



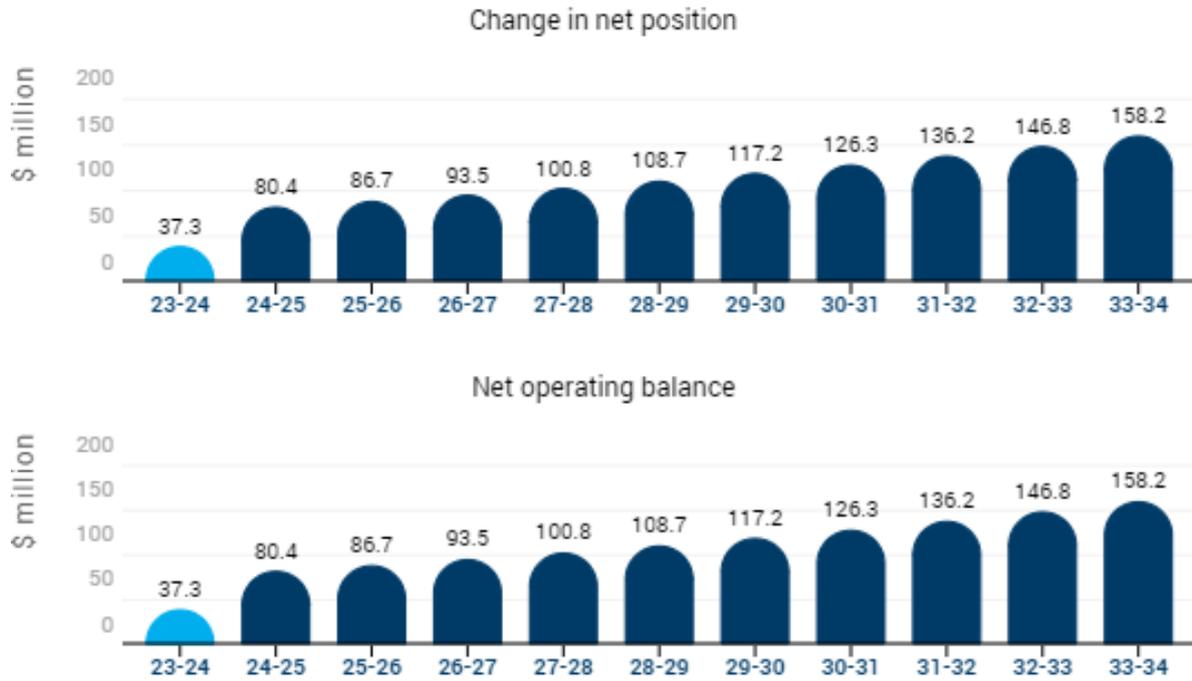
Policy costing

Vacant land tax for Victoria - increased enforcement

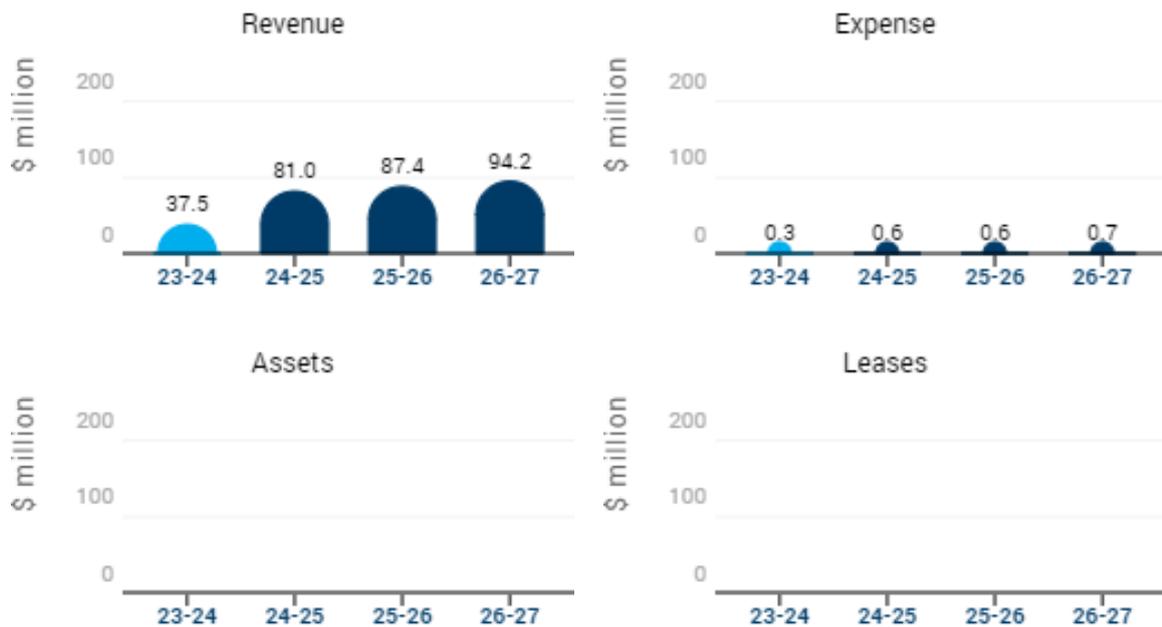
Political party	The Australian Greens - Victoria
Requestor	Dr Samantha Ratnam MP
Request date	10 October 2023
Response date	19 October 2023
Policy commencement	1 January 2024
Policy conclusion	Ongoing
Policy summary	<p>This policy would:</p> <ul style="list-style-type: none">▪ expand the Vacant Residential Land Tax (VRLT) to all of Victoria▪ increase enforcement of the VRLT, basing administration and compliance on the City of Vancouver Empty Homes Tax, with all residential property owners required to declare the occupancy status of their properties each year, and strong penalties for false declarations.
Budget baseline	May 2023 budget
Expiry date of this response	At the release date of the next Victorian Government budget or budget update.

Our response

Budget impact



Costing components



Source: Parliamentary Budget Office.

Context

Victorian Vacant Residential Land Tax

Currently, the Victorian Government levies the Vacant Residential Land Tax (VRLT) at 1% of the capital improved value of properties:

- located in 16 metropolitan local government areas (LGA)
- which were vacant for more than 6 months in the previous calendar year.

A property is considered occupied, and not vacant, if it has been used as a principal place of residence or subject to a genuine lease agreement. If the property is considered vacant, the Victorian State Revenue Office (SRO) requires owners to self-notify via their website. The SRO may identify vacant properties and levy penalties on property owners who fail to self-notify.

Properties which are exempt from land tax are also exempt from the VRLT. Other properties may be exempt from the tax if they meet certain criteria, for example, holiday homes occupied by owners for at least 4 weeks of the year, and properties undergoing renovation or reconstruction.

Recently announced changes to the VRLT

On 3 October 2023, the Treasurer announced changes to the VRLT. The main changes are outlined in the *State Taxation Acts and Other Acts Amendment Bill 2023*, which is currently before Parliament. These amendments to the *Land Tax Act 2005* would:

- apply VRLT to all vacant residential land in Victoria on and after 1 Jan 2025, expanding from the current 16 LGAs
- extend the definition of VRLT to include certain unimproved land in metropolitan Melbourne, effective 1 January 2026.

City of Vancouver Empty Homes Tax

The City of Vancouver in British Columbia, Canada, established the Empty Homes Tax (EHT) in 2017, starting with a tax rate of 1% of an eligible property's assessable tax value. The rate increased to 3% from 2021 onwards.

Like the VRLT, the EHT targets properties which are not occupied for 6 months or more in the calendar year, and it has similar exemptions. Unlike the VRLT, the EHT requires all residential property owners to declare the occupancy status of their property each year, and identify the occupants. Property owners are billed for the tax if their property is liable, or if they do not declare the occupancy status on time. There are strong penalties for false declarations, with fines of up to \$10,000 per day of continuing offense, in addition to payment of the tax.

Costing overview

We expect this policy to increase the state's budgeted net position by:

- \$297.9 million across 2023–24 to 2026–27, this reflects:
 - an increase in revenue of \$300.1 million
 - an increase in operating expenses of \$2.2 million due to administrative costs
- \$1,192.1 million across 2023–24 to 2033–34, this reflects:

- an increase in revenue of \$1,202.1 million
- an increase in operating expenses of \$10.0 million due to administrative costs.

We estimate that a total of around 10,000 properties would be liable under this policy from 1 January 2024. This estimate is subject to significant uncertainty.

This cost estimate is highly sensitive to:

- the behaviour of property owners in response to the introduction of this policy
- other changes in the number of vacant properties in Victoria over time
- changes in property prices
- the type and level of compliance activity used to enforce the tax.

Our approach

Assumptions

When costing this policy, we made the following assumptions:

1. The use of administration and enforcement arrangements based on the Vancouver EHT would result in similar compliance outcomes for the VRLT.
2. Penalty revenue would be negligible given expected compliance rates under the policy.
3. The number of vacant properties would be stable across years.
4. Baseline revenue and the capital improved value of liable properties would grow in line with historical averages, based on Valuer-General data.
5. Administrative costs are based on the SRO's previous expenses and revenue collected, escalated by the Victorian wage price index.

Method

When costing this policy, we:

- estimated baseline revenue based on previous VRLT revenue and escalated by historical capital improved value growth rates
- estimated the number of liable vacant properties based on publicly available data on dwelling activity including water and electricity usage, with adjustments for relevant exemptions including properties undergoing renovation or reconstruction
- estimated the capital improved value of liable properties based on Valuer-General data
- determined the number of compliant properties by applying a compliance rate assumption, based on the Vancouver EHT
- escalated the tax base across all years by relevant growth rates

Policy costing

- calculated the revenue the policy would generate, by applying the tax rate to the tax base across all years
- calculated the difference in baseline and policy revenue
- estimated the administration and compliance costs based on previous budget allocations and escalated this cost in line with the Victorian wage price index.

We applied a part year impact to the first year of this policy to reflect a proposed 1 January 2024 commencement date.

Data sources

- Australian Bureau of Statistics. 2023. 2021 Greater Melbourne, Census All persons QuickStats. [ONLINE] Available at: <https://www.abs.gov.au/census/find-census-data/quickstats/2021/2GMEL>. [Accessed 17 October 2023]
- Australian Bureau of Statistics. 2023. 2021 Victoria, Census All persons QuickStats. [ONLINE] Available at: <https://www.abs.gov.au/census/find-census-data/quickstats/2021/2>. [Accessed 18 October 2023]
- Australian Bureau of Statistics. 2023. Administrative data snapshot of housing, 30 June 2021. [ONLINE] Available at: <https://www.abs.gov.au/statistics/people/housing/administrative-data-snapshot-population-and-housing-experimental-housing-data/30-june-2021#dwelling-activity>. [Accessed 18 October 2023]
- City of Vancouver. 2023. Why an Empty Homes Tax?. [ONLINE] Available at: <https://vancouver.ca/home-property-development/why-an-empty-homes-tax.aspx>. [Accessed 17 October 2023]
- City of Vancouver. 2022. Empty Homes Tax enforcement and penalties. [ONLINE] Available at: <https://vancouver.ca/home-property-development/empty-homes-enforcement-penalties.aspx>. [Accessed 17 October 2023]
- Land.Vic. 2022. Revaluation 2023 outcomes. [ONLINE] Available at: <https://www.land.vic.gov.au/valuations/resources-and-reports/revaluation-2023-outcomes>. [Accessed 17 October 2023]
- Prosper Australia. 2020. Speculative Vacancies 10. [ONLINE] Available at: https://www.prosper.org.au/wp-content/uploads/2020/12/Prosper_SpeculativeVacancies_FINAL22PRINT.pdf [Accessed 13 October 2023]
- State Revenue Office. 2022. Annual Reviews. [ONLINE] Available at: <https://www.sro.vic.gov.au/annual-reviews>. [Accessed 13 October 2023]
- State Revenue Office. 2022. Vacant residential land tax. [ONLINE] Available at: <https://www.sro.vic.gov.au/vacant-residential-land-tax>. [Accessed 19 October 2023]
- Tim Pallas MP. 2023. Building More Homes and Freeing Up More Homes To Rent. [ONLINE] Available at: <http://www.timpallas.com.au/media-releases/building-more-homes-and-freeing-up-more-homes-to-rent/>. [Accessed 13 October 2023]
- Victorian Budget 2017–18, Budget Paper No. 3: Service Delivery 2017–18.

Attachment A – Detailed budget impacts

Year-on-year impacts

(\$ million)	2023–24	2024–25	2025–26	2026–27	2027–28	2028–29	2029–30	2030–31	2031–32	2032–33	2033–34
Revenue	37.5	81.0	87.4	94.2	101.6	109.6	118.2	127.4	137.4	148.1	159.7
Expense	0.3	0.6	0.6	0.7	0.8	0.9	1.0	1.1	1.2	1.4	1.5
Net operating balance	37.3	80.4	86.7	93.5	100.8	108.7	117.2	126.3	136.2	146.8	158.2
Assets	-	-	-	-	-	-	-	-	-	-	-
Leases	-	-	-	-	-	-	-	-	-	-	-
Change in net position	37.3	80.4	86.7	93.5	100.8	108.7	117.2	126.3	136.2	146.8	158.2

Cumulative impacts

(\$ million)	2023–24	2024–25	2025–26	2026–27	2027–28	2028–29	2029–30	2030–31	2031–32	2032–33	2033–34
Revenue	37.5	118.5	205.9	300.1	401.7	511.3	629.5	756.9	894.3	1,042.4	1,202.1
Expense	0.3	0.8	1.5	2.2	3.0	3.9	4.8	5.9	7.2	8.5	10.0
Net operating balance	37.3	117.7	204.4	297.9	398.8	507.5	624.7	751.0	887.2	1,033.9	1,192.1
Assets	-	-	-	-	-	-	-	-	-	-	-
Leases	-	-	-	-	-	-	-	-	-	-	-
Change in net position	37.3	117.7	204.4	297.9	398.8	507.5	624.7	751.0	887.2	1,033.9	1,192.1

Notes: Figures may not sum due to rounding. Consistent with Victorian Budget Paper No.3 – Service Delivery, we do not consider changes to interest, depreciation expense nor non-cash adjustments. The net operating balance measures the gap between government revenue and expenses, and is an indicator of the policy's impact on operating sustainability. A positive change indicates that this policy would improve the net operating balance of the state budget. The net position measures the gap between government revenue and expenses, and movements in financial and non-financial assets. It is an indicator of the policy's impact on the state budget, and is more appropriate for comparing policy costings. A positive change indicates that this policy would improve the net position of the state budget.

Source: Parliamentary Budget Office.

Attachment B - Local government areas

Current LGAs where the VRLT applies

Banyule City Council

Bayside City Council

Boroondara City Council

Darebin City Council

Glen Eira City Council

Hobsons Bay City Council

Manningham City Council

Maribyrnong City Council

Melbourne City Council

Monash City Council

Moonee Valley City Council

Merri-bek (formerly Moreland) City Council

Port Phillip City Council

Stonnington City Council

Whitehorse City Council

Yarra City Council

Source: Parliamentary Budget Office.