

Commercial and Industrial Property Tax Reform

FACT SHEET – TRANSITION LOAN KEY DESIGN ELEMENTS

About the reform

As announced in the *2023-24 Budget*, the Victorian Government is progressively abolishing stamp duty on commercial and industrial property and replacing it with a more efficient annual tax based on unimproved land value – to be called the ‘Commercial and Industrial Property Tax’ (CIPT).

From 1 July 2024, eligible first purchasers of a commercial or industrial property entering the reform will have the option of accessing a government transition loan on equivalent to commercial terms to finance the final upfront stamp duty liability on their purchase.

An information sheet was released in December 2023 providing further detail on the final design features of the reform. The information sheet stated that further details on the transition loan would be made available in 2024.

This fact sheet provides further detail on the key design elements of the transition loan, which have been informed by consultation undertaken to date.

Further information on the transition loan, such as how to apply and the key terms of the loan, will be published by Treasury Corporation of Victoria (TCV) prior to the commencement of the reform on 1 July 2024.

Guide to this Fact Sheet

This fact sheet provides detail on eligibility, exclusions and conditions of the transition loan.

Please refer to the following sections of this document for further information:

- Eligible entities, activities and properties – refer to Page 3.
- Exclusions from eligibility – refer to Page 4.
- Key lending terms following loan approval – refer to Page 5.
- Security requirements – refer to page 5.
- Processes for events of default for approved loans – refer to Page 6.
- Other terms relating to early repayments, variations and notification – refer to Page 6.

Overview of the reform and transition loan

The new tax system will apply to commercial and industrial property transactions with both a contract and settlement date on or after 1 July 2024. For these properties, stamp duty will be paid one final time on the property if and when it is transacted, and the new annual CIPT will be payable 10 years after the final stamp duty payment, regardless of whether that property has been sold again.

If a property is sold again, stamp duty will not apply if the property continues to be used for commercial and industrial purposes.

To smooth the transition to the new tax system, the Government will give purchasers of commercial or industrial property (who meet the eligibility criteria as outlined in this information sheet) the option of accessing a government transition loan on equivalent to commercial terms from the TCV as an alternative to self-financing the upfront stamp duty amount.

In this way, eligible purchasers who choose the transition loan option transition to an annual repayment from the time of purchase – freeing up capital businesses can use to invest in expanding and employing more workers.

Purchase of a high-street shop

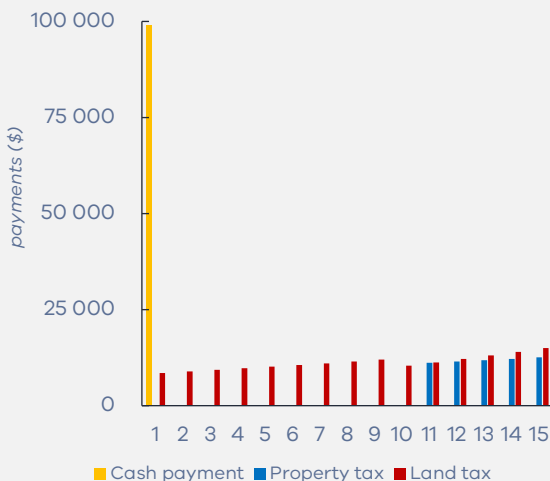
A small online business has grown, the owner wants to purchase a physical shop.

- Purchase price: **\$1.8 million**
- Site value: **\$830 000**
- Stamp duty: **\$99 000** (yellow)
- Transition loan repayment (green) is **\$14 174** in each year it applies.
- Year 11 property tax (blue) approximately **\$11 100***.

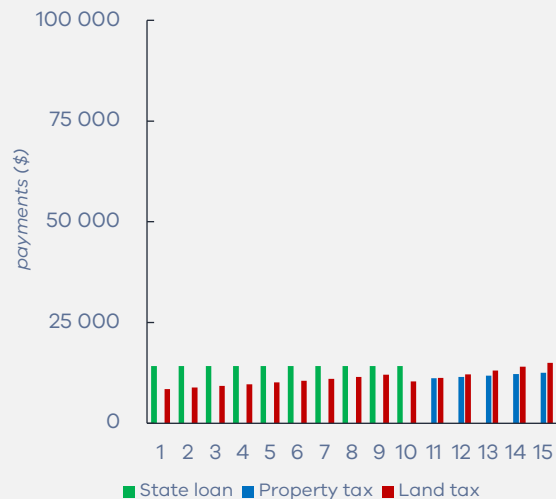
Land tax (red) includes the *COVID Debt Levy – Landholdings*. Purchaser is assumed to own an additional property with a **\$600,000** site value (land tax is levied on the aggregated value of both).

Under the tax reform the taxpayer can choose to either (i) pay the stamp duty using their own finances or (ii) using a state-facilitated transition loan.

Choice (i) – Use of own finances to pay stamp duty



Choice (ii) – Government transition loan*



*Assumed the purchase is in 2024-25. Note that the Choice (ii) chart does not include the borrower's cash payment of stamp duty in year 1 as the loan proceeds received from TCV will be used to fund their stamp duty obligation.

Eligible entities, activities and properties

Applications must meet the following criteria to be eligible to apply for a transition loan. Please note this list is not exhaustive.

Category	Key eligibility features
Eligible transactions	<p>The applicant is the first purchaser of a commercial or industrial property in Victoria where:</p> <ul style="list-style-type: none"> • settlement occurs for contracts entered into on or after 1 July 2024; and • the transaction incurs a positive dutiable transaction (other than dutiable non-standard property transactions listed under the "Exclusions" section below).
Eligible properties	<p>Properties must meet one of the following conditions:</p> <ul style="list-style-type: none"> • has an Australian Valuation Property Classification Code (AVPCC) of 200-499 or 600-699; or • is a property used solely or primarily for student accommodation being residential premises designed for occupation, occupied or available for occupation by students of a higher education provider, and are considered 'commercial residential premises' in the <i>A New Tax System (Goods and Services Tax) Act 1999 (Cth)</i>. <p>Properties must be owner occupied or investor owned.</p> <p>The property must be on a title or titles on the Land Use Victoria Register.</p>
Maximum value	<p>Eligible property transactions with a sale price of up to \$30 million and incurs a maximum of \$1.93 million in land transfer duty payable.</p>
Eligible applicants	<p>Applicants can be:</p> <ul style="list-style-type: none"> • an Australian business (organisation, company, trustee on behalf of a trust or other body or entity or partnership); or • a natural person who is at least the age of 18 at the time of settlement and an Australian citizen or permanent Australian resident (as long as the natural person will not use the property for predominantly personal, domestic or household purposes, including residential property investment).
Evidence of finance pre-approval on subject property	<p>The applicant must have received finance pre-approval on the subject property from:</p> <ul style="list-style-type: none"> • an authorised deposit-taking institution (ADI) regulated by the Australian Prudential Regulatory Authority (APRA), excluding 'restricted ADIs' and 'providers of purchased payment facilities'; or • another lender holding an Australian Credit Licence issued by the Australian Securities and Investment Commission and listed by APRA as a registered financial corporation. <p>Applicants will be required to provide to TCV all documentation provided to obtain their finance pre-approval.</p>
Other requirements	<p>The property has not previously been the subject of a transition loan.</p> <p>Multiple owners of the property would be able to <u>jointly</u> apply and be jointly responsible for repaying the transition loan, subject to the transaction not being subject to an exclusion.</p> <p>The applicant enters into a TCV Loan Agreement with non-negotiable terms and conditions. TCV will undertake a credit assessment to assess the applicant's capacity to repay the loan in accordance with its credit policy. To enable this to occur, the applicant must:</p> <ul style="list-style-type: none"> • confirm that it has the requisite legal capacity and power to enter into a loan agreement with TCV and provide security; and • self-attest that the information provided is true and accurate.

Exclusions

The following exclusions apply. Please note this list is not exhaustive.

Category	Key exclusions relating to applications
Properties excluded from the reform	<p>Properties that are not classified as commercial or industrial under the AVPCC classification identified for entry into the reform. These include properties with the following AVPCC classification categories:</p> <ul style="list-style-type: none"> • residential; • primary production; • community services; • sport, heritage & culture; and • national parks, conservation areas, forest reserves and natural water reserves.
Properties already in the reform	Commercial or industrial property that is already in the reform and has previously been subject to the transition loan.
Excluded types of property purchases	<p>The sale price of a property is above \$30 million, equivalent to land transfer duty payable that exceeds \$1.93 million.</p> <p>Properties purchased by foreign purchasers or self-managed superannuation funds.</p>
Non-standard property transactions	<p>Non-standard property transactions subject to the following types of land transfer duty events:</p> <ul style="list-style-type: none"> • landholder duty; • duty on economic entitlement arrangements in relation to land; • duty on long-term lease arrangements; and • duty on changes in beneficial ownership.
Prohibited activities or entities	<p>The applicant is ineligible if they:</p> <ul style="list-style-type: none"> • engage in prohibited activities including those that are illegal under Australian laws including, without limitation, labour hire licensing and other state and federal industrial relations laws, equal opportunity, anti-discrimination and affirmative action legislation; • have been placed, or notice has been given that it will be placed, under external administration; • are subject to a petition for bankruptcy or to wind up, dissolve or deregister a company or business; • are or have become deregistered or unregistered (including cancellation or lapse in registration or any relevant permit); and/or • are subject to material adverse findings by a federal or state government agency or local council regarding their business, activities or operations. <p>The applicant must provide an attestation that it is not subject to any of the events listed above when applying for the transition loan.</p> <p>The occurrence of prohibited activities or entities after the loan is approved may trigger repayment of the transition loan.</p> <p>The applicant must notify TCV if one of the events listed above occurs during the term of the loan.</p>

Key lending terms

The following key loan terms will be available to eligible applications:

Element	Lending terms									
Principal amount	Up to or equal to the land transfer duty that becomes payable by the borrower upon the first settlement of a property for contracts entered into on or after 1 July 2024 up to the maximum value set out in the eligibility requirements.									
Facility	Principal and interest only. 10 years from date of settlement of contracts entered into on or after 1 July 2024. No repayment can go beyond the 10-year term to avoid overlap with the CIPT on the property, which separately commences from year 11 onwards.									
Interest rate	<p>Fixed interest rate only.</p> <p>Interest will be calculated at the start of each loan and the rate will not change over the life of the facility except as contemplated in the Transition Loan Notice¹.</p> <p>The fixed interest rate will be set on commercial terms and comprise the aggregate of:</p> <ol style="list-style-type: none">a base rate, based on TCV's yield curve which changes over time; anda margin equal to the relevant Financial Accommodation Levy margin as determined by the Treasurer per financial year, and typically reconsidered prior to each new financial year. <p>The rate for each borrower will be fixed for the term of the loan.</p> <table><thead><tr><th>Component</th><th>Rate</th><th>Notes</th></tr></thead><tbody><tr><td>Base rate</td><td>4.87%</td><td>TCV's yield curve*</td></tr><tr><td>Margin</td><td>2.25%</td><td>Set by the Treasurer for 2024-25</td></tr></tbody></table> <p>Illustrative fixed interest rate 7.12%</p> <p>*The base rate is determined by the TCV yield curve which is primarily derived from observable TCV market funding rates across the maturity spectrum. Indicative 3-year and 10-year TCV bond yields are published monthly on TCV's website, www.tcv.vic.gov.au.</p> <p>The prevailing loan interest rate will be available to applicants during the application process. It is important to note that TCV's loan interest rates are subject to market movements and therefore the actual interest rate offered will be dependent on TCV's yield curve at the start of the loan.</p>	Component	Rate	Notes	Base rate	4.87%	TCV's yield curve*	Margin	2.25%	Set by the Treasurer for 2024-25
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Base rate	4.87%	TCV's yield curve*								
Margin	2.25%	Set by the Treasurer for 2024-25								
Repayment	10 equal annual repayments comprising principal and interest.									

Security

The loan will be secured by a first ranking statutory charge on the subject property pursuant to section 36S of the Treasury Corporation Victoria Act (enacted as in the *Commercial and Industrial Property Tax Reform Act 2024*).

¹ The Transition Loan Notice issued to Treasury Corporation of Victoria pursuant to section 36R of the Treasury Corporation of Victoria Act 1992. A copy can be accessed at: <https://www.dtf.vic.gov.au/funds-programs-and-policies/commercial-and-industrial-property-tax-reform>

Events of default

The following events will result in the loan being cancelled and repayable in full:

Category	Key requirements
Mandatory repayment conditions	<p>Typical events that will require the loan to be immediately repaid in full include:</p> <ul style="list-style-type: none"> • sale or any other transfer of ownership of all, or any part of the property by the borrower; • where the borrower is no longer eligible for the transition loan; • where the property is no longer in the reform – e.g. a change in the property's use from commercial or industrial to residential; • where the borrower fails to make a payment when due, is insolvent or bankrupt or has an adverse finding made against it; • where the borrower engages in a prohibited activity; and • where TCV believes on reasonable grounds that the borrower has breached a law. <p>Any voluntary sale of the property by the borrower must relate to the portion of the property that is owned by the borrower and subject to the transition loan.</p> <p>Subdivisions and consolidations will not require immediate repayment <u>unless</u> the property is sold to another third party.</p>
Default interest rate	In the event of a failure to make a payment, TCV may charge default interest on overdue amounts at a rate of 2.00 per cent plus the usual interest rate.

Other Terms

The following variance and settlement requirements will also apply:

Category	Key requirements
Prohibition on transfer of loan	The borrower is not permitted to assign or transfer its rights or obligations under the transition loan agreement to a subsequent purchaser of the property.
Voluntary repayments	<p>Borrowers can make voluntary repayments towards their transition loan debt at any time.</p> <p>The Borrower may at any time prepay the loan in full or in part, subject to a minimum prepayment of \$10,000.</p> <p>Early repayment of the loan in full will be allowed but a break cost or a break gain may apply.</p> <p>Early prepayments of part of the loan will result in TCV calculating whether a break cost or benefit may apply, and the remaining repayments will be recalculated.</p>
Variations due to hardship	<p>A hardship policy is currently being developed for borrowers who request assistance prior to Final Notice.</p> <p>Borrowers may be offered a hardship payment plan, where they initiative contact with TCV prior to a final payment of demand, to settle the outstanding amount within 12 months. Following this 12-month period, further hardship payment plans of up to 12 months may be entered into.</p> <p>No payment plan approved under a hardship policy can go beyond the final 10th year of the loan's tenor to avoid overlap with the CIPT, which commences from year 11 onwards.</p>

Category	Key requirements
Other variations	Beyond the hardship policy, the State will not refinance or restructure the loan – e.g. change interest rate or switch to an interest-only loan.
Notification	The Borrower must notify TCV if an event of default occurs under the Transition Loan or another loan secured by the property. Cross default on another loan secured by the same property will trigger a review of the borrower’s capacity to continue servicing transition loan repayments.

Further information

The *Commercial and Industrial Property Tax Reform Act 2024* received Royal Assent on 21 May and will come into operation on 1 July 2024.

Additional details on the administration and operationalisation of the reform will be released by the State Revenue Office and Treasury Corporation of Victoria ahead of the 1 July 2024 start date.

For further enquiries on the Commercial and Industrial Property Tax Reform, please contact information@dtf.vic.gov.au.