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Land tax – the good, the bad and the ugly

When you buy your first (or even second) investment property, land tax is likely the last thing on your mind. Even less likely if you're buying a new family home and have decided to keep the old one and rent it out. With land tax rates skyrocketing in some states over recent years, this can be a nasty surprise.

By Pat Mannix and Rebecca Mackie

Land tax is imposed by all state and territory governments in Australia, except for the Northern Territory. It's based on the cumulative value of all unimproved land that you own, other than your principal place of residence, in any particular state. It's calculated on the total land ownership of an individual or entity at 31 December each year. Each state/territory government has its own land tax rates and exceptions or surcharges so it's important to check these and understand what your liability may be. Links to each states rates are at the bottom of this article.

A common issue that can arise is where a family decides to upgrade the family home and rent out the old one. The owner(s) may not realise they need to notify the relevant State Revenue Office of this change in purpose for the property, so land tax might not be levied until the Australian Taxation Office and the relevant State Revenue Office do some data matching – there have been cases where land tax notices are backdated for five or more years! This can pose a significant financial burden to you, the property investor, and potentially even result in having to sell the property to cover the back-taxes (worst case scenario). Hopefully this won't happen, as your property-savvy accountant should raise this with you at tax-time to ensure there are no nasty surprises years down the track.

There are a number of ways to minimise your land tax payable – you can purchase in different states; different ownership structures; or chose units or apartments with low land content. You do need to be careful however, particularly when looking at different structures, as some states impose a surcharge if property is owned in a trust and this may negate the other potential benefits of the trust. You'll need to look at your own circumstances and investment strategy, and discuss these with your accountant, to determine if these options are suitable for you.

An example of this is where two properties are purchased with land value of $200,000 each. If one is purchased in Victoria and one is in NSW then no land tax will be payable (as both states have an initial tax-free threshold) but if both were in Victoria land tax would be $575. Not too bad I hear you say, but if both of those properties were in a family trust the land tax jumps to $1789 in Victoria and $6400 in NSW.

The table below compares the states, for an individual investor with total land value of $600,000, in each state/territory:

Annual Land Tax Payable on Property with Taxable Value of $600,000 at 31 December 2014

VIC	NSW	QLD	NT	WA	SA	ACT
$975	$3108	$500	N/A	$720	$1661	$900 ^

^ Unlike the states, ACT calculates land tax quarterly so this figure may vary

The variance between states shows that land tax could play a part in determining where, and in what entity, you purchase your next property. Ensuring you get good advice is imperative to your financial journey.

State Revenue Office of Victoria land tax rates

State Revenue Office of New South Wales land tax rates

State Revenue Office of Queensland land tax rates

State Revenue Office of Western Australia land tax rates

State Revenue Office of South Australia land tax rates

State Revenue Office of Australian Capital Territory land tax rate

Pat Mannix and Bec Mackie *have been operating Gatherum-Goss & Assoc for more than seven years and both have extensive experience dealing with tax and structuring advice for investors. For more information, go to www.gatherumgoss.com*