



Victorian Government's *Homes for Victorians Initiative*

29 March 2017

"Buying your own home is the Great Australian Dream. But for some, especially first home buyers, younger and lower income households, that's getting harder." (refer www.vic.gov.au/affordablehousing)

Earlier this month the Victorian government announced a number of policy measures intended to increase housing affordability. "*Homes for Victorians*" (as the Victorian Government initiative is called), aims to shift some of the balance back to first home buyers. The initiative includes announced proposals to:

- Abolish stamp duty for first home buyers for purchases up to \$600,000 and taper the rate for purchases between \$600,000 and \$750,000;
- Balance the market between investors and home buyers by making the "off the plan stamp duty concession" (**Off The Plan Concession**) fairer;
- Double the first home owner grant (**FHOG**) for regional Victoria
- Introduce a land tax on vacant residential properties (**VRPT**); and
- Establish *HomesVic*, a new shared equity scheme to help first home purchasers who are eligible for a bank loan but needs help with a deposit.

We note that at the date of this Alert, draft legislation has yet to be released. More detailed information about the design of the tax will be released as further details become available.

Abolishing stamp duty for first home buyers

It is proposed that from *1 July 2017*, first home buyers purchasing properties valued *below* \$600,000 will be exempt from paying stamp duty.

First home purchases valued *between* \$600,000 and \$750,000 will receive a concession applied on a *sliding scale*. It will be available for *new and established* home purchases.

The dutiable amount of a property is generally the greater of the purchase price or market value, minus any deductions (such as a deduction for an off-the-plan the purchase).

Eligibility

In addition to the value constraints above, to be eligible the following additional criteria will need to be satisfied:

- the purchaser and the purchaser's partner must be first home buyers (under the *First Home Owner Grant Act 2000*)
- the purchaser must be an Australian citizen or permanent resident (New Zealanders holding a special category visa are considered permanent residents if they are in Australia at the time of settlement);
- the purchased property must be used as the *purchaser's principal place of residence* for a *continuous period of 12 months*, commencing within 12 months of possession of the purchased property.

Example of potential duty savings

Home value	Savings for first home buyers from duty abolition/concession
\$200,000	\$3,185
\$300,000	\$5,685
\$400,000	\$8,185
\$500,000	\$10,985
\$600,000	\$15,535
\$700,000	\$12,357

Rebalancing the Off The Plan Concession

From 1 July 2017, the Off The Plan Concession will only be available for those who qualify for the *principal place of residence stamp duty concession* or the *first home buyer stamp duty exemption/concession*. The Off The Plan Concession will no longer be available for other purchases, such as residential investment properties and commercial properties.

The Victorian Government considers that this will give “owner-occupiers a competitive advantage against investors, and aligns with the Government’s goal of supporting first home buyers.”

The Off The Plan Concession deducts from the contract price the cost of any construction or refurbishment which occurs on or after the contract date; that is the value of land and improvements *as at the contract date* is relevant for the Off The Plan Concession. For example, for the purchase of a house and land package, where construction has not commenced, stamp duty is levied on the land component of the property only, thereby substantially reducing a buyer’s stamp duty liability.

For contracts entered into from 1 July 2017, only property purchasers who intend to live in their property will be eligible for the Off The Plan Concession. These are property purchasers who are eligible for:

- a first home buyer stamp duty concession or exemption (available for purchases with a dutiable value of up to \$750,000); or
- a principal place of residence stamp duty concession (available for purchases with a dutiable value of up to \$550,000).

Example

A couple decides to downsize and buy a new apartment in an apartment block, with land value of \$100,000 and a purchase price of \$400,000, where construction has not commenced. The value of the land plus improvements at the contract date (the dutiable amount) is \$100,000. This is below the principal place of residence threshold of \$550,000, meaning the purchaser is eligible for the off the plan stamp duty concession.

Double the FHOG for regional Victoria

For contracts signed between 1 July 2017 and 30 June 2020, the FHOG for regional new home purchases will double to \$20,000. The increase will help first home buyers to purchase in their local community and will help support construction and employment.

FHOG is currently a \$10,000 grant for first home buyers that purchase new homes throughout Victoria. This initiative increases the FHOG to \$20,000 for regional new home purchases. The proposed list of regional local councils where first home buyer purchases are eligible for the \$20,000 FHOG is available on the SRO website at www.sro.vic.gov.au/regional

First home buyers of new homes in metropolitan Melbourne will continue to receive the \$10,000 FHOG. As with the current arrangements, the FHOG will only be available to purchases valued up to \$750,000.

The increased FHOG will be applicable to contracts signed from 1 July 2017 to 30 June 2020, at which time, the Government will assess the impact of the policy on first home buyers and construction in regional area.

Eligibility

The following criteria will need to be satisfied to be eligible for the increased FHOG:

- regional first home buyer purchasers of new homes valued up to \$750,000;
- the purchaser and the purchaser's partner must be first home buyers (under the *First Home Owner Grant Act 2000*); and
- The purchased property must be used as the purchaser(s)'s primary place of residence for a continuous period of 12 months, commencing within 12 months of possession of the purchased property.

Vacant Residential Property Tax

The Victorian Government has announced it intends to introduce a VRPT. The proposed VRPT will be:

- levied on dwellings that are vacant for more than a total of *six months in a calendar year*;
- self-reporting; that is, owners of vacant residential property will be required to notify the State Revenue Office (**SRO**) of any vacant properties that they own;
- applied annually at a rate of 1 % of the vacant property's capital improved value (**CIV**), and (as with land tax) be payable on a calendar-year basis. For example, if the taxable property has a CIV of \$500,000, the applicable VRPT will be \$5,000.

There will be specific exemptions, including for:

- holiday homes (owned by those with a principal place of residence in Australia);
- a city unit for work purposes;
- properties in deceased estates; and
- homes subject to legitimate temporary absences (e.g. medical care, overseas appointments).

The VRPT is proposed to only apply to vacant properties located in the inner and middle suburbs of Melbourne. Any vacant properties outside this area will not be subject to the tax. The announcement notes that local council areas where the VRPT will be applicable include Banyule, Bayside, Boroondara, Darebin, Glen Eira, Hobsons Bay, Manningham, Maribyrnong, Melbourne, Monash, Moonee Valley, Moreland, Port Phillip, Stonnington, Whitehorse and Yarra.

Subject to the passage of the *State Taxation Acts Amendment Bill 2017*, the VRPT will apply from 1 January 2018. We note that at the date of this Alert, a draft of the *State Taxations Acts Amendment Bill 2017* has yet to be released. More detailed information about the design of the tax will be released as further details become available.

Shared equity

The Victorian Government has announced that it will provide funding for two new shared equity schemes that will help low to moderate income Victorians own their own homes.

Shared equity involves the Government, or another entity, taking part ownership or equity in a dwelling in partnership with the home buyer. By allowing the home buyer to pay less than 100% of the property they require a smaller loan and deposit, hereby allowing them to enter the market earlier.

The initiative is intended to addresses two key barriers which the Victorian Government considers Victorians who would like to become home owners face:

- the difficulty of saving an ever increasing deposit while paying rent; and
- insufficient capacity to service a large loan that would have otherwise been required to enter home ownership.

Two complementary shared equity schemes are being established:

- **HomesVic** is a Victorian Government shared equity scheme; and

- **Buy Assist** is a national scheme run by a consortium assembled by the National Affordable Housing Consortium (NAHC).

HomesVic

The pilot scheme is proposed to be introduced from *1 January 2018* with an initial allocation of \$50 million over two years. It will be administered through State Trustees Limited. Features include:

- The Victorian Government will provide up to *25 % equity* for first home buyers;
- The home buyer will be required to have a 5% deposit, and a mortgage from the private sector for the remainder of the property's value;
- The Victorian Government's equity contribution allows the home buyer to avoid paying mortgage lenders insurance;
- HomesVic will apply to the purchase of both new and existing homes;
- Singles with incomes of *up to \$75,000* and couples or families with income *up to \$95,000* would be eligible; and
- HomesVic will recover its share of the equity when the property is sold.

Buy Assist

The Victorian Government is to provide a \$5 million grant to the NAHC national shared equity scheme to support Victorians purchase their first home. The State investment is a grant to the Buy Assist scheme, but not an equity contribution. The NAHC will match dollar for dollar the Victorian Government's contribution.

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