It may become too taxing Down Under

AS we approach Jan 1, 2025, Malaysian owners of Australian property are facing a perfect storm of tax challenges. Experts warn of potential crippling financial repercussions if immediate action is not taken.

The impending tax changes are two-fold. First, the Foreign Resident Capital Gains Withholding (FRCGW) rate will increase from 12.5% to 15% for all property sales starting Jan 1, 2025. Second, land tax burdens continue to escalate, which means many investors will face retrospective bills.

According to the register of foreign ownership, there were 5,360 residential real estate purchases with a total transaction value of A$4.9bil (RM14.19bil). This indicates that a substantial number of Malaysians will be impacted.

TJD Accounting Services international tax specialist principal Dominic Murphy said: "We're at a critical juncture. Malaysian investors need to act now to avoid severe penalties and reassessments that could amount to hundreds of thousands of dollars. I've seen enormous financial implications, especially when Malaysian investors are paying these taxes in ringgit which is almost three times more than the Australian dollar."

Land tax implications

A critical development in land tax policy has broadened its impact in Victoria. In Victoria, an absentee owner surcharge of 4% applies to properties owned by absentee owners starting from the 2024 land tax year. This surcharge is in addition to the standard land tax rates. Furthermore, a Vacant Residential Land Tax (VRLT) of 1% is levied on residential properties in Melbourne's middle and inner suburbs that remain vacant for more than six months within a calendar year.

"Previously, this land tax threshold was A$350,000 which means many apartment or unit owners were not affected," explained Murphy. "But the threshold has been drastically reduced to A$50,000. Even those who were previously exempt may now face significant tax obligations."

In Victoria, an absentee property owner with a land value of A$750,000 (about RM2.32mil) will be required to pay A$33,150 (RM94,140) annually in land tax and absentee surcharges under the new policy.

For New South Wales, foreign property owners pay a 4% land tax surcharge. So, they now pay A$30,000 (RM93,000) annually for a property valued at A$750,000. From Jan 1, this surcharge will increase to 5%, raising the annual payment to A$37,500 (RM116,250).

In Queensland, absentee owners for the same land value will pay A$20,250 (RM57,523).

Land tax is calculated using the site values of all taxable land owned as of Dec 31 of the preceding year. It applies to investment properties, commercial plots, holiday homes and vacant land. Assessments are generally issued by the State Revenue Offices (SROs) between January and June each year.

The Herald Sun of Australia recently reported that one-third of property investment owners in Victoria have not paid their land tax and now face severe penalties for non-compliance.

Murphy said: "We cannot negotiate with the State Revenue Offices regarding land tax. However, if you choose to sell due to these unbearable costs, we can assist with the withholding tax returns."

KARINA FOO
TJD Accounting Services
Marketing Consultant

> Withholding tax hike could cripple Malaysian property investors on Jan 1, 2025

Taking proactive measures

Murphy's client Chan shared a cautionary tale: "I owned a property in Donnybrook, Victoria and ignored my accountant's warnings about land tax. When the bill came, I owed A$65,000 in land tax and surcharges."

Murphy outlines critical steps investors must take before the year-end to ensure they are up to date with tax compliance:

Submit tax returns immediately from the year you bought the property – even if no income was generated from the property.

You must obtain a tax file number in person at the Australian Consulate in Malaysia, preferably before the Christmas break office closure. Online applications will not be entertained.

Address any backlog of un-filed tax returns to avoid penalties during potential audits.

If you want to transfer property ownership to a resident (Australian), ensure you have done due diligence on the costs involved because the new owner may also have to pay stamp duty.

"While selling might seem like a solution to avoid ongoing tax burdens, it has its own set of challenges," Murphy added. "The increased withholding tax rate of 15% will significantly impact your proceeds from the sale... and you may face capital gains tax on any profit made."

Changing landscape

While recent changes in Victoria – such as stamp duty cuts on new properties – might seem to offer relief, Murphy cautioned against false hope. "This might seem attractive to foreign buyers but the 8% surcharge on land purchases in Victoria is still in effect. Although the stamp duty reduction offers initial savings, the total purchase cost for foreigners remains much higher than for residents," he said.

Lisa Loh, a Melbourne-based mortgage broker, also notes a troubling trend: "We're seeing a significant uptick in distress sales. Many clients are finding ongoing costs unsustainable – especially those who have held properties for a long time."

Adrian Ng, a property lawyer and principal at Cerulean Legal in Melbourne, added: "There is little bargaining room with State Revenue Offices; foreign owners must understand their obligations fully. We can only help clients to arrange a payment plan.

Loh said: "With the tax increase looming, investors need to act swiftly. Refinancing, restructuring ownership, or even considering a strategic sale are options. Every day of inaction could translate to thousands of dollars in additional tax liability."

Murphy stressed that as the new year approaches, the message for Malaysian property owners in Australia is clear: Seek professional advice, understand your obligations and make informed decisions before the tax landscape shifts again.