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# Victorian Budget 2008: New tax cuts

In its May 2008 Budget, the Victorian Government trumpeted various savings to business and individuals in relation to several State taxes. This was received with great fanfare at the time. In relation to stamp duty and land tax, was the response justified?

*"Young families and businesses are the big winners from today's Victorian Budget, with tax cuts for both"*<sup>1</sup> typified the response of the media to the Victorian Budget delivered on 6 May 2008.

This response undoubtedly pleased the Victorian Government. It had eagerly promoted the budget tax cuts as the following extract from a press release<sup>2</sup> made by the Treasurer of Victoria shows:

"\$1.43 billion cut to tax and business costs

Doing business in Victoria will become even easier with a \$1.43 billion cut to taxes and business costs in the 2008-09 State Budget to promote business growth, create new jobs and generate investment across the State.

Treasurer John Lenders said the Brumby Labor Government was able to cut the cost of doing business because it had kept the Budget strong."

Later the Press Release states:

"The 2008-09 State Budget delivers over \$1 billion in tax cuts over four years – the biggest tax cut package in a decade – to make homes more affordable across Victoria and to drive jobs growth across the State".

"Mr Lenders said the new tax cuts included a \$422 million stamp duty cut,<sup>3</sup> a \$490 million land tax cut and a \$170 million payroll tax cut."

In relation to stamp duty and land tax, what changes have in fact been made? Is the media response justified?

## STAMP DUTY

In summary, what changes were made to stamp duty?

1. The highest rate of duty charged on transfers of land remains at 5.5 per cent. However, the value at which the highest rate applies is increased from \$870,000 to \$960,000.
2. All duty rates remain the same but the thresholds at which each applies generally moves upwards by about 10 per cent.
3. The principal place of residence concession follows the same pattern: duty rates unaltered, thresholds increased by about 10 per cent.

The changes are best illustrated by the following tables which show the general stamp duty rates, which applied for contracts entered on and between 21 April 1998 and 5 May 2008 and the rates which apply for contracts entered into on and after 6 May 2008.

These are the first changes to rates or thresholds since 1998, apart from the introduction of a concessional rate for lower value principal residences introduced with effect from 1 January 2007.

Transfer of Real Property rates (for contracts entered into from 21 April 1998 to 5 May 2008)<sup>4</sup>

Dutiable value range	Rate
\$0 to \$20,000	1.4% of the dutiable value of the property
\$20,001 to \$115,000	\$280 plus 2.4% of the dutiable value > \$20,000
\$115,001 to \$870,000	\$2,560 plus 6% of the dutiable value > \$115,000
More than \$870,000	5.5% of the dutiable value

Transfer of Real Property rates (for contracts entered into on or after 6 May 2008)<sup>5</sup>

Dutiable value range	Rate
\$0 to \$25,000	1.4% of the dutiable value of the property
\$25,001 to \$130,000	\$350 plus 2.4% of the dutiable value > \$25,000
\$130,001 to \$960,000	\$2,870 plus 6% of the dutiable value > \$130,000
More than \$960,000	5.5% of the dutiable value

The Budget papers<sup>6</sup> reveal that stamp duty revenue rose by 30.8 per cent in 2007-08 compared with 2006-07.

What is the effect of this increase in thresholds?

To test the effect of the changes, stamp duty on transfers at both the old thresholds and the new thresholds at four values, \$250,000, \$500,000, \$750,000 and \$1,000,000 have been calculated and tabulated.

Given the strong asset appreciation which has occurred in recent years and is continuing to occur in many sections of the Victorian property market, the level of stamp duty has also been calculated at the new rate on a value 10 per cent greater than the four values set out above (so the stamp duty has been calculated at the new rate on values of \$275,000, \$550,000, \$845,000 and \$1,100,000) and finally a calculation has been made to show at what value the property must reach in order for the same amount of stamp duty to be paid under the new rates as was payable under the old.

## STAMP DUTY ON TRANSFER OF LAND IN VICTORIA

	prior to 6 May 2008	on and after 6 May 2008	+ 10% increase in price after 6 May	value property must reach in order for same amount of duty to be paid under new rates
\$250,000	\$10,660	\$10,070	\$11,570	\$259,833
\$500,000	\$25,660	\$25,070	\$28,070	\$509,833
\$750,000	\$40,660	\$40,070	\$44,570	\$759,833
\$1,000,000	\$55,000	\$55,000	\$60,500	\$1,000,000

rate for the 2008 land tax year and the 2009 land tax year.

Unlike stamp duty, land tax has had some reductions in particularly the highest rate in recent years.

What is the effect of these increases in the threshold?

To test the effect of the changes, land tax for both 2008 and 2009 has been calculated for nine values:

\$250,000  
\$500,000  
\$750,000  
\$1,000,000  
\$1,500,000  
\$2,000,000  
\$3,000,000  
\$10,000,000

As with the stamp duty analysis, the land tax has been calculated at the 2009 rate assuming a value increase of 10 per cent in the land.

## OBSERVATIONS

### Stamp duty

The change in thresholds in the general stamp duty rate leads to a maximum duty saving of \$590. There is no reduction for land valued at over \$960,000. (The duty saving under the concessional rate for lower value principal residences increases with increasing value to \$840 for a property valued at \$500,000. For properties in the \$500,001 to \$550,000 range the saving is about \$3,700, thereafter the rates are the same as the general rate.)

At the lowest value tested, \$250,000, an increase in the value of land by about 4 per cent will absorb the stamp duty saving. At higher values, the increase is smaller before the stamp duty saving is absorbed (at about \$750,000 the increase value is just over 1 per cent).

In a housing market which continues to rise, a saving of \$590 will do nothing to make homes more affordable: it is one bid at an auction!

It would be a very unusual business which makes a decision based on a \$590 saving on a once only transaction charge.

The Treasurer's claims appear extravagant.

## LAND TAX 2008 GENERAL RATE

Total taxable value of landholdings	Land tax payable
< \$225,000	Nil
\$225,000 to < \$540,000	\$250 plus 0.2% of amount > \$225,000
\$540,000 to < \$900,000	\$880 plus 0.5% of amount > \$540,000
\$900,000 to < \$1,620,000	\$2,680 plus 0.8% of amount > \$900,000
\$1,620,000 to < \$2,700,000	\$8,440 plus 1.3% of amount > \$1,620,000
\$2,700,000 and over	\$22,480 plus 2.5% of amount > \$2,700,000

## LAND TAX 2009 GENERAL RATE

Total taxable value of landholdings	Land tax payable
< \$250,000	Nil
\$250,000 to < \$600,000	\$275 plus 0.2% of amount > \$250,000
\$600,000 to < \$1,000,000	\$975 plus 0.5% of amount > \$600,000
\$1,000,000 to < \$1,800,000	\$2,975 plus 0.8% of amount > \$1,000,000
\$1,800,000 to < \$3,000,000	\$9,375 plus 1.3% of amount > \$1,800,000
\$3,000,000 and over	\$24,975 plus 2.25% of amount > \$3,000,000

## LAND TAX - GENERAL RATE

	2008	2009	2009 + 10%
\$250,000	\$300	\$275	\$325
\$500,000	\$800	\$775	\$875
\$750,000	\$1,930	\$1,725	\$2,100
\$1,000,000	\$3,480	\$2,975	\$3,775
\$1,500,000	\$7,480	\$6,975	\$8,175
\$2,000,000	\$13,380	\$11,975	\$14,575
\$2,500,000	\$19,880	\$18,475	\$20,815
\$3,000,000	\$29,980	\$24,975	\$31,725
\$10,000,000	\$204,980	\$182,475	\$209,975

## LAND TAX

A similar approach has been adopted in relation to land tax. In summary, the following changes have been made.

1. The highest rate of land tax in Victoria has been reduced from 2.5 per cent to 2.25 per cent and will apply to properties with a value of \$3,000,000 and over (formerly the highest rate applied to properties with a value of \$2,700,000 and over).

2. The tax-free threshold has increased from \$224,999 to \$249,999.
3. The thresholds at which the various marginal rates cut in have been increased by about 10 per cent. There has been no change in marginal rates, other than the top rate.
4. The surcharge rates for trusts follow the same pattern.

Again, the changes are illustrated by two tables which set out the general land tax

## Land tax

Land tax has had less impact on families because most residential owner/occupiers should be able to claim a land tax exemption, regardless of the value of their home and so land tax is not relevant to the "make homes more affordable" debate. For investors and business, the saving at the low end (under \$500,000) is miniscule (\$25), assuming the market does not rise. Even for properties valued up to \$1,500,000 the reduction is small, about \$500.

At the big end, the saving is about 10 per cent. However, none of this takes into account the effect of a rising market. If you assume an increase in value of 10 per cent, then everyone will pay more in 2009 than they did in 2008, at the lower value land tax will increase typically by about 9–11 per cent. At the big end, it will increase by about 2.5 per cent.

As with stamp duty the Treasurer's claim in relation to land tax appears extravagant.

While it can be said that changes to stamp duty and land tax contained in the Victorian Budget delivered on 6 May 2008 will indeed provide some savings to individuals and businesses, these are very modest and will be more than offset by a rising property market. It appears that achieving the Government's stated aims may be a challenge.

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### Reference notes:

- 1 ABC News [www.abc.net.au/news/stories](http://www.abc.net.au/news/stories)
- 2 The Office of the Treasurer 06/05/08
- 3 Page 5 of the Victorian Budget Overview "Taking action for our suburbs and our regions" 08 09 [www.budget.vic.gov.au](http://www.budget.vic.gov.au) gives the figure of \$332 million as the reduction in revenue as a result of the duty cut.
- 4 State Revenue Office Victoria website – 7th May 2008
- 5 State Revenue Office Victoria website – 7th May 2008
- 6 The Office of the Treasurer 06/05/08