LANDMARK TAX REFORM

Transition away from stamp duty for commercial and industrial properties

Background

Currently, when you buy or acquire a commercial property in Victoria you pay land transfer duty, otherwise called stamp duty.

Stamp duty adds to the cost of purchasing commercial property. When applied to commercial and industrial properties, it discourages businesses from investing, expanding or relocating their operations – impeding growth and productivity.

Who will this apply to?

This reform will only apply to businesses or individuals who choose to purchase commercial or industrial properties in the future. It will not affect current owners of commercial and industrial properties, as properties will only be subject to the new arrangement once they transact.

Proposed changes

To encourage Victorian businesses to invest, expand, and create more jobs, the Victorian Government is abolishing stamp duty and transitioning to an annual property tax for commercial and industrial properties.

The transition will occur after the next sale, following which the purchaser will become liable for the annual property tax after 10 years. Once a property is in the new property tax system, stamp duty will not be payable on future transactions of that property. Importantly, current owners will be exempt from paying the annual property tax.

The annual property tax will be set a flat rate of 1 per cent of the unimproved land value (site value) of a property and will operate separately from (and be in addition to) the existing land tax system. Land value will not be aggregated to calculate the annual property tax.

The Government will undertake targeted consultation in the coming months to finalise the design of the reform, before the new system comes into effect from 1 July 2024.

To smooth the transition, the Government will give the next purchaser of any commercial or industrial property the option of accessing a government-facilitated transition loan as an alternative to paying stamp duty upfront as a lump sum.

The transition loan would be repaid over 10 annual repayments, and be based on the value of the stamp duty otherwise payable, plus interest. The annual property tax will then commence the year following the final transition loan repayment.

In this way, purchasers choosing the transition loan option would avoid any upfront lump sum payment to government, and transition to an annual repayment from the time of purchase – freeing up capital businesses can invest in expanding and employing more workers.

The *Victorian Budget 2023/24* includes a number of announcements related to legislation administered by the State Revenue Office. These measures are subject to legislative passage.

Example

Purchase of a high-street shop

A small online business has grown, and now 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 **$13,900**[(a)] in each year it applies.

Year 11 property tax (blue) is approximately **$11,100**[(b)].

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).

(a) For illustrative purposes the assumption is that the loan is at a fixed rate of interest.

(b) For illustrative purposes the assumption is that the annual property tax is levied at 1 per cent of site value.

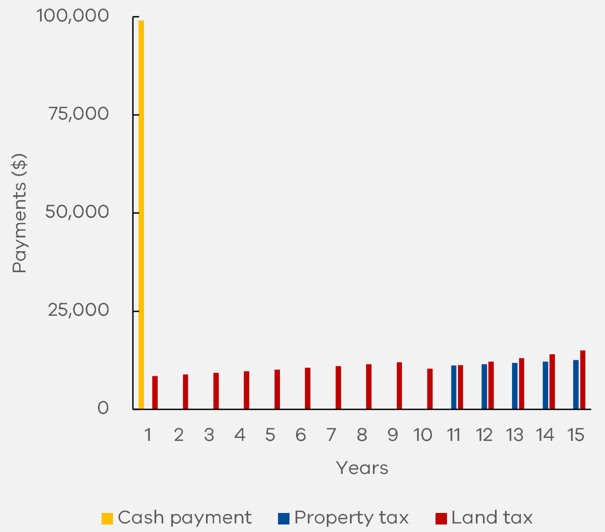
It is assumed the purchase is in 2024-25, and thus there is no *COVID Debt Levy – Landholding* applied from year 10 onwards.

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) State-facilitated transition loan

The charts show the payment profile of the purchaser arising from the purchase of the property and the land tax liable under the land tax schedule with the *COVID Debt Levy – Landholdings*.

Subsequent transactions

After a property has transacted once – and the next purchaser opts either for the 'transition loan' or to pay stamp duty as an upfront lump sum – it transitions to the new system and stamp duty will no longer be payable when that property is transacted.

For example, in 2025 Noah purchases a pub, and opts to pay stamp duty upfront as a lump sum. Two years later, he decides to sell the pub – and there will be no stamp duty payable on that transaction. In this way, the economic benefits of the reform flow as soon as a property is transacted once.

The date of the annual property tax commencing does not change – so it will be payable from 8 years after Noah sells the pub.

Expected benefits

Reforming stamp duty has been recommended by numerous inquiries over recent decades – including the Henry Tax Review.

This reform will:

- encourage businesses to expand or set up in the best location, for example closer to their customers or where there is a growing workforce
- support businesses to invest in buildings and infrastructure
- promote more efficient use of commercial and industrial land.

Put simply, the change means a retailer will be more likely to buy the new premises they need for their business to take the next step, or a transport company will have more reason to move into that larger warehouse.

By removing a key barrier to larger investments, the benefits will multiply across the economy. Removing upfront costs on commercial and industrial property purchases will accelerate business growth and boost jobs – with the cumulative increase in the size of the Victorian economy as a result of this reform up to $50 billion in net present value terms.

The Reform in 5 steps

Step 1: The reform will commence from 1 July 2024. People who own property prior to that date will **not** be affected – for as long as they own the property.

Step 2: After that date, when a commercial/industrial property is transacted, it will trigger a 10-year transition period **for that property**. The purchaser will have a choice to either:

- pay the property's final stamp duty liability as an upfront lump sum; or
- pay an annual payment for ten years – equivalent to the property's final upfront stamp duty liability plus interest – with a government-facilitated 'transition loan'.

Step 3: If the property is transacted again within the 10-year transition period – **no** stamp duty will be payable, even if the property is transacted multiple times. If the initial purchaser opted for a transition loan, they will be obliged to make the remaining repayments.

Step 4: The annual property tax will kick in **10 years after the initial transaction**, regardless of whether the property has been transacted since. It will be set at a flat 1 per cent of that property's unimproved land value. It will be separate from and in addition to the existing land tax system.

Step 5: **After** the ten-year transition period, the property has now moved permanently into the new system. **No** stamp duty will be payable on any transaction, and whoever owns that property will be liable for the annual property tax.

Next steps

Work is underway to finalise details of the reform, with announcements to be made by the end of 2023 and the new system to come into effect from 1 July 2024.

There will be a period of targeted consultation over the next few months to inform development of the final design and transition arrangements.

Because the final design and transition arrangements have not been settled, the reform is not reflected in the budget estimates in this Budget.