption and negative gearing.

"These changes, while I'm not opposed to them, are just sort of nibbling around the edges," Mr. Eslake says.

"It seems the only property investors the government is willing to make life a bit more difficult for are foreign ones. The government is bending over backwards to retain the privileges for what it describes as 'mum and dad investors trying to get ahead'. And it is confining any measures designed to reduce the attractiveness of property investment to foreign investors, presumably because they don't vote."

Australian Treasurer Scott Morrison's office did not reply to a request for comment.

VICTORIA - High Victorian council rates bills are often successfully appealed

MORE than 1000 Melburnians successfully challenged their rates notice last year.

A survey of 26 councils across Melbourne by Leader News has revealed almost 2500 property owners objected to their rates notice for the 2016-17 period, leading to more than 1080 adjustments.

This was out of the more than 1.6 million rateable properties across those areas.

With about 80,000 properties in its area Moreland Council received 254 objections, 135 of which were successful.

City of Melbourne received 381 objections, of which 105 were successful while Wyndham saw 97 adjustments from 154 objections, and Bayside 41 from 54 objections.

Some residential ratepayers across metropolitan Melbourne saved up to $478 on their 2016-17 rates bill, while a large commercial building on St Kilda Rd saw a reduction of almost $27,000.

In Darebin 18 objections resulted in capital improved valuation increases for 17 business properties and one residential property.

In Casey the biggest valuation decrease was by 52 per cent.

A Knox ratepayer had his rates reduced for the second time in four years after the council overvalued his rental property.

Gerard Rebeiro said he got a 2016-17 rates bill of almost $2000 for his three-bedroom rental home on Hastings Ave in Boronia after the council valued it at $730,000 on July 1 last year.

But with the help of Boronia Harcourts Real Estate principal John Garnett, Mr Rebeiro got his house revalued.

Mr Rebeiro said the council agreed with Mr Garnett's valuation of $600,000 but went one better and dropped it to $595,000, refunding him $310.

Hume acting director corporate services Gavan O'Keefe said valuers analysed property sales and rental data trends, as well as the condition of the house, to assess property values.

"To challenge a valuation, land owners need to demonstrate through sales and rents of similar properties, that the valuation should be lower," Mr O'Keefe said.

Councils polled by Leader News asked ratepayers to raise any valuation queries with them as soon as they received their rates notice, and suggested obtaining an independent valuation of their property before objecting.

Manningham Council assets and engineering director Leigh Harrison said objections to valuations initiated a review process and would not necessarily lead to a rates reduction.

Municipal Association of Victoria President Mary Lalios said rates were collected to deliver the more than 100 council services that were enjoyed and relied upon by the community.

"Of course councils understand that nobody enjoys receiving a bill in the mail," Cr Lalios said.

"Objecting to a property valuation is a ratepayer's right and if they genuinely believe that the valuation is incorrect, they can avail themselves of the process to object. Sometimes objections are upheld and sometimes they are not.

"More than two million properties were revalued across Melbourne in 2016 and of these valuations more than 99 per cent were correct."

Formal objections to property valuation must be lodged in writing within two months of the date of issue on the rate notice. It is free to object to a property valuation.

TASMANIA - Home 'owned by God' to be auctioned after owners fail to pay rates

The owners of the Melita Honey Farm in Tasmania will have their home auctioned in three weeks after failing to pay their council rates since 2010 because they believe the land is owned by God.

A letter from the owners, the Beerepoot family, to the Meander Valley council earlier this year said: "Council's world view is that the 'law of the land' governs life and thus also provides progress, growth and security. On the other hand, we believe that our Heavenly Father is Sovereign and that He reigns today, thus we worship Him and Him alone so that His will is established on the earth … you are asking us to bow down to a false god which is something we cannot do."

Meander Valley mayor Craig Perkins said the farm's owners had not made contact with the council since a real estate agent was appointed last month.

"On the first of September at 11am at the council office we will be auctioning the property, presuming they don't pay all monies that are owned before then," he said.

"It's disappointing that we have to go to this extreme to recover rates and that the property owners haven't been able to come to the realisation that we are serious about what we said we are going to do."

A further two properties owned by the Beerepoots had their rates paid in June but not the Mole Creek home, known as the Blue Wren Hideaway. It is owned by AM Beerepoot and has been run as a bed and breakfast.

When asked if the family intended to pay the rates before the auction, owner Fanny Beerepoot said "Well, there's not really much to talk about".

Meander Valley councillors had resolved to sell the three properties in March when $9332 in rates was outstanding.

According to the council's director of corporate services Jonathan Harmey, the family "steadfastly reaffirmed their belief that the land was not theirs but that of the Heavenly Father, that council would be taking the land from him and that was a matter between council and God".

The council's March meeting agenda said previous legal action to recover rates on the three properties owned by the Beerepoot family resulted in Tasmania Police executing a warrant to seize and sell an old motor vehicle.

The proceeds of the sale – minus the unpaid rates – will be given to the Beerepoot family, despite claims the land is owned by God.

Cr Perkins said it had not been not an easy decision. "Of course the ratepayers could still turn up tomorrow and write a cheque for their rates but it appears that they have come to a fundamental view that they don't have to pay rates," he said.

SOUTH AUSTRALIA - Jobs in doubt, household data for sale as SA Government privatises Lands Titles Office

The South Australian Government has finalised a $1.6 billion deal to privatise the state's Lands Titles Office.

A commercial consortium known as Land Services SA has won the right to manage the state's system of land titles and registry for the next 40 years - including the right to commercialise related data, subject to government approval.

The Lands Titles Office holds the registry of the state's property titles, including information about who owns property, when it was purchased and its valuation.

Land Services SA is comprised of two investors - Macquarie Infrastructure and Real Assets, and the Public Sector Pension Investment Board.

South Australia is the second state to privatise the functions of its Land Titles Office, following New South Wales, which in April reached a $2.6 billion deal with a consortium made up of First State Super, investment funds from Hastings Funds Management and the Royal Bank of Scotland Group's pension fund.

Critics of the privatisation have previously raised concerns about its privacy implications, and the Public Service Association has warned it could threaten the state's Torrens Title system.

SA Treasurer Tom Koutsantonis said, under the deal, the Government would continue to set fees and charges for title searches and other land services.

He said the general public would not notice any difference to the service following the transfer.

"Land Services SA submitted a binding bid that compares favourably with other land registry transactions, including the recent commercialisation in New South Wales," Mr Koutsantonis told Parliament.

The Treasurer conceded the new operators of the Lands Titles Office would require fewer staff than currently employed, but is expected to make offers of employment to about 70 workers currently performing transactional land services.

He said a further 60 staff would likely be employed in the transition process, while a further 30 would be retained elsewhere in the public service.

Mr Koutsantonis said he expected no forced redundancies.

He said Land Services SA had agreed to establish an "innovation hub" in Adelaide and would make a $35 million ICT investment in South Australia.

The Treasurer used the privatisation announcement to disparage the banking industry, which has run a high-profile advertising campaign against the State Government's proposed Major Bank Levy.

The banks have argued the introduction of the levy would deter investment in South Australia.

"This deal involves debt funding from three of the five major banks which are subject to the South Australian Major Bank Levy," Mr Koutsantonis told Parliament.

"Acts speak louder than advertisements, Mr Speaker, especially those advertisements by the Australian Bankers Association which seek to disparage this state.

"Not only are banks willing to invest in South Australia but they are actually doing so."

NEW SOUTH WALES - Secret report says Parramatta Rd could raise $2 billion from developers for the State Government

A CONFIDENTIAL report has been unearthed that reveals the State Government could collect billions of dollars in revenue from the redevelopment of down-at-heel Parramatta Rd.

The document prepared in 2015 by consultants for the government's property agency UrbanGrowth, predicts more than $2 billion could be gathered from Stamp Duty and taxes levied on private developers.

State Labor MP for Strathfield Jodi McKay, who battled bureaucrats for six months to have the secret "value capture assessment" report into the Parramatta Road Transformation Project released, said it was evidence the government favours developers over the community.

The report prepared by consultants HillPDA focuses on the amount of money the government could earn from developers along the dilapidated corridor.

Ms McKay had to resort to an appeal to the NSW Civil and Administrative Tribunal to get hold of the report after a freedom of information request was refused.

The report said that the government could collect at least $1.4 billion in Stamp Duty over a 20 year period from property sales to developers.

It could also earn $644 million in value capture — (Value Capture is when governments impose a tax on the increase in land values that occurs when the government builds infrastructure such as train line and schools nearby).

It also suggested that up to $521 million could also be collected from developers under Section 94 of the Environmental Planning and Assessment Act to pay for local infrastructure such as libraries, parks and community centres.

The consultant's report also suggests that a review of current planning controls could result in 19,600 more or "bonus" dwellings being built on top of the 40,000 homes predicted.

The state government has been marketing the redevelopment as a "revitalisation of the Parramatta Road Corridor and its local communities".

But Ms McKay said the document shows that all the government was interested in was dragging revenue from developers and not improving the lives of residents.

"What we have always suspected is that revenue for government was always the driver for this project.

"The community still doesn't know if the Parramatta Light Rail project is going through to Strathfield, the light rail line along Parramatta Rd has been scrapped. These projects that are supposed to provide a better place for people to live are not going ahead."

Ms McKay said the report suggests the government could make more money if it changes planning rules

"The government has been deceitful and the community has had a gutful of them backing down on their promises and not being clear on their intentions."

In November last year the government released its new 30-year "Parramatta Road Corridor Urban Transformation Strategy". It scaled down the government's previously published residential development targets to 27,000 dwellings, in favour of more commercial development.

An UrbanGrowth NSW spokesman said the Government's foremost objective was to revitalise one of the city's most congested roads.

"New population growth along the corridor will mean an increased need for important community facilities such as schools, hospitals, child care facilities, transport and open space," he said.

"Funding sources are needed to deliver adequate infrastructure to support these services.

"The Infrastructure Schedule that supports the final Parramatta Road Strategy was considered and endorsed by government and supersedes the draft value capture report."

QUEENSLAND - Cairns council rates among lowest in Queensland

Cairns Regional Council reports having the lowest residential rates for a median valued house out of any comparable local government in the country

PORT Douglas business owners who commute from Cairns will be pleased to learn that the Cairns Regional Council (CRC) is again reporting the lowest median residential rates charges of all Queensland councils servicing a population of more than 100,000 people.

According to a statement, CRC recently completed a benchmarking process against 11 other councils across Queensland, taking into account all property related charges paid on an annual basis and the average water usage for a Cairns ratepayer.

"When we apply the Cairns median across other rate structures, we still come up second only to Brisbane," said Mayor Bob Manning.

"When we look at the minimum rates amount on both residential and strata land, Cairns featured as the lowest again.

"We are also one of only two regions that did not have additional charges above the standard general rates, water access, sewerage cleansing and water usage," said Mayor Manning.

Mayor Manning said the best results can be seen when we benchmark the median rates across each of the local governments – this is where Cairns is the lowest.

"We have kept rates at a good level over the last four years and anticipate being able to continue this in the long term. Given the size of our region and what we deliver, our charges are extremely competitive."

In the net rates comparison for 2017/18, the total residential media evaluation – which includes general rates, water access, sewerage, cleansing, water usage and separate charge – for the following cities are:

• Cairns – 2,765
• Townsville – 2,946

- Mackay – 3,298
- Brisbane – 3,196
- Sunshine Coast – 3,278