THE TAX INSTITUTE

Property
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The recently announced Federal Budget carries many positives and negatives for different types of taxpayers.

For example, there is something positive in the Budget for young people (the Home Savers Super Scheme); something in it for old people (the downsizing Super gift); something positive for investors (affordable housing investments); and something negative for investors (exclusion of travel expenses and plant and equipment depreciation).

However, for foreigners, there are only negatives. These include:

- A Ghost-house tax to impose an impost on properties left vacant for lengthy periods of time
- Denial of the principal private residence exemption for foreign temporary residents
- An increase in the withholding tax rate on capital gains for foreigners from 10% to 12.5%
- A reduction in the threshold from which withholding tax applies from $2million to $750,000
- A revision to the principal asset test so that it applies on an associate inclusive basis
- A 50% limit on the number of properties in new developments that can be sold to foreigners
- New levies imposed on foreign workers.

All this on top of a 2012 adjustment to deny the 50% CGT discount in relation to the sale of capital assets by foreigners.

The loss of the principal private residence exemption is particularly interesting as it applies to both foreign residents and temporary residents. So all those in Australia with temporary residence status will no longer be entitled to the principal private residence exemption for a property they own in Australia in which they live throughout their time here.

Of even more concern is the situation where an Australian moves overseas for a limited period of time, eg 5 or 6 years, on a specific work project and leaves their University aged student children in the family home. It seems that once this measure comes into effect, the owner of the property (i.e. the parent) will not be treated as living there and will be treated as a non-resident. In those circumstances, he/she will be absent from the house in the way envisaged and will consequently be denied the principal private residence exemption. Incredibly, they may also be hit with the Ghost-house tax on the basis that the property is technically left vacant if they are not charging their children rent. Even more incredibly, due to the Budget change of 2012, they will also lose the CGT discount.

All this comes at a time when the government is advocating for an agile, innovative workforce – this hardly seems consistent with that admirable objective.

Ironically and somewhat perversely, at the very same time as all this is happening, the bank levy is being imposed on the 5 major Australian banks but does not apply to foreign banks carrying on business in Australia.

We seem to be beating up on the “foreign” individuals but supporting the foreign banks in creating an unlevel playing field and giving those foreign banks a competitive advantage over their local major bank counterparts.

Kind regards,

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