
Victorian State Budget Summary for 2016-17

27 April 2016

The Victorian State Budget for the 2016-17 financial year was delivered on 27 April 2016 by the Treasurer, Tim Pallas, MP.

1. Budget position and outlook

The Treasurer announced that the Budget for 2016-17 is expected to produce an operating surplus of \$2.9 billion, with accumulated surpluses of \$9.3 billion over the Budget and forward estimates period. Net debt is expected to reduce to 4.8% of gross state product (GSP) by June 2020.

Victoria is expected to collect \$60.4 billion in total revenue in 2016-17, with revenue growth averaging 3.4% over the budget and forward estimates.

Victorian economic growth is expected to be 3% in 2016-2017, on trend with 2015-16.

2. State taxation revenue measures and incentives

State taxation revenue is forecast to be \$21.6 billion in 2016-17, with growth averaging 3.9% a year over the budget and forward estimates.

Major contributions to growth in the budget year include land tax and payroll tax revenue and an allowance for prepaid port licence fees, partially offset by an anticipated moderation in land transfer duty revenue.

The key taxation measures and/or incentives announced in the Budget include:

- The surcharge on ‘foreign purchasers’ of residential property in Victoria will increase to 7% for contracts entered into on or after 1 July 2016.
- The land tax surcharge applied to ‘absentee owners’ of taxable land in Victoria will increase to 1.5% in respect of the 2017 land tax year onwards.
- The payroll tax-free threshold will incrementally increase from \$550,000 to \$650,000 over the next four years.

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- A payroll tax exemption will be introduced for wages paid or payable by an employer to a displaced apprentice or trainee from 1 July 2016.
 - The nominal registration revenue for heavy motor vehicles will be frozen at 2015-16 levels for two years.
 - The land tax exemption for primary production land in an urban zone owned by certain family superannuation trusts will be extended.

Further details about these measures and/or incentives are provided below.

Stamp duty surcharge for 'foreign purchasers'

The Victorian Government last year introduced legislation to impose a 3% stamp duty surcharge rate on direct and indirect acquisitions of residential property in Victoria by 'foreign purchasers' from 1 July 2015, in addition to the general rate of stamp duty of up to 5.5%.

As part of the 2016-17 Budget, the Treasurer has announced that the stamp duty surcharge rate will increase to 7% for contracts entered into on or after 1 July 2016, resulting in a stamp duty rate of up to 12.5% for purchases of Victorian residential property by 'foreign purchasers'.

Land tax surcharge for 'absentee owners'

As part of the 2015-16 Budget, the Victorian Government introduced an annual 0.5% land tax surcharge rate applying to 'absentee owners' of all taxable land in Victoria from the 2016 land tax year onwards, in addition to the general rate of land tax of up to 2.25%.

The Treasurer has announced that the 'absentee owner' surcharge rate will rise to 1.5% for the 2017 land tax year onwards, resulting in annual land tax rates of up to 3.75% on the taxable value of all taxable land in Victoria held by an absentee owner.

Further, the State Revenue Office will receive additional funding to establish and expand compliance programs to ensure property taxes are correctly paid.

Payroll tax-free threshold and payroll tax incentive

The Government has announced that the payroll tax-free threshold will progressively increase from \$550,000 to \$650,000 over the next four years (in \$25,000 increments), starting with an increase to \$575,000 from 1 July 2016.

Further, a payroll tax exemption will be introduced for the wages paid or payable by an employer to a displaced apprentice or trainee from 1 July 2016.

Freeze of heavy motor vehicle nominal registration revenue

The Transport and Infrastructure Committee (comprising state, territory and Commonwealth transport, infrastructure and planning ministers) has decided to freeze nominal registration revenue for heavy motor vehicles at 2015-16 levels for two years.

Land tax exemption for primary production land in urban zone

To receive the land tax exemption within 'urban zones', certain ownership requirements must be fulfilled. The Treasurer announced that the exemption for primary production land in an urban zone will be extended to land owned by certain family superannuation trusts.

3. Forecast and expected revenue trends

As noted above, state taxation revenue is forecasted to be \$21.6 billion in 2016-17, with an average growth of 3.9% a year over the budget and forward estimates. Specifically:

- Land transfer duty revenue is expected to fall by 6.4% in 2016-17 to \$5.7 billion. This follows significant growth in land transfer duty revenue over the past three years to 2015-16 of 23%. Over the forward estimates, land transfer duty is expected to be at trend growth by 2019-20.
- Land tax revenue is expected to increase by 28.3% to \$2.2 billion in 2016-17 as a result of the current land revaluation process. The biennial land revaluation cycle covers the period from 1 January 2014 to 1 January 2016 and is currently underway. Growth in the property market in the two years since the last revaluation suggests that the outcome will reflect an increase in the value of land.

The outcome of the 2016 revaluations coordinated by the Valuer-General Victoria and carried out by municipal councils will be reflected in land tax assessments issued in the 2017 and 2018 calendar years.

- Payroll tax revenue is expected to grow by 5.3% to \$5.7 billion in 2016-17, with growth averaging 4.7% over the forward estimates. Following three years of sub-trend growth, the expected recovery in revenue in 2016-17 is driven by increased aggregate hours worked over the past 18 months. Overall employment is expected to grow above trend in 2016-17, however spare capacity in Victoria's labour market is predicted to put downward pressure on wage growth.
- Gambling tax revenue is forecasted to grow by 2.7% to \$1.9 billion in 2016-17 and by an average of 2.9% per year over the forward estimates. Gambling expenditure is expected to continually decline as a share of household consumption.
- Insurance tax revenue is expected to grow by 6.3% to \$1.2 billion in 2016-17, with a trend growth rate of 6.8% a year expected over the forward estimates, with premium rates expected to increase moderately with completion from low cost and overseas insurers expected to ease due to continuing acquisition and merger activity.
- Motor vehicle tax revenue is expected to grow by 4.6% to \$2.3 billion in 2016-17, with average trend growth of 3.7% over the forward estimates. Motor vehicle purchases have remained resilient, despite a period of modest income growth.

The 2016-17 growth rate for taxation is also contributed to by the inclusion of an allowance for prepaid port license fees associated with entering into a medium-term lease over the operations of the Port of Melbourne.

4. Infrastructure announcements

The Government has announced that infrastructure investment will average \$7.4 billion per year over the next four years, with funding for key projects in urban and regional transport, health and education.

The key infrastructure initiatives announced include:

- *Melbourne Metro Tunnel* – the Government has confirmed its commitment to the Melbourne Metro Tunnel Project and announced an allocation of \$2.86 billion over the forward estimates in addition to the guaranteed \$10.9 billion funding to fully fund the project.

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- *Western Distributor project* – the Government has announced that it intends to improve travel on local streets by removing trucks from traffic. The 2016-17 Budget commits \$5.5 billion to the project, including up to \$400 million in funding for the Monash Freeway Upgrade.
 - *Regional rail services and infrastructure upgrades* – the Government has indicated that it will commit \$1.3 billion for regional rail services and infrastructure upgrades designed to better connect people and businesses in regional Victoria and \$1.9 billion to expand and upgrade the metropolitan rail network.
 - *Meeting the demands of a growing population* – capital funding will be provided to expand government school and hospital capacity and to invest in public transport rolling stock.

Let's talk

For a deeper discussion of how these issues might affect your business, please contact:

Barry Diamond, Melbourne
+61 (3) 8603 1118
barry.diamond@au.pwc.com

Zoe Chung, Melbourne
+61 (3) 8602 2372
zoe.chung@au.pwc.com

James Puchlenko, Melbourne
+61 (3) 8603 1193
james.puchlenko@au.pwc.com

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