

# Victoria State Budget 2021-2022

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**Partners**

Frank J Spillane  
Brett A Jackson  
Peter J Whelan  
Damien C Gaffney

Michelle I, McKenzie  
Erica J Harper  
Paul F O'Brien  
Matthew J Edwards

## Introduction

The Victorian State Budget for 2021/22 was released by Victorian Treasurer Tim Pallas on Thursday 20 May 2021.

The full budget papers are available at <https://www.dtf.vic.gov.au/state-budget/2021-22-state-budget>.

The key tax measures and changes announced in the budget as foreshadowed in our Client Alert Number 80 include:

<b>Measure</b>	<b>Expected start date</b>
<p>Mental health and wellbeing levy (payroll tax surcharge).</p> <p>A payroll tax surcharge on wages paid in Victoria by businesses with annual Australian-wide wages over \$10M. A rate of 0.5% will apply for businesses with Australian-wide wages above \$10M, and businesses with Australian-wide wages above \$100M will pay an additional 0.5%.</p>	1 January 2022
<p>New windfall gains tax of up to 50% to be applied to planning decisions to rezone land from 1 July 2022. The total value uplift from a rezoning decision will be taxed at 50% for windfalls above \$500,000, with the tax phasing in from \$100,000.</p>	1 July 2022
<p>New premium stamp duty rate for property transactions with a value above \$2M, increasing stamp duty payable to \$110,000 plus 6.5% of the dutiable value in excess of \$2M.</p>	Applies to contracts entered into on or after 1 July 2021
<p>Temporary stamp duty concessions for new residential property within the City of Melbourne with a dutiable value up to \$1M:</p> <ul style="list-style-type: none"><li>• A 50% concession will be available for new residential properties.</li><li>• A full exemption will be available for new residential properties that have remained unsold for 12 months or more since completion of construction.</li></ul>	<p>Concession applies to contracts entered into on or after 1 July 2021 and on or before 30 June 2022</p> <p>Exemption applies to contracts entered into on or after 21 May 2021 and on or before 30 June 2022</p>
<p>The land tax rates for high value landholdings will increase:</p> <ul style="list-style-type: none"><li>• for taxable landholdings exceeding \$1.8M — the land tax rate will rise by 0.25%, and</li><li>• for taxable landholdings exceeding \$3M — the land tax rate will rise by 0.3%.</li></ul>	2022 land tax year
<p>The general land tax threshold will increase from \$250,000 to \$300,000. (The land tax threshold for land held on trust remains unchanged at \$25,000.)</p>	2022 land tax year

Source: <https://www.sro.vic.gov.au/state-budget-2021-22-announcements>

## **Further details**

After a COVID-19 riddled year, Tim Pallas handed down a big-spending budget with \$342BN in spending expected over the next four years to map the state's way out of the aftermath of the COVID-19 pandemic to return the state to an operating cash surplus in 2022/23.

Victoria has recorded a deficit of \$17.4 billion in 2020/21 from an expected \$23.3BN and is forecast to remain in a shortfall until at least 2025. Almost \$6BN in new taxes and \$3.6BN in savings on public service spending was announced in the 2021/22 budget as a result of a 9.6% blowout in 2020/21 public sector spending. The Victorian hotel quarantine system cost the state \$442M for nine months to 31 March 2021 with other budget blowouts on key projects including:

- A \$1.3 billion blowout in the cost of the Metro Tunnel
- A \$244 million blowout in the cost of Murray Basin Rail
- A \$233 million increase in the cost of the regional rail revival
- A \$67 million increase on the high-capacity Metro Train project

The forecasts included in the 2021/22 budget rely on the rollout of COVID-19 vaccines continuing and further outbreaks on a state and national level being contained and only resulting in short, local restrictions. They also assume the number of migrants, tourists and international students into the state will start increasing from next year.

The big-spending budget has come at a cost, with net debt expected to reach \$102.1BN by June 2022. That number is expected to grow to \$156.3BN by June 2025.

The key highlights from the Victoria State Budget are summarised below:

### **Key figures**

- \$11.6BN deficit forecast for 2021/22, revised down from \$13.1BN
- Economic growth is expected to increase by 6.5% and unemployment rate to lower to 5.75% in 2021/22
- \$3.8BN to rebuild the state's mental health system, including \$842M for young people and children
- 25 new X'Trapolis 2.0 trains as part of a \$3.2BN public transport services spend
- 60,000 land owners will receive tax cuts from an increase in the general land tax-free threshold from \$250k - \$300k
- \$1.3BN towards the state's COVID-19 recovery with \$50M to support mRNA vaccine manufacturing
- \$49M in stamp duty savings of up to 100% on new apartments and homes within the City of Melbourne
- \$431M to support businesses and creating new jobs, including \$250M in wage subsidies to help at least 10,000 jobseekers

### **Key budget measures**

#### **a) Mental Health & Wellbeing Levy (payroll tax surcharge)**

A new Mental Health & Wellbeing Levy on businesses with Australian-wide wages of over \$10M from 1 January 2022 was introduced based on a recommendation of the Royal Commission into Victoria's Mental Health System.

Businesses with more than \$10M in Australian-wide wages will pay 0.5% for every \$1 of wages paid between \$10M - \$100M and a further 0.5% for every \$1 of wages paid above \$100M.

Some organisations such as private schools and hospitals are exempt from the Mental Health & Wellbeing Levy.

The Mental Health & Wellbeing Levy is expected to raise \$843M each year with over 9,000 companies in Victoria expected to be hit with the surcharge.

**b) Land tax**

Land tax will increase by:

- 0.25% for taxable land holdings between \$1.8M - \$3M
- 0.3% for taxable land worth more than \$3M

This is expected to raise land tax revenue by 15.2% to \$4.2BN in 2021/22.

The general land tax-free threshold is lifted will increase from \$250,000 to \$300,000 from the 2022 land tax year.

**c) Stamp duty**

Property transactions above \$2M will incur a stamp duty charge of \$110,000 in addition to the 6.5% stamp duty on dutiable value of the property in excess of \$2M. This is expected to bring total stamp duty revenue to \$6.7BN in 2021/22 after a fall of 3.1% this financial year.

Off-the-plan stamp duty concessions will temporarily increase to \$1M for contracts entered into from 1 July 2021 to 30 June 2023.

Homebuyers purchasing residential property worth up to \$1M in City of Melbourne will get a concession of:

- 50% for new properties that have been unsold for less than 12 months between 1 July 2021 and 30 June 2022
- 100% for new properties that have been unsold for more than 12 months between 1 May 2021 to 30 June 2022

**d) Windfall gains tax**

A new windfall gain tax will apply to properties where value is boosted through rezoning by more than \$100,000 with a 50% tax on windfalls above \$500,000.

**e) Payroll tax**

The payroll tax-free threshold has been increased to \$700,000 from July 2021 a year ahead of schedule.

A lower payroll tax rate of 1.2125% for regional employers will also come into effect from 1 July 2021 a year ahead of schedule.

**Key government spending**

**a) Mental health**

- \$3.8BN investment into the Vic mental health system. More than \$1.5BN will go towards community based care, with up to 60 new local services to be set up in

VIC. Another \$310.8M will be spent on acute care – including \$101.8M for 104 new mental health beds and ongoing funding for an additional 96 beds.

- Young people and children are also set to benefit from a total of \$842 million in mental health and wellbeing support.

**b) Public transport**

- \$3.2BN funding will go towards public transport services and infrastructure in the state, including \$986M to build 25 new trains in Ballarat
- \$613M will go towards supporting the reliability of the VLine regional train services and maintaining the network.
- \$386M for a new Road Safety Strategy to deliver new safety technologies and infrastructure upgrades
- \$265M to plan, upgrade and maintain suburban, rural and regional roads across the state

**c) Education**

- \$1.6BN to build new 13 schools and upgrade 35 metropolitan and 17 regional schools, including in Melbourne's key growth corridors.
- \$380M for TAFE and training providers, including campus upgrades and new equipment
- \$277M for mental health and wellbeing programs for students including therapy dogs and mental health aid training
- \$185M for a new Victorian Academy of Teaching Leadership
- \$167M for continued roll out of free three-year-old kindergarten

**d) Hospital and health services**

- More than \$1.2BN to upgrade and build more hospitals across the state as part of a \$7.1BN investment in healthcare services.
- More than \$556M of funding towards building and expanding 10 community hospitals in Craigieburn, Cranbourne, Pakenham, Phillip Island, Sunbury, Torquay, Mernda, Eltham, Point Cook and Melbourne's inner-south.
- \$759M in funding for paramedics, triage care and support staff for Ambulance Victoria.
- \$70M funding for public IVF services for Victorian families wanting to become parents
- \$50M to support the manufacturing of mRNA vaccines in the state - such as the COVID-19 jabs Pfizer and Moderna.
- \$354M to support family violence victim survivors and address the overall issue

**e) Reinvigorating Melbourne CBD**

- \$107.4M to renew spaces, finance CBD arts and cultural events and extend the alfresco dining revolution including a \$7.4M dining voucher scheme

**f) Tourism**

- \$288M for Victoria's creative industry, including \$121M to attract international productions
- \$43M to attract global business events
- \$6M to improve access and security at the Shrine of Remembrance

**g) Bushfires**

- \$788M to reduce the impact of bushfires on Victorian communities
- \$104M to help bushfire ravaged communities recuperate and move forward
- \$384M for more skilled firefighters and high-tech gear