IPTI Xtracts
Property Tax and Assessment News from Around the World

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Contents

VICTORIA - Melbourne Property Investor Alert: New Tax on Vacant Residential Properties

Vacant Residential Land Tax

With effect from 1 January 2018, owners of residential properties in certain Melbourne suburbs, which have been unoccupied for more than six months in a calendar year, will be liable to pay the Victorian Government's new "vacant residential land tax" (Tax).

The Tax was introduced as part of the 2017 State Budget and is now being implemented by the State Revenue Office (SRO).

Introduction of the Tax

The Tax commences on 1 January 2018. However, it is based on use and occupation of residential properties in 2017. As the legislation was only introduced in May 2017, all properties are deemed to have been occupied between 1 January and 30 April 2017. This means a property will only attract the Tax in 2018 if it was unoccupied for more than six months between 1 May 2017 and 31 December 2017.

The owner of an eligible property as at midnight on 31 December of the preceding year will be liable to pay the Tax.

While the owner of a property is the same as for land tax purposes, mortgagees in possession and beneficiaries of trusts will not be liable to pay the Tax.

The Tax is in addition to:
land tax
the absentee owner surcharge, which is an additional surcharge over the usual land tax rates for land owned by "absentee persons"
the Federal Government's annual vacancy fee, which is levied on foreign owners of residential real estate where a property is not occupied or genuinely available for rent for at least six months in a 12 month period.
Tax Rate

The Tax is assessed at 1% of the "capital improved value" (CIV) of the property. CIVs are displayed on council rates notices and take into account the value of any improvements on the land.

For example if the CIV of a property is AUD500,000 and the Tax applies, the tax payable would be AUD5,000.

We note that this is different to regular land tax which is calculated on "site value", which is the unimproved value of the land.

Affected Municipalities in Melbourne

The Tax applies to vacant residential properties in the following Melbourne municipal council areas:
Banyule
Bayside
Boroondara
Darebin
Glen Eira
Hobsons Bay
Manningham
Maribyrnong
Melbourne
Monash
Moonee Valley
Moreland
Port Phillip
Stonnington
Whitehorse
Yarra
What is Considered Residential Land?

Residential land is land that is capable of being used solely or primarily for residential purposes.

It also includes land on which a residence is being constructed or renovated, where the land was capable of being used solely or primarily for residential purposes before the works commenced and will be so capable on completion of the construction or renovation. However, as explained further below, there is an exemption available for up to two years for properties that will be vacant while renovated or constructed.

Residential land does not include vacant land (i.e. where there are no improvements on the land), commercial residential premises, display homes, residential care facilities, supported residential services or retirement villages.

When is a Property Considered Vacant?

A residential property will be considered vacant if it has not been used or occupied for more than six months in the preceding calendar year by:
the owner as their principal place of residence
the owner's permitted occupant as their principal place of residence or
a natural person under a lease or other short-term letting arrangement.
The six months does not need to be in a continuous period, but can be aggregated. For example if a property is vacant for four months between January to July, and is then also vacant for more than two months between July to December, the Tax will apply.

If a property is only occupied on a casual basis during the year it will be considered vacant and will be liable for the Tax unless an exemption applies or there is a bona fide lease. A lease made solely for the purpose of avoiding the Tax will not be considered a genuine arrangement.

If the property is vacant for more than six months in a calendar year it will be subject to the Tax regardless of whether the property is advertised for rent or sale during that time, including as a result of listing on casual vacancy websites such as Airbnb and Stayz.

Exemptions

Exemptions are available for:
Holiday homes used and occupied by the owner themselves for a period of at least four weeks (whether continuous or aggregate) in the relevant year. The owner must have a different principal place of residence in Australia. A taxpayer can only claim the holiday home exemption for one holiday home in any tax year.

Properties occupied for the purpose of attending the owner's place of business or employment (where the business is within the eligible municipalities) for an aggregate period of at least 140 days in the relevant year. The owner must have a different principal place of residence in Australia.
Land that changed ownership in the year preceding the tax year. For example, if a property was transferred in 2017, it will be exempt from the Tax for the 2018 tax year.
Land that became residential land during the tax year. For example, if a warehouse is converted into residential apartments during that tax year.
Up to two years, for land on which a residence is under construction or renovation. The two year exemption commences from the date of issue of the building permit. Under certain circumstances, the Commissioner of Taxation can extend the two year period if satisfied that there is an acceptable reason for the construction or renovation not being completed.
When is the Tax Payable?

Owners of vacant residential properties are required to notify the SRO by 15 January each year via the SRO's online portal. If a property is eligible for an exemption, the landowner is required to notify the SRO and advise which exemption applies.

Landowners who have notified the SRO and are liable for the Tax will receive assessment notices early in the year for properties that were vacant in the preceding year. If an exemption has been claimed, the owner will receive confirmation that an exemption has been processed, or a request for further information.

The assessment notice for the Tax will be separate to the land tax assessment notice for the property. Landowners will have 60 days to pay the assessment in full.

Landowners Must Notify SRO by 15 January 2018

If you own an unoccupied residential property in the relevant municipal areas, you must notify the SRO by Monday, 15 January 2018 through the SRO's online portal, which is available on the SRO website here:
https://www.sro.vic.gov.au/vacantportal

If a landowner fails to notify the SRO by 15 January, it will be deemed to be a notification default and penalties under the Taxation Administration Act 1997 (Vic) may apply. The SRO intends to undertake monitoring and compliance activities to ensure that vacant residential properties are being declared.

The SRO has not indicated how it will monitor compliance with the new Tax. However, the SRO could potentially look at energy usage records as one possible indicator that a property was vacant for an extended period. Further, the SRO is actively seeking anonymous tip-offs from members of the community via its website.

NEW SOUTH WALES - $170 billion rise in NSW land values may be end of the line for growth

The value of NSW houses continued to grow by 14 per cent, or more than $170 billion, last financial year, to nearly $1.4 trillion, a level which experts say probably represents the high-water mark of residential land values.

Figures released by the NSW Valuer General on Friday estimated the value of all land in NSW, including rural and commercial property, hit $1.72 trillion last financial year. That represents growth of more than 70 per cent from $990 billion five years ago.

National property markets ended 2017 with a whimper, with half of Australia's capital cities recording falling house prices in December. Vision courtesy Seven News, Melbourne.

"It's been a good year for landowners," said Peter Phibbs a professor of urban planning from Sydney University. "[But] July 1, 2017 was pretty close to the peak."

The state government's infrastructure and rezoning drive helped drive growth in Sydney's development hot spots.

Houses within the Ku-ring-gai council area on the upper north shore registered the single fastest growing prices in the city last financial year.

Residential land values in that suburb increased by 22 per cent driven mainly by rezoning around transport hubs and greater demand for mixed-use development projects around business centres in Chatswood and Macquarie Park.

Residential land values in Sydney's west, also grew at close to 20 per cent last financial year, in suburbs such as Liverpool and Campbelltown, with the average of the region at 15 per cent.

Rising global commodity prices pushed up the state's land value with farms in western NSW rising in value by as much as 50 per cent, NSW Valuer-General Simon Gilkes said, making them the single biggest contributor to overall growth.

Dr Peter Abelson, an expert in housing economics, said the average rise in house prices was in line with growth rates over the past three years and had been driven by dramatic falls in interest rates.

"I would not expect [NSW] property values to continue to increase unless commodity prices continue to rise," he said. "Land prices generally rise much faster than total property prices."

The figures released annually by the NSW Valuer-General do not include the value of houses or buildings on land, but can contribute to the annual calculation of land taxes and council rates.

Sydney's central and eastern regions grew at more than 13 per cent, with suburbs such as Hunters Hill (15.5 per cent), the northern beaches (16.8 per cent), Ryde (16.4 per cent) and Parramatta (15.6 per cent), and the inner west (15.7 per cent) all registered above-average growth.

Average land prices in two council areas are now worth nearly double the city's average $1.1 million house price: Mosman, which grew by 17 per cent to reach $2.15 million last year and Woollahra which rose 12 per cent to $2 million.

Camden, a council area about 50 kilometres south-west of Sydney's CBD and zoned as a major source of future population growth by the state government, saw particularly strong increases in its industrial and commercial land. Total land values in the suburb grew by 21 per cent across all categories.

"We've seen a consistent increase in Camden's land value the last four years," said Mr Gilkes.

That growth is attributed to the rezoning of areas for future housing development, such as Sydney's newest suburb, Leppington, and the development of the south-west rail link connection to the CBD.

The area's population is growing at a rate of more than 8 per cent according to the latest census data.

"The fact that Camden and Ku-ring-gai are leading the charge shows the sharp impact of zoning changes on land values," Professor Phibbs said. "In Ku-ring-gai's case it is the result of changing zoning from single storey dwellings to apartments [which] can lead to increases in land values of 300 to 400 per cent."

But Professor Phibbs said the state government faced a thorny policy question in how to capture value from fast-growing land values to fund infrastructure.

The question of zoning's role in driving future growth through the deployment of so-called "priority precincts" is the source of major ructions within the Berejiklian government ahead of next year's election.

Minister David Elliott said he was "horrified" by plans to add more than 7000 homes to his Baulkham Hills electorate.

Precincts are proposed in places such as Bardwell Park, Glenfield, Ingleside, Riverwood, St Leonards, and Burwood, Strathfield and Homebush.

Only three regions Murray, the Northern tablelands and south-eastern NSW registered substantially below average growth.