

Vacant Residential Land Tax Recent Changes

Background

Vacant Residential Land Tax (VRLT) is an annual tax that may apply to residential property in Victoria that was vacant for more than 6 months in the prior calendar year.

The Victorian Government introduced VRLT in 2018 to help address a lack of housing supply, but it only applied to residential land in specific council areas in metropolitan Melbourne.

Changes to VRLT which apply from 1 January 2025 include broadening the application of VRLT to residential land throughout Victoria, an increase to the rate of tax, and changes to how some exemptions are applied. Some limited changes to VRLT will apply from 1 January 2026.

As VRLT is generally based on the prior year's occupancy, the way in which a residential property has been used from 1 January to 31 December affects whether a property owner will have a VRLT liability in the following year.

The purpose of this information sheet is to explain upcoming changes to VRLT and provide information to property owners about exemptions and their reporting obligations.

What is "Vacant Residential Land"?

Residential land is considered vacant if:

- (a) for more than 6 months in the preceding calendar year, it is capable of being used for residential purposes and has not been lived in by:
 - i. the owner (or the owner's permitted occupant) as their principal place of residence; or
 - ii. a person under a lease or short-term letting arrangement made in good faith.

(The 6-month vacancy period does not have to be continuous. It can be aggregated across the calendar year).

- (b) if a residence is being constructed or renovated on the land, and:
 - i. before renovation the land was capable of being used for residential purposes or the residence was uninhabitable; and
 - ii. 2 years have passed since a building permit issued from the construction or renovation.

From 1 January 2026 VRLT will be extended to apply to "unimproved residential land" (i.e. an empty block of residential land) in metropolitan Melbourne that has remained undeveloped for at least 5 years. The calculation of the 5-year period can commence from 2021 onwards.

Where does VRLT apply?

Currently, VRLT applies to specified council areas in inner and middle Melbourne.

From 1 January 2025, VRLT will apply in all council areas across Victoria.

How is VRLT calculated?

VRLT is calculated as a percentage of the Capital Improved Value (CIV) of the property. CIV is the market value of the property inclusive of all improvements to the land (such as buildings). You can find your CIV on your annual council rates notice.

Currently, VRLT applies at the rate of 1% of CIV.

From 1 January 2025, VRLT can progressively increase.

In the first year that the residential land is vacant, VRLT will apply at the rate of 1% of the CIV. In the second year the land remains vacant, VRLT will apply at the rate of 2% of the CIV. In the third year (and each year following) that the property remains vacant, VRLT will apply at a rate of 3% of the CIV.

The State Revenue Office (SRO) is expected to provide more detailed guidance on how VRLT will be calculated on unimproved residential land in the near future.

Exemptions and upcoming changes

(a) **Principal Place of Residence and other land tax exempt property**

If a property is exempt from land tax (e.g. a Principal Place of Residence or Primary Production Land exemption applies) then VRLT will not apply to that property. An application for an exemption is not required to be made for such property.

(b) **Change of Ownership**

VRLT won't apply in the year after a property changes ownership.

For example, if a property is sold and transferred to a new owner in 2024 it will be exempt from VRLT in 2025.

If a change of ownership occurs in relation to unimproved residential land, then the calculation of the 5-year period will restart, so that the new owner will have a full 5 years in which to develop the land.

(c) **Holiday Home Exemption**

A holiday home can be exempt from VRLT if it is occupied for at least 4 weeks in a calendar year and an application for an exemption is approved by the SRO. The 4-week period can be continuous or aggregated across the year.

The SRO is required to consider whether the property is a genuine holiday home. The distance between the holiday home and a principal place of residence (which must be in Australia) and the nature and frequency of the use of the holiday home are taken into account.

Holiday homes owned or purchased before November 2023 by trusts or companies may be eligible for the holiday home exemption. Special principal place of residence rules also apply in order to meet this exemption.

The 4-week occupation requirement may be able to be met by the property owner, or a vested beneficiary of a trust which holds the land. From 1 January 2025, some relatives of the property owner or a broader category of beneficiary can either contribute to or meet the 4-week occupation requirement.

From 1 January 2026, land that is contiguous to a holiday home may also be exempt from VRLT.

A person is only entitled to claim one VRLT holiday home exemption each year. If you have more than

one holiday home, VRLT may apply to those additional holiday homes.

(d) **Alpine Resorts**

From 1 January 2025, VRLT will not be imposed on residential land in declared alpine resorts. These include Mount Hotham, Falls Creek, Mount Buller, and Mount Baw Baw.

(e) **Work Accommodation Exemption**

This exemption applies if a residential property is used for the purpose of attending a workplace. The property must be used and occupied by the owner or a vested beneficiary of a trust as a residence for a minimum of 140 days either continuously or aggregated across a calendar year.

The owner or vested beneficiary must also have a separate Principal Place of Residence in Australia.

From 2025, if the Work Accommodation Exemption is sought because the property is used for the purpose of attending a workplace, that workplace must also be in Victoria.

Properties held by companies (which are not acting as trustees) are not eligible for this exemption.

A property owned by a company which is let to an employee of that company on a genuine basis for more than 6 months in a year will not attract VRLT.

(f) **Unimproved Residential Land**

From 1 January 2026, exemptions for unimproved residential land may apply where that land is:

- i. contiguous to a Principal Place of Residence (e.g. you have a swimming pool on a separate title adjacent to your home); or
- ii. incapable of being used or developed for residential purposes (e.g. the planning scheme prohibits development of the land).

(g) **Conversion to residential land**

Currently, land that has been converted to residential land (e.g. by a rezoning or redevelopment) will not attract VRLT for up to 2 years.

From 1 January 2025, land that became residential in the previous 3 years may be eligible for an exemption from VRLT provided the owner made genuine attempts to sell the property. After that time, VRLT will apply at the rate of 1% of the property's CIV each year until it is sold.

Renovation or Construction of Homes

VRLT will not apply to homes undergoing significant renovations or construction for 2 years from the date a building permit for the construction or renovation was issued. The SRO has discretion to extend the 2-year period.

As this is not a head of exemption, the SRO does not need to be notified for the first 2 years from the date a building permit is issued.

Obligation to notify the SRO

Property owners are obliged to notify the SRO by 15 January 2025 (and thereafter by mid-January in each year) if a residential property owned in Victoria was vacant for a period of more than 6 months in the previous calendar year.

Once notified, the SRO will presume that notification remains current for future years.

Property owners must make a subsequent notification if the information given in a previous notification is no longer current.

You can make notifications and apply for exemptions in the SRO online portal, which is accessible [here](#).

If a property is jointly held, only one owner is required to notify the SRO.

Failing to notify the SRO can result in a Vacant Residential Land Tax Assessment Notice being issued with penalties.

Penalties

A notification default arises when a property owner does not notify the SRO that their property is vacant.

When a notification default occurs, the SRO may impose penalty tax. Penalty tax is calculated as a percentage of assessed VRLT.

Penalty tax is generally imposed at 25% of assessed VRLT but can range between 5% of assessed VRLT if a voluntary disclosure is made early and 90% of the assessed VRLT if the SRO believes the law has been intentionally disregarded.

The SRO can make a determination that no penalty tax applies if there are mitigating circumstances. For example, that reasonable care was taken to make a notification, or the notification default occurred for reasons beyond the property owner's control.

Interest can also be imposed on penalty tax which is overdue.

Further Information

If you have any questions about Vacant Residential Land Tax or the exemptions which may be available to you, please contact our office on (03) 9691 5959 for further information.

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