

## Victorian Land Tax Grab – Far Reaching Ramification of Reducing the Threshold to just \$50,000



Victoria appears to be looking to solve its state debt with land tax. Last year saw the vacancy tax extended to most of the state, except for Alpine resorts

<https://www.bantacs.com.au/Jblog/victorias-latest-vacancy-tax/#more-1701>

There was also the dropping of the land tax threshold from \$300,000 for the 2023 year to \$50,000 for 2024 and following years, collecting up most properties that are not fully covered by the principle place of residence exemption.

Even the most insignificant block of land is going to now attract land tax. This can also mean that a property covered by the principle place of residence exemption as well as being used in a business could be caught in the land tax net if the value of the area used in the business exceeds \$50,000. The same applies if part of the property is being used as a separate residential rental, for example a granny flat. If the granny flat is earning income and occupies more than \$50,000 worth of the land, based on the percentage of unimproved value, then land tax applies.

This trap for small business operators and people renting out part of their home, has been around for years but with a \$300,000 unimproved value threshold not many people were caught unless they had other properties that already pushed them over the threshold. Now, use part of your home in a business and it is very likely you will hit the threshold. If the land value is \$500,000 and you use more than 10% of the area as a rental or business activity you are caught.

So what does used in a “substantial business activity” mean? It doesn’t take much. The following are some quotes from this ruling

<https://www.sro.vic.gov.au/sites/default/files/revenue-ruling-lta-001-v2.pdf>

For example, if the resident of the PPR land conducts a consulting business on the PPR land and employs a full time secretary/bookkeeper, this would indicate that the PPR land is used to carry on a substantial business activity. However, if the secretary/bookkeeper is the child of the resident of the PPR land and ordinarily resides with that resident, that employee is not taken into account in determining whether a substantial business activity is carried on on the PPR land.

Where more than 30 per cent of the PPR land or 30 per cent of the area of a building on the PPR land is used (whether solely or partly) for business purposes, the Commissioner will generally consider that the PPR land is used to carry on a substantial business activity.

Where more than \$30,000 (gross) income is derived from the business activity carried on on the PPR land for the most recently completed financial year (preceding the year of assessment), the Commissioner will generally consider that the PPR land is used to carry on a substantial business activity.

### **Example 1**

Leigh is a self-employed web designer who works from his PPR. One room is exclusively set aside for his web designing activities, representing approximately 12 per cent of the floor space of the building on the PPR land. Leigh has obtained a council permit to conduct the business activities from his PPR. During the most recent financial year, Leigh's gross income was \$38,000.

The fact that Leigh's web designing business generated over \$30,000 indicates that Leigh is using the PPR land to carry on a substantial business activity. This is particularly so given that part of his PPR is used exclusively for the business, and the fact that the council has granted a permit in respect of the business activities. As section 62(1) of the Act applies in this case, Leigh is entitled to the PPR exemption only to the extent that the PPR land is used and occupied by Leigh for residential purposes.

## Land Tax Rates for 2024 and Following.

Total taxable value of land holdings	Land tax payable
< \$50,000	Nil
\$50,000 to < \$100,000	\$500
\$100,000 to < \$300,000	\$975
\$300,000 to < \$600,000	\$1350 plus 0.3% of amount > \$300,000
\$600,000 to < \$1,000,000	\$2250 plus 0.6% of amount > \$600,000
\$1,000,000 to < \$1,800,000	\$4650 plus 0.9% of amount > \$1,000,000
\$1,800,000 to < \$3,000,000	\$11,850 plus 1.65% of amount > \$1,800,000
\$3,000,000 and over	\$31,650 plus 2.65% of amount > \$3,000,000