ABOLITION OF DUTY ON COMMERCIAL AND INDUSTRIAL PROPERTIES IN VICTORIA

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Australia Corporate Tax Alert

By: Will Grinter

The Victorian Government has announced that it plans to abolish transfer duty on sales of commercial and industrial properties. The proposed measures will not apply to residential premises. We have summarised the proposal and some initial questions below.

THE PROPOSAL

At present, there is no draft legislation and there is scant detail beyond a high level press release. However, our current understanding is as follows:

- Transfer duty will continue to apply in the usual manner until 30 June 2024.
- The comments which follow apply to a purchase of a commercial or industrial property on or after 1 July 2024:
  - A purchaser who acquires a commercial or industrial property on or after 1 July 2024 will be required to pay a final amount of transfer duty on that purchase. They will be given the choice to either:
    - Pay the final duty amount in a lump sum (as per normal); or
    - Pay the final duty amount, plus interest, in 10 equal instalments over 10 years (with the Government providing a "loan" and presumably placing a charge on the land).
  - Ten years after settlement, the owner of the commercial or industrial property will commence paying property tax at a rate of 1% based on the unimproved land value.
  - Once a property is in the property tax net, it will stay within that net in perpetuity and transfer duty will not apply to any future sales of the same property.

The Government intends to provide more guidance on the transition arrangements by the end of this year following consultation.

THE OBVIOUS QUESTIONS

At this stage, the proposal raises more questions than answers, including the following:

- Will commercial and industrial properties acquired before 1 July 2024 remain outside the property tax net indefinitely (until next sold)?

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- How will "commercial and industrial properties" be defined? Does it include retail premises? What about primary production land?
- Will property tax be payable in addition to land tax and council rates?
- How will the property tax work for a property that is a mixture of both residential and commercial premises (say, a tower with office and residential premises)?
- What happens if land subject to property tax is merged with land that is not subject to property tax?
- Will landholder duty be abolished for the purchase of shares in a company or units in a trust which owns commercial or industrial property that is within the property tax net?
- What happens if a commercial or industrial property subject to property tax is converted for residential use?

We will continue to monitor developments closely and provide further updates once additional information is available. If you have any queries regarding this announcement, please contact us to discuss.

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