

FACT SHEET

Land Tax Amendment Bill 2017

- The Land Tax Amendment Bill 2017 amends the *Land Tax Act 2000* (the Act) to adopt a fairer, simpler and taxpayer favourable approach to the apportionment of the assessed land value of principal residence land between principal residence land and general land.
- In Tasmania, a zero rate of land tax is applied to land classified as principal residence land for the purposes of the Act. However, if principal residence land is also used for other purposes at 1 July, the assessed value of the land is required to be apportioned between principal residence land and general land, such that the land is proportionally taxed.
- Currently, the apportionment of land value between principal residence land and general land is made under subsections 26(2)(a),(b) or (c) of the Act, which provide three methods of apportioning the assessed value of principal residence land. The apportionment method applied under the existing provision depends on each taxpayer's circumstances and each apportionment method produces a different land tax liability.
- The Government considers that these arrangements lack sufficient clarity, are overly complex and unreasonably disadvantage taxpayers where the use of principal residence land for other purposes occurs inside the principal residence dwelling.
- To remedy this, the Government proposes to introduce a single method for apportioning assessed land value between principal residence land and general land. This method will apportion the assessed land value of principal residence land by multiplying the assessed land value of the land by the area of land used for principal residence purposes as a percentage of the total land area. The Bill achieves this by replacing subsections 26(2)(a), (b) and (c) with a new subsection that is essentially equivalent to the existing subsection 26(2)(c). This effectively repeals the methods of apportionment in subsections 26(2)(a) and 26(2)(b) of the Act which use the floor area of the principal residence dwelling, as opposed to overall land area, as the basis of apportionment.
- The Bill also inserts a new subsection (subsection 26(2A)) to clarify that apportionment under the new subsection 26(2) is based on the total of land area plus all additional floor areas of any structures on the land above and below the ground floor (not including the ground floor).
- The existing subsection 26(2)(c), which in essence will become the new subsection 26(2), is the apportionment method that typically results in the lowest land tax liability of the three current apportionment methods. In this regard, the amendments are favourable to taxpayers and are likely to result in a number of taxpayers falling below the land tax threshold, meaning that they may no longer be subject to land tax in respect of their principal residence land.
- The impact of the proposed changes where a taxpayer is better off is demonstrated through the following example.
 - A taxpayer owns a single story house and leases an area of that house as at 1 July. For the purpose of simplicity there is no common use area in this example.
 - The land area is 1 000 square meters. The house area is 100 square meters and the

rented area is 25 square meters. The value of the land is \$400 000.

- Under the current administration of the Act, the taxpayer would be subject to subsection 26(2)(a), which apportions the assessed land value of the principal residence land on the basis of the floor area of the dwelling.
 - This means that the taxpayer would be liable for land tax on 25 per cent of the assessed land value of the land, that is, 25 square meters divided by 100 square meters. This would equate to land tax payable on an assessed land value of \$100 000, which is based on \$400 000 multiplied by 25 per cent. In this example, the land tax payable would be \$462.50.
 - Under the proposed subsection 26(2), the taxpayer would be subject to apportionment based on the total area of the land.
 - This means that, assuming no other areas are used exclusively for other purposes, the taxpayer would be liable for land tax on 2.5 per cent of the land value, that is, 25 square meters divided by 1 000 square meters. This equates to land tax payable on an assessed land value of \$10 000, which is based on \$400 000 multiplied by 2.5 per cent.
 - In this case, the taxpayer would not incur a land tax liability at all, as the total taxable value of the land is less than the tax-free threshold of \$25 000.
 - Therefore, in this example, the taxpayer would be \$462.50 better off under the proposed amendments to the Act.
- In summary, the proposed changes will reduce the land tax liability for the vast majority of affected taxpayers, reduce red tape and provide a consistent method of apportioning the assessed land value of principal residence land regardless of whether the use for other purposes occurs inside or outside the principal residence dwelling.
 - The amendments will take effect from 1 July 2017, to provide certainty for taxpayers in relation to the land tax assessments for the 2017-18 financial year.