Vacant residential land tax (Victoria): an unexpected tax on owning residential property in melbourne

By Fordham

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Vacant Residential Land Tax (VRLT) is a state-based tax on inner and middle Melbourne residential properties which are unoccupied for more than six months a year. VRLT is assessed by calendar year (1 January to 31 December). The six months of occupancy does not need to be continuous.

The Victorian Government introduced this tax with the aim it would assist in addressing the lack of housing supply in Victoria. VRLT was waived in 2021 as part of the Victorian Government's COVID-19 relief measures and re-commenced in 2022. This tax is different to pre-existing Victoria based property related taxes such as land tax and the absentee owner surcharge and the federal annual vacancy fee.

Who Does This Tax Affect?

Owners of properties in one of the following council areas could be affected:

- Banyule
- Bayside
- Boroondara
- Darebin
- Glen Eira
- Hobsons Bay
- Manningham
- Maribyrnong
- Melbourne
- Monash
- Moonee Valley
- Merri-bek (formerly Moreland)
- Port Phillip
- Stonnington
- Whitehorse
- Yarra

What Types of Properties are Included?

VRLT is assessed to inner and middle Melbourne residential properties which are unoccupied (or 'vacant') for more than six months a year.

Residential property is land that is able to be used solely or primarily for residential purposes, such as a home or an apartment. It also includes land on which a residence is being renovated or where a former residence has been demolished and a new residence is being constructed. Residential property does not include vacant land, commercial property, residential care facilities, supported residential services or retirement villages.

A property is considered vacant if, for more than six months in the preceding calendar year, it has not been lived in by:

- the owner, or the owner's permitted occupier, as their principal place of residence (PPR), or,
- a person under a lease or short-term letting arrangement made in good faith.

Construction and renovation causing long term unoccupation of residential property you own could also attract VRLT.

What It Means for Those Affected

Unlike land tax as we traditionally know it, vacant residential land tax is calculated using the Capital Improved Value of a property, which is the value of the land plus the buildings on it and any other capital improvements. Capital Improved Value is determined as part of the annual state wide general valuation process. Councils also use this value to calculate the rates you pay on your property.

Vacant Residential Land Tax Land Tax is applied at 1% of the Capital Improved Value of the property.

If you own a property, in one of the abovementioned council areas, that was unoccupied for more than six months during a calendar year, you are required to notify the Victoria State Revenue Office about the property by 15 January of the following year.

> *Failing to notify the Victoria State Revenue Office that you own vacant residential property is a notification default under the Taxation Administration Act 1997. When this happens, you will be liable for penalty tax and interest. This may be penalty tax of up to 90% if the Victorian State Revenue Office believes that you intentionally disregarded the law.*

Are There Any Exclusions That May Apply?

Firstly, principal places of residences, which are exempt from land tax, are also exempt from VRLT.

In addition, homes that are unoccupied for more than six months of the preceding calendar year may be exempt from the tax if:

- Ownership of the property changed during that year.
- The property became a 'residential' property during that year.
- The property became a 'residential' property during the previous two calendar years and ownership is unchanged (i.e. vacant land in which construction of a new residential premises has occurred, but which has been delayed).
- The property was used as a holiday home and occupied by the owner for at least four weeks of that year and the owner has a PPR in Australia (homes owned by companies, associations or organisations are generally not eligible for this exemption).

- The property was occupied by the owner for at least 140 days of that year for the purpose of attending their workplace or business, and the owner has a PPR in Australia (homes owned by companies, associations or organisations are generally not eligible for this exemption).

If a property is eligible for an exemption, the land owner is required to notify the State Revenue Office by 15 January each year and advise which exemption applies.

Next Steps

If you are an owner of residential property in one of the above listed council areas, you will need to review whether you could be affected by VRLT. Your Fordham Partner can help you to understand this new requirement and what you must do in order to comply with these new rules.

For further assistance please don't hesitate to contact your Fordham Partner.

References

[1] (Land Tax | State Revenue Office (sro.vic.gov.au))
[2]Vacant residential land tax | State Revenue Office (sro.vic.gov.au)

[3] Vacant residential land tax - frequently asked questions | State Revenue Office (sro.vic.gov.au)

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