

June 2006

Land tax changes 1—3

Important Notice

This publication contains comments of a general nature only and is provided as an information service. It is not intended to be relied upon, nor is a substitute for specific professional advice. No responsibility can be accepted by Rigby Cooke Lawyers or the authors for loss occasioned to any person doing anything as a result of any material in this publication.

TO UNSUBSCRIBE FROM THIS PUBLICATION

If you do not wish to receive publications of this type from us in the future, please notify us by one of the following methods:

1. Send an email to marketing@rigbycooke.com.au
2. Send a fax message to 'Attention: Rigby Cooke Marketing' on fax number +61 3 9321 7900
3. Send a letter to 'Attention: Rigby Cooke Marketing', GPO Box 4767UU, MELBOURNE VIC 3001

Your request to remove you as a subscriber should include the word 'unsubscribe' and your full email address to allow us to correctly identify your removal from our lists.

Reprinting Articles

Articles in this publication may be reproduced in whole or in part, provided that appropriate recognition is given to the author and the firm and prior approval is obtained. To obtain approval, please contact Rigby Cooke on (03) 9321 7852 or email marketing@rigbycooke.com.au

Land tax changes

By David Krolikowski, Senior Associate

The 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. The relief offered is welcome.

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% down to 3% 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:

- (a) the 1% rate applicable to aggregated site values between \$900,000 and \$1,189,999 is reduced to 0.8%;
- (b) the 1.5% rate applicable to aggregated site values between \$1,190,000 and \$1,619,999 is reduced to 1.2%; and
- (c) the 2.25% rate applicable to aggregated site values between \$1,620,000 and \$2,699,999 is reduced to 1.8%.

This represents a 20% reduction of those rates.

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

The reductions in the middle rates will also see a reduction in the rates payable by (non surcharge exempt) trusts given the surcharge is imposed on top of the standard land tax rates. The tables below show the changes in standard rates for 2007 and the impact those changes will have at various levels of value.

Land tax changes *cont*

LAND TAX RATES		
Aggregated site value	PREVIOUS standard land tax rates in 2007*	NEW standard land tax rates in 2007*
\$0 - \$199,999	Nil	Nil
\$200,000 - \$539,999	\$200 + 0.2c for each \$1 over \$200,000	No change
\$540,000 - \$899,999	\$880 + 0.5c for each \$1 over \$540,000	No change
\$900,000 - \$1,189,999	\$2,680 + 1c for each \$1 over \$900,000	\$2,680 + 0.8c for each \$1 over \$900,000
\$1,190,000 - \$1,619,999	\$5,580 + 1.5c for each \$1 over \$1,190,000	\$5,000 + 1.2c for each \$1 over \$1,190,000
\$1,620,000 - \$2,699,999	\$12,030 + 2.25c for each \$1 over \$1,620,000	\$10,160 + 1.8c for each \$1 over \$1,190,000
\$2,700,000 and over	\$36,330 + 3.5c for each \$1 over \$2,700,000	\$29,600 + 3.0c for each \$1 over \$2,700,000

By comparison Queensland has a top marginal rate of 1.5% for companies and 1.25% for individuals while New South Wales has a top rate of 1.7%.

SAMPLE COMPARISONS			
Aggregated site value	PREVIOUS standard land tax in 2007*	NEW standard land tax in 2007*	Land tax savings for 2007
\$50,000	Nil	Nil	n/a
\$100,000	Nil	Nil	n/a
\$250,000	\$300	\$300	Nil
\$500,000	\$800	\$800	Nil
\$750,000	\$1,930	\$1,930	Nil
\$1,000,000	\$3,680	\$3,480	\$200
\$1,500,000	\$10,230	\$8,720	\$1,510
\$2,000,000	\$20,580	\$17,000	\$3,580
\$2,500,000	\$31,830	\$26,000	\$5,830
\$3,000,000	\$46,830	\$38,600	\$8,230
\$10,000,000	\$291,830	\$248,600	\$43,230

** Note: the land tax surcharge of 0.375% applies in respect of non-exempt post 31 December 2005 trusts to increase land tax rates payable in respect of aggregated values between \$20,000 and \$1,620,000. The surcharge is phased out gradually after \$1,620,000 and ends at the \$2,700,000 level.*

These reductions will provide some relief to land taxpayers around Victoria, 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 with 2006, land tax increases in 2007 will be capped at 50%.

Abolition of indexation factors

The current system of indexation factors for the purpose of land tax assessment will be abolished.

This particular system had 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. (This purportedly reflected the change in value of land in years where a general valuation was not conducted.)

Land tax changes *cont*

Application of this “indexation 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.

Conclusion

The latest changes to land tax as revealed in the Budget certainly constitute a positive response to Victorian taxpayers 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.

If you require further information regarding land tax, please contact David Krolkowski on 03 9321 7897 or email dkrolkowski@rigbycooke.com.au