Budget 2017

Reducing Pressure on Housing Affordability

Stronger rules for foreign investors owning Australian housing

The Government is ensuring that Australian homes are available for Australians. The Government will place a limit on foreign ownership in new developments; introduce an annual charge on foreign owners who buy residential property and leave it vacant; and tighten the foreign investor tax integrity rules to reduce avoidance of capital gains tax on Australian property.

Limiting foreign ownership in new developments

The Government will ensure that dwellings in new developments in Australia are kept available for Australians by introducing a 50 per cent cap on foreign ownership in new developments. This will be applied through conditions imposed on New Dwelling Exemption Certificates.

New Dwelling Exemption Certificates are granted to property developers and act as pre-approval allowing the sale of new dwellings in a specified development to foreign persons without each foreign purchaser seeking their own foreign investment approval. The current Certificates do not limit the proportion of dwellings that may be sold to foreign investors.

This will strengthen the existing rules that apply to Certificates, where the Government considers whether developers market or advertise the development in Australia.

The new 50 per cent cap builds on the existing rules to ensure Australian buyers have access to a greater pool of homes to buy in these new developments.

Developments have to be multi-storey and have at least 50 dwellings.

Impact

From Budget night, developers who are granted a New Dwelling Exemption Certificate will be subject to a condition which limits the sale to foreign investors of new dwellings in that development to 50 per cent.

Budget impact

This measure is estimated to have no revenue impact over the forward estimates.

Charging foreign owners who leave their residential properties vacant

To discourage foreign investors from buying residential properties and leaving these vacant, the Government will now charge foreign owners of residential properties an annual charge if the property is not occupied or available to rent for at least six months in each year.

This is expected to increase the number of homes available to Australians wishing to rent. The annual vacancy charge will apply to foreign persons who make a foreign investment application for residential property from 7.30pm on Budget night 2017.

Impact

Where a foreign-owned residential property is left vacant for more than six months in a year, a charge will be levied on the foreign owner equivalent to the foreign investment application fee which was paid at the time of application.

The new charge builds on the Government's existing foreign investment regime which seeks to increase the number of houses available for Australians to live in. The charge provides a financial incentive for the foreign owner to make their property available on the rental market if they do not intend to reside there.

This will be administered by the ATO.

Budget impact

This measure is estimated to have a gain to revenue of $20 million over the forward estimates.

Improving the integrity of capital gains tax rules for foreign investors

The Government is introducing reforms to reduce the avoidance of capital gains tax in Australia by foreign investors.

This will send a clear message to foreign investors that if they wish to acquire Australian residential property, they will have to comply with our stringent capital gains tax rules.

The Government will stop foreign and temporary tax residents from claiming the main residence capital gains tax exemption when they sell property in Australia from Budget night. Foreign and temporary tax residents who hold property on Budget night can continue to claim the exemption until 30 June 2019.

The Government will also bolster the foreign resident capital gains tax withholding regime by increasing the withholding rate from 10 per cent to 12.5 per cent, as well as increasing the number of foreign residents caught by the regime by reducing the threshold from $2 million to $750,000. These changes will apply from 1 July 2017 and will reduce the risk that foreign residents avoid paying a capital gains tax liability they owe in Australia.

Budget impact

These changes to improve the integrity of capital gains tax rules for foreign investors are estimated to have a gain to revenue of $600 million over the forward estimates.