

# VICTORIAN BUDGET 2019/20 - PROPERTY ALERT



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## **Boom or Bust... the 2019/20 Victoria budget highlights the state's reliance on the property sector.**

Last week, the Andrews Government released their 2019/20 Budget with regional commercial property, metropolitan residential property, foreign property investment and land rich corporate structures headline changes to the property sector.

A cooling property market, has led to an estimated \$5.2 billion reduction in stamp duty projections over the next four years. The state debt is also tipped to double to \$54.9 billion during the same period to fund the “suburban infrastructure blitz”. It’s easy to recognise the reliance the state government has on our property market with 44.6% of Victoria’s tax revenue being derived from the property sector.

Treasurer Tim Pallas has proposed several new taxes to plug the hole left by a fall in stamp duty revenue, with developers, foreign investors and metropolitan Melbourne landowners set to be impacted the most.

### **Land Tax**

- Homeowners in metropolitan Melbourne with land that shares a border with their principal place of residence but on a separate title and without a separate dwelling will no longer be exempt from land tax effective from the 2020 land tax year. This new measure dubbed the “Tennis Court” or “Swimming Pool” tax is

aimed at preventing land banking, a real estate investment scheme that involves buying large blocks of undeveloped land with a view to selling the land at a profit when it has been approved for development. Landowners may seek to consolidate their land titles or face having to pay land tax.

- The absentee owner surcharge will increase from 1.5% to 2% effective from 1 January 2020. The surcharge will apply to the greater of the purchase price or the market value of the property, in addition to any other stamp duty payable, and will be payable at settlement. The surcharge will now match NSW's surcharge, with an estimated 3,000 foreign owners to be affected by the change.

## Land Stamp Duty

- Developers who enter into agreements with landowners are likely to incur stamp duty under the proposed expansion of the economic entitlement provisions, regardless of who holds the land and the percentage of economic entitlements acquired. Developers will be deemed to have acquired "beneficial ownership" of any site worth more than \$1 million and could face a stamp duty bill on potentially the entire value of the land. These changes will increase costs for developers, which they may pass on to consumers or even encourage developers to go outside of Victoria. The controversial new changes are proposed to come into effect on the day after the Act receives Royal Assent, which could be as early as June.
- Foreign Investor stamp duty surcharge will increase from 7% to 8% effective from 1 July 2019, with the Treasurer commenting "Victoria is (home to) almost 50 per cent of all foreign purchases of residential property, so aligning with NSW should cause little damage to what is clearly a very enthusiastic foreign purchasing market".
- Commercial and industrial property transactions in regional Victoria will be eligible for a land transfer duty concession of 10% effective from 1 July 2019 and will rise to by 10% per year to 50% concession by 1 July 2023. The concession will be based on the contract date and will be applied to the land transfer duty payable at the settlement date, as the state looks to incentivise investment in rural Victoria.
- The current exemption applying to qualifying transactions of corporate restructures will be replaced with a duty rate of 10% of the duty otherwise payable, this will be effective 1 July 2019.
- On a brighter side, first-home buyers to date have saved more than \$1 billion through stamp duty concessions and first home-owner grants, with the state government sticking to their policy and making no changes to the stamp duty exemptions currently available.

## Other Announcements affecting Victorian Businesses:

The current Payroll Tax exemption for wages paid to employees on maternity leave will be expanded to all types of parental leave. The exemption will apply for up to 14 weeks of wages paid to employees taking parental leave effective 1 July 2019.

Looking further ahead, the Payroll Tax threshold is to be increased to \$700,000 by 2022-23, starting at \$650,000 on 1 July 2021 with increases of \$25,000 in both the 2021-22 and 2022-23 financial year.

The regional Payroll tax rate paid by eligible businesses is to be progressively reduced until the 2022-23 financial year. The definition of 'regional employer' will be amended to simplify the eligibility criteria for this rate by removing the business location test.

Motor vehicles will be up for additional stamp duty, with used vehicles (valued above the luxury limit) attracting duty at the same rate as new cars and the introduction of two new super-luxury thresholds will be introduced from 1 July 2019, as detailed below:

1. All passenger motor vehicles valued between \$100,001 and \$150,000 will be

charged a motor vehicle duty of \$14.00 per \$200 of market value; &

2. All passenger motor vehicles valued above \$150,001 will be charged a motor vehicle duty of \$18.00 per \$200 of market value with concessions for 'green' vehicles and 'primary producer vehicles' also being introduced

If you would like further information on how these changes may impact you, please contact our Property & Construction team or your Fordham Partner.