

# Victorian Budget includes more changes to land tax



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**T**HE 2006/7 Victorian State Budget (Budget) includes further changes to land tax in the form of reduced rates and scales, the abolition of indexation factors and the ability for taxpayers to appeal against their valuation upon receipt of their Land Tax Assessment. This is welcome relief.

## Reductions in rates and scales

The Budget proposes changes to the existing rates of land tax to apply from the land tax year commencing 1 January 2007.

Firstly, the top marginal rate which applies in respect of aggregated site values of \$2.7m and greater will be reduced from 3.5 per cent down to 3 per cent in 2007. (This reduction has been brought forward by one year, since it was scheduled to take place in 2008.)

In addition, there is a reduction in the rates applicable in the middle scales of land tax whereby:

- ▶ the 1 per cent rate applicable to aggregated site values between \$900,000 and \$1,189,999 is reduced to 0.8 per cent
- ▶ the 1.5 per cent rate applicable to aggregated site values between \$1,190,000 and \$1,619,999 is reduced to 1.2 per cent
- ▶ the 2.25 per cent rate applicable to aggregated site values between \$1,620,000 and \$2,699,999 is reduced to 1.8 per cent.

This represents a 20 per cent reduction of those rates.

There is no reduction to rates applicable to aggregated site values between \$200,000 and \$899,999.

As an example of the effect of the reductions, owners of land with an aggregated site value of \$1,000,000 will pay \$200 less in land tax, with reductions of \$5,830 for an aggregated site value of \$2,500,000, and \$43,230 for an aggregated site value of \$10,000,000. Savings will vary according to the extent of land holdings.

Changes to the middle rates will also see a reduction in the levels of land tax payable by (non surcharge exempt) trusts, since the surcharge is additional to standard land tax rates. This land tax surcharge of 0.375 per cent applies to non-exempt post 31 December 2005 trusts and increases land tax rates for aggregated values between \$20,000 and \$1,620,000. The surcharge is phased out gradually after the \$1,620,000 point, and ends at \$2,700,000.

These reductions will provide some relief to land tax

payers, although "relief" may be in the sense that land tax will initially stop rising (or fall slightly) in most cases, then creep slowly higher in the future. We anticipate that rate reductions may be absorbed by increasing land values.

## Capping land tax increases

As in 2006, land tax increases in 2007 will be capped at 50 per cent.

## Abolition of indexation factors

The current system of applying indexation factors to land tax assessment will be abolished.

This system involved multiplying site values by an "indexation factor" every second year to represent the total increase in value of all land within a particular municipality.

Applying an indexation factor was meant to reflect the change in land value in years where a general valuation was not conducted. However, application of this factor was seen by some landowners as unfair, since all land in a particular municipality was subject to the same indexation factor wherever it was located, and taxpayers were not able to dispute an indexation factor's inapplicability or inaccuracy.

## Appeals against valuations

Taxpayers will be granted the right to appeal against the valuations contained in their land tax assessments at the time the assessments are issued. We understand that such appeals and objections to valuations are in addition to the objections that can be lodged against valuations at the time of receipt of the valuation and rates notices from municipal councils.

The ability to object to values contained in land tax assessments has been the subject of litigation and legislation in recent times. Various Victorian courts came to different conclusions on this issue, and the Victorian Government then legislated in an attempt to establish that the right to object was only available upon receipt of a valuation notice. The new legislation overturns that position.

## Removal of time lag

As part of the change to permit taxpayers to appeal against valuations contained in their land tax assessments, the Government has also decided that the relevant valuations for assessment of land tax in any year will be the valuations returned by a municipality in the immediately preceding year's general valuation. Previously there was a time lag of approximately 18 months before the site value contained in a general valuation was used for land tax purposes.

Whilst there are some drawbacks-including the accelerated use of more recent (and therefore likely higher) valuations - this change will simplify the land tax regime, given the most recent rate and valuation notice will contain the relevant site value for the assessment of land tax.

Our conclusion is that these further changes are a positive response to Victorians who reported that land tax was having a negative impact on them and/or their business. However, the reforms do not represent significant reductions from previous assessments, but rather a temporary suspension of the escalation of land tax liabilities.

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