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Land Tax - A Tax You Can Plan To Avoid!

Please take steps to become familiar with the various land tax thresholds between each of the states, and the necessary steps you can take to help minimize your land tax obligations. It's much better to become knowledgeable this way, than after the fact upon the arrival of a large unexpected bill.

Initially, with the first one or two properties this may not seem to be much of a problem, but as properties are accumulated land tax can become a prohibitive amount to pay each year.

So how can you minimize your land tax payments?

All states and territory governments in Australia (except the Northern Territory) impose a land tax. In the Northern Territory there is no land tax at all.

Land tax is based on the accumulative value of all unimproved land that you own, other than your principal place of residence in any particular state.

Keeping in mind that land tax is precisely that – a tax on the land value, some investors prefer to purchase units with comparatively little 'land value' which helps decrease their land tax payments.

Each state or territory government not only has its own tax rate but also has certain exceptions within their laws in regard land tax, so it's important that if buying interstate that the land tax laws for that state are understood.

Land Values

Over the past 10 years we've seen vast increases in property values and this has made the payment of taxes a headache for some property investors. One benefit, if you could put it that way, is that in recent years property values have seen minimal growth overall and in some areas they have declined. Therefore land taxes haven't increased significantly unless there has been a change in the land tax rate.

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How to Minimize Land Tax

There are steps that can be taken to minimize land tax. You will need to evaluate your own circumstances and assets to decide if these steps would be of benefit to you.

Let's take the example of four houses with land values at: $100,000, $150,000, $180,000 and $250,000 (a total land value of $680,000) and look at the various scenarios.

Invest in property in several states

a. If all four properties were owned in the one state, let's say NSW, the land tax would be $4,644 allowing for a land tax threshold of $396,000 for the 2012 land tax year. This calculation was made on the NSW Government website.

b. If all four properties were spread over 4 states then there would be no land tax to pay due to the fact that in each state the property value is below the land tax threshold of each state.

c. If they were all situated in the Northern Territory there would be no land tax to pay.

Buy properties using different buying entities

The second option is to buy the four properties in different entities. Looking at this option, say Jack and Helen Scott had four properties. If Jack owned one, Helen owned one, they owned one jointly and the fourth was owned under a trust then again, there would be no land tax as there are four different entities owning the properties. Although this may seem to be ideal, owning only one property in a trust can be expensive too as there are set up costs and expenses related to the annual report of trust activity however that's a whole other discussion that I'll leave for another time also.

Finally, after assessing these different methods of minimizing land tax, you also need to incorporate your overall income and taxation position. Obviously it's very important, therefore, that you have a detailed discussion with your experienced property tax accountant, to ensure everything you do is specific to your own individual circumstances.

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