



Victorian State Budget 2021-22:

An Overview affecting Property transactions

24 MAY 2021

The Victorian State Government Budget, released on Thursday 20 May 2021, has produced a mixed bag of tax amendments that will affect many taxpayers who own property or are involved in property development.

In most aspects, it is viewed as an attempt to generate millions of dollars in revenue, with some measures attempting to motivate property purchase within a quicker period.

While State Treasurer Tim Pallas stated the Budget was aimed at the “*big winners out of the pandemic*”, it is hard to see how those trying to buy residential homes or developers who have struggled to maintain their land holdings won anything out of the pandemic. Pallas takes the view that surging property prices equates to property owners being able to pay higher taxes. However, it has instead been that property prices have increased and not necessarily the purchasers’ incomes.

Pallas is endeavouring to raise \$2.7 billion from this exercise; however, many industry experts suspect this to have been underestimated.

While there are decisions that have the industry seething, there were some positive announcements including:

- Stamp duty concession on newly completed homes that have remained on the market for more than 12 months;
- 50% stamp duty concession on new homes in the Melbourne Local government area;
- Stamp duty concessions for off the plan purchases with a dutiable value up to \$1m;
- Vacant residential land tax exemption for developments will be extended for two years from 1 January 2022; and
- Land Tax free threshold will increase from \$250,000 to \$300,000 for land not held in a trust.

Some of the announcements which have not been viewed in such a positive light:

- Land tax will increase by .25% on taxable land holdings valued between \$1.8m and \$3m; and by .3% for land worth more than \$3m, estimated to cost those with \$5m in dutiable land an extra \$9000 a year;
- There will be a premium stamp duty for properties over \$2m; and
- A windfall gain tax will be introduced on rezoned land with a 50% tax on windfalls exceeding \$500,000 because of rezoning.

Windfall gains tax

Windfall gains tax for high-value landholdings

From 1 July 2022, a new tax will apply to large windfall gains associated with planning decisions to rezone land. The term itself, windfall, would appear to be a contradiction. Any gains from rezoning are not immediate and could have instant effects on future property projects including regional sites, infill, and urban renewal sites.

The total value uplift from a rezoning decision will be taxed at 50% for windfalls above \$500,000, with the tax phasing in from \$100,000. The tax is payable on re zonings across Victoria, except on re zonings to and from the Urban Growth Zone within existing Growth and Infrastructure Contribution areas, and re zonings to Public Land Zones. The tax applies to re zonings between zone types rather than between zone sub-categories.

Land tax

Increase in land tax rates for high-value landholdings

From 1 January 2022, the land tax rate for taxpayers with larger property holdings will increase by:

- 0.25 percentage points for taxable landholdings exceeding \$1.8 million; and
- 0.3 percentage points for taxable landholdings exceeding \$3 million.

This change will apply to both the general and trust surcharge rates.

Increase the tax-free threshold for land tax

From 1 January 2022, the tax-free threshold for general land tax rates will increase from \$250,000 to \$300,000.

This means for land not held on trust, land tax will only be payable if the total taxable value of Victorian land is equal to or exceeds \$300,000. The trust rate scale will remain unchanged.

Vacant residential land tax exemption for new developments

From 1 January 2022, the vacant residential land tax exemption for new developments will be extended to apply for up to two years.

This measure provides an exemption for at least two tax years following the completion of a newly constructed dwelling before the vacant residential land tax may apply.

Removal of land tax exemption for private gender-exclusive clubs

From 1 January 2022, private gender-exclusive clubs will no longer be eligible for the land tax exemption for societies, clubs or associations.

Stamp duty

Premium duty rate on stamp duty for high-value properties

For contracts entered into from 1 July 2021, a new stamp duty threshold for high-value property transactions will be introduced.

For property transactions with a dutiable value above \$2 million, the stamp duty payable will increase to \$110,000 plus 6.5% of the dutiable value in excess of \$2 million.

Temporary increase in the eligibility threshold for the off-the-plan duty concession

For contracts entered from 1 July 2021 to 30 June 2023, the threshold for the off-the-plan concession for stamp duty will increase to \$1 million for all home buyers. Consistent with existing eligibility requirements, the property must be the principal place of residence for at least one of the purchasers.

This increase will mean that to be eligible for the off-the-plan duty concession, the dutiable value of the property (the contract price minus the construction costs incurred on or after the contract date) must be below \$1 million.

Temporary stamp duty concession for new residential property within the Melbourne local government area

A concession of up to 100% of the stamp duty payable will be provided on the purchase of new residential property, in the Melbourne local government area, with a dutiable value of up to \$1 million.

For new residential property that has been unsold for less than 12 months since completion, a 50% concession will be provided. Purchases of a new property that has been unsold for 12 months or more since completion will be exempt from duty. The exemption/concession will apply to the duty otherwise payable (excluding any foreign purchaser additional duty).

The 50% concession will be in place for contracts entered into from 1 July 2021 to 30 June 2022, and the 100% concession will be in place for contracts entered into from 21 May 2021 to 30 June 2022 (inclusive).

In Summary

It is estimated that Victorians pay 50% of the Governments tax revenue through property, and the announced tax measures will affect those across all aspects of the property market. With prices already so high in Victoria, it is most likely that these measures will continue to make buying property difficult across every level of the housing market.

Overall, it remains to be seen how these measures will affect the Victorian property industry and if they will provide the expected revenue to the Victorian Government. We can only hope that it doesn't hinder the economic recovery Victoria is just starting to enjoy.

The information contained in this newsletter is a combination of the various government, institutional, legal firms and professional associations reporting that has been made available since the 2021 State Budget was tabled.

The content of this information memorandum does not reflect all the announcements outlined in 2021 State Budget but simply highlights those points which are most likely to affects our clients.

We thank the contributors for their content in this Information memorandum

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