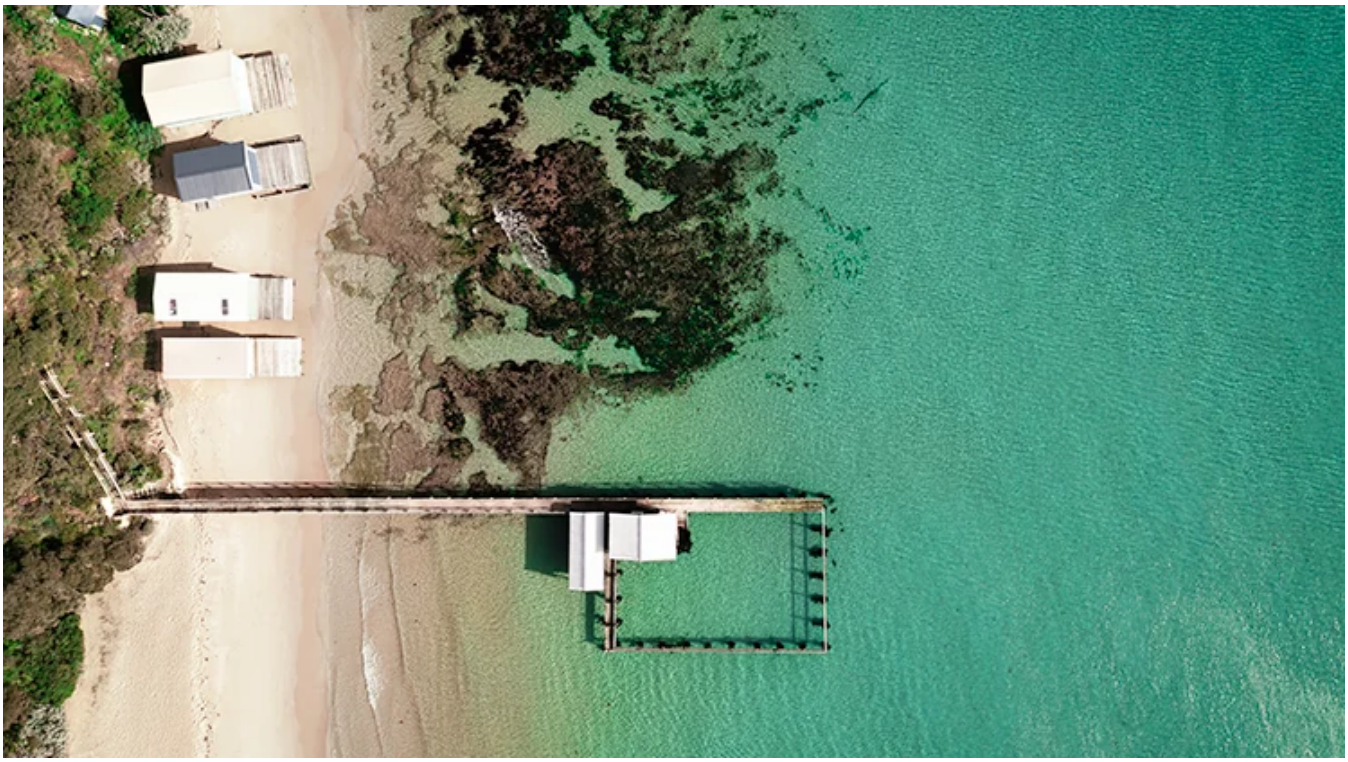
Vacant residential land tax

By Fordham

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Vacant Residential Land Tax now applies to all Victorian properties from 1 January 2025. Previously, the tax only applied to certain metropolitan local government areas but it has been expanded. The tax looks at how a property was used in the previous tax year (i.e., the 2024 calendar year) and property owners can face a significant tax if a property is considered vacant.

What is Vacant Residential Land Tax?

Vacant residential land tax (VRLT) is a tax on residential land that is vacant for more than 6 months (in aggregate) in the proceeding calendar year, coming into effect across all of Victoria on 1 January 2025.

Residential land includes the following:

- Land with a home on it
- Land with a home which is being renovated or where a former home has been demolished and a new home is being constructed
- Land with a home on it that has been uninhabitable for 2 years or more.

What is the rate of tax?

This is a progressive tax which increases upon consecutive tax years of vacancy and is based on the capital improved value of the land. The rates are:

- 1% of the capital improved value of the land for the first year the land is liable for VRLT where the land was not liable for VRLT in the preceding tax year
- 2% of the capital improved value of the land where the land is liable for VRLT for a second consecutive year
- 3% of the capital improved value of the land where the land is liable for VRLT for a third consecutive year.

As this comes into effect on 1 January 2025, if you have owned vacant residential land for more than 6 months in 2024, you may liable.

When a property is vacant

As previously stated, property is considered vacant where it has not been occupied for more than 6 months (in aggregate) in the preceding year.

This is not just limited to an owner using it as their principal place of residence, it can also be leased to a third party to satisfy the use threshold and additionally, allowing a permitted occupant (other than a tenant) to use the property as their principal place of residence for at least 6 months in the preceding tax year. If a third party does use the property as their principal place of residence, it cannot be used intermittently or on a casual basis throughout the year.

Furthermore, for the property to be caught by this tax, there must be a residential building on the land. This rules out all commercial properties, however, this residence may also be uninhabitable and liable for this tax. In this circumstance, if a residence has been

uninhabitable for more than a two-year period, the land is still considered vacant and the VRLT will apply to the property.

Lastly, land can be excluded from this tax if it is under construction, or substantial renovation for up to 2 years. Anything longer than this period, one will have to apply for an extension, where there are extenuating circumstances, where the Commissioner agrees to the extension period. Moreover, land that does not have a home on it (unimproved land) is not considered residential land and VRLT will not apply, although, it may fit the criteria brought in from 1 January 2026.

Exemptions

Holiday Home Exemption

If you have a property (other than your principal place of residence) used as a holiday home, you may be exempt from VRLT if the eligibility criteria are met.

This exemption applies when a property is used and occupied by the owner or a vested beneficiary of a trust, for at least 4 weeks (continuous or aggregate) in a calendar year. Vested beneficiaries include your grandparents, parents, spouse, children (and their partners) and siblings (their partners and children). Unfortunately, friends do not count towards the 4-week occupation requirement.

Work Accommodation Exemption

The work accommodation exemption applies if the property is used and occupied by the owner for work purposes and meets the following:

- The property must be occupied by the owner or vested beneficiary for at least 140 days (whether continuous or aggregate) in a calendar year for the purpose of attending their workplace.
- The owner or vested beneficiary must have a principal place of residence in Australia.
- From the 2025 calendar year, the workplace must be in Victoria.
- For the 2018–24 calendar years, the workplace had to be in one of the 16 specified council areas.

Other Exemptions

Other exemptions can include if the property is exempt from land tax, if the property becomes a residential property during the year, if it became a ‘residential property’ during the previous two calendar years and ownership is unchanged, or if the property changed owners in that calendar year, noting that settlement must occur to qualify for the last exemption.

Notification requirements

If you do own vacant residential land, you are required to notify the SRO by 15 January each year and you will need to notify the SRO if an exemption applies. If you do not notify the SRO that the property is vacant or if you do qualify for an exemption, it is deemed a notification default, and penalties may apply.

Notification is also required for properties rented under a private arrangement that is if the rental bond has not been registered with The Residential Tenancies Bond Authority (RTBA). This property will be exempt for VRLT if it's rented for more than 6 months. However, notifying the State Revenue Office is necessary.

If you're unsure about your notification requirements or would like to know further details, please contact your Fordham Partner.

References

https://www.sro.vic.gov.au/vacant-residential-land-tax/exemptions
https://www.sro.vic.gov.au/publications/changes-state-taxes-december-2023
https://www.sro.vic.gov.au/vacant-residential-land-tax/frequently-asked-questions#joint

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