



Parliamentary Budget Office

# Vacant residential land tax

Tax specifications and number of liable  
properties

## Parliamentary Budget Office

We provide independent fiscal, economic and financial advice to all members of the Parliament of Victoria. Our objective is to inform policy development and public debate in parliament and the community.

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# In brief

In this advice we examine the Victorian Vacant Residential Land Tax (VRLT). We consider the specification of this tax, compliance and enforcement arrangements, and the number of Victorian properties that may be liable but are not paying the tax.

## Specifications and compliance

Residential properties are defined as land capable of being used solely or primarily for residential purposes. The VRLT is a tax on residential properties that are:

- vacant for more than 6 months in the previous calendar year
- located in 16 metropolitan local government areas (LGA).

To be considered occupied, and not vacant, the property must have been used as a principal place of residence (PPR), or subject to a lease agreement.

The VRLT rate is levied at 1% of the capital improved value of the property and is imposed in addition to general land tax. Properties that are exempt from land tax are also exempt from the VRLT, however there are several additional exemptions specific to the VRLT. Properties that are used for work purposes, recently sold or transferred, and holiday homes occupied for at least 4 weeks of the year are exempt from the VRLT.

If a property is vacant for more than 6 months in a calendar year, the State Revenue Office (SRO) requires owners to self-report through an online portal by 15 January the following year. If the property qualifies for an exemption, the owner must inform the SRO and specify the applicable exemption. The SRO conducts monitoring and compliance activities, including cross-referencing with other state and Australian Government agencies, and investigations.

## Proposed changes to the VRLT

In October 2023, the government introduced legislation to extend the coverage of the VRLT to:

- all vacant residential properties in Victoria from 1 January 2025
- unimproved residential land in metropolitan Melbourne that has been undeveloped for a period of five or more years from 1 January 2026.

## Vacant properties that may be liable but not paying the VRLT

### Estimating vacant properties in Victoria

Organisations such as the Australian Bureau of Statistics (ABS) and Prosper Australia have assessed residential vacancy rates across Australia based on electricity, water usage and administrative data.

- ABS analysis of electricity usage and administrative data suggests the residential vacancy rate for Victoria is between 1.3% and 1.4%
- Prosper Australia analysis of water usage suggests the residential vacancy rate for metropolitan Melbourne is around 1.4%.

### Estimating vacant properties which may be liable for the VRLT

A proportion of vacant residential properties are likely to be exempt from the VRLT. These include all properties which are vacant but are subject to:

- land tax exemptions
- VRLT-specific exemptions.

Based on available data relating to these exemptions, we estimate that around 5,000 vacant properties may be liable to pay the existing VRLT – or 0.5% of all properties in the 16 liable LGAs.

If the VRLT were expanded to:

- all metropolitan Melbourne, we estimate that around 8,000 vacant properties may be liable, or 0.4% of all properties in metropolitan Melbourne
- all of Victoria – consistent with the proposed amendments – we estimate 10,000 vacant properties may be liable, or around 0.4% of all Victorian properties.

Based on public information, around 900 properties pay the existing VRLT, which applies to the 16 liable LGAs. This suggests that a large proportion of owners of potentially liable properties may not be self-reporting and paying the tax – however it is difficult to estimate this with certainty. Estimates for the number of potentially liable properties are highly sensitive to:

- uncertainties associated with data on vacant properties
- uncertainties associated with the proportion of vacant properties that would be liable for the tax, including a lack of data on exempted properties
- other changes in the number of vacant properties in the 16 LGAs, metropolitan Melbourne and Victoria over time.

# Context

## Request

On 3 November 2023, Dr Samantha Ratnam MLC, Member for Northern Metropolitan Region, asked the Parliamentary Budget Officer to provide independent advice about the VRLT, including its specifications and enforcement, and the number of properties that may be vacant but are not paying the tax.

## Scope

In this advice we:

- consider the existing VRLT, proposed amendments, and compliance and enforcement
- estimate the number of vacant properties in Victoria that may be liable but are currently not paying the VRLT.

## Limitations

We requested information from the Department of Treasury and Finance and the State Revenue Office regarding the historical number of liable vacant properties and VRLT revenue, but their responses were confidential. As a result, all estimates in this advice are based on public information.

Our estimates for the number of vacant properties in the 16 LGAs, metropolitan Melbourne and Victoria that may be liable are highly sensitive to:

- uncertainties associated with data on vacant properties
- uncertainties associated with the proportion of vacant properties that would be liable for the tax, including a lack of data on exempted properties
- other changes in the number of vacant properties in metropolitan Melbourne and Victoria over time.

We prepared this advice on 22 November 2023.

## Background

In 2017, the Victorian Government introduced the VRLT, and it took effect on 1 January 2018 after amendments to the *Land Tax Act 2005* (the Act). The SRO administers the VRLT.

On 3 October 2023, the Victorian Treasurer announced changes to the VRLT. The main changes are outlined in the State Taxation Acts and Other Acts Amendment Bill 2023 (the Bill), which is currently before the Victorian Parliament. The proposed amendments are scheduled to take effect in stages from 1 January 2025 and 1 January 2026.

We consider the experience of the Vancouver Empty Homes Tax (EHT), a vacant residential property tax with a substantially different approach to compliance and enforcement, in Attachment C.

# Specifications and compliance

## In this section

This section outlines the following for the VRLT:

- existing tax specifications and proposed amendments
- compliance and enforcement arrangements.

## VRLT specifications

The Vacant Residential Land Tax (VRLT) is a tax on residential properties that are:

- vacant for more than 6 months in the previous calendar year
- located in 16 metropolitan local government areas (LGA).

To be considered occupied, and not vacant, the property must have been used as a principal place of residence (PPR) or subject to a lease agreement.

**Figure 2 – Specified geographic area where VRLT applies**

Region	
Banyule City Council	Melbourne City Council
Bayside City Council	Monash City Council
Boroondara City Council	Moonee Valley City Council
Darebin City Council	Merri-bek City Council
Glen Eira City Council	Port Phillip City Council
Hobsons Bay City Council	Stonnington City Council
Manningham City Council	Whitehorse City Council
Maribyrnong City Council	Yarra City Council

Source: Victorian Legislation.

The VRLT rate is 1% of the capital improved value of the property, and is imposed in addition to general land tax.

The potential tax base of the VRLT is residential properties, which is defined as land that is capable of being used solely or primarily for residential purposes. It also includes land on which a residence is being constructed or renovated which:

- was capable of being used for residential purposes before the construction or renovation
- on completion, will be capable of being used for residential purposes.

Residential property does not include vacant land, commercial residential premises, residential care facilities, supported residential services or retirement villages.

## Exemptions

Properties which are exempt from land tax are also exempt from the VRLT. The 4 most common land tax exemptions are for properties that are:

- owned and occupied as a PPR
- used primarily for primary production or used solely or primarily for the business of primary production (may also be exempted if being prepared for primary production)
- owned or used by a charitable organisation
- used and occupied as a registered rooming house.

A full list of land tax exemptions is at Attachment D.

Additionally, there are VRLT exemptions for properties not occupied for 6 months in the previous calendar year, which:

- are holiday homes (except homes owned by businesses or trusts)
- are city apartments/homes/units used for work purposes (except homes owned by businesses or trusts)
- transferred ownership during the preceding year
- became residential property (i.e. changed usage to primarily residential purposes).

## Proposed amendments

The Victorian Government introduced changes to the VRLT in the State Taxation Acts and Other Acts Amendment Bill 2023 (the Bill), currently before the Victorian Parliament. This bill would amend to the *Land Tax Act 2005* to:

- expand the VRLT from vacant residential properties in the current 16 liable LGAs to all vacant residential properties in Victoria on and after 1 January 2025
- extend the definition of VRLT to include unimproved residential land in metropolitan Melbourne that has been undeveloped for a period of 5 or more years from 1 January 2026.

**Figure 3 – Metropolitan Melbourne**

Region	
Banyule City Council	Maroondah City Council
Bayside City Council	Melbourne City Council
Boroondara City Council	Melton City Council
Brimbank City Council	Merri-bek City Council
Cardinia Shire Council	Monash City Council
Casey City Council	Moonee Valley City Council
Greater Dandenong City Council	Mornington Peninsula Shire Council
Darebin City Council	Nillumbik Shire Council

Region	
Frankston City Council	Port Phillip City Council
Glen Eira City Council	Stonnington City Council
Hobsons Bay City Council	Whitehorse City Council
Hume City Council	Whittlesea City Council
Kingston City Council	Wyndham City Council
Knox City Council	Yarra City Council
Manningham City Council	Yarra Ranges Shire Council
Maribyrnong City Council	

Source: State Taxation Acts and Other Acts Amendment Bill 2023 (Vic).

The Bill also proposed new exemptions from the VRLT for:

- unimproved land that is contiguous to an owner's PPR, that enhances the owner's PPR and is used solely for the private benefit and enjoyment of the owner
- land that the Commissioner of State Revenue is satisfied cannot be used or developed for residential purposes.

## Compliance and enforcement

The SRO requires owners of liable property to self-report through an online portal by 15 January every year. If the property qualifies for an exemption, the landowner must inform the SRO and specify the applicable exemption.

If an owner fails to notify the SRO of a liable property by 15 January, it is deemed a notification default and penalties under the *Taxation Administration Act 1997* may apply. Penalties apply as a percentage of unpaid tax:

- 5% if the owner voluntarily tells the SRO about vacant residential properties before an investigation
- 20% if the owner tells the SRO about vacant residential properties after an investigation
- up to 90% if the SRO believes that the owner intentionally disregarded the law and hindered the investigation.

The SRO conducts monitoring and compliance activities, including cross-referencing with other state and Australian Government agencies and investigations.

# Total number of vacant properties

## In this section

This section:

- outlines vacant property data for metropolitan Melbourne and Victoria
- estimates the number of vacant properties in metropolitan Melbourne and Victoria which may be liable but are not paying the tax.

## Vacant property data for metropolitan Melbourne and Victoria

Measurements of the proportion or number of vacant residential properties are subject to considerable uncertainty. Some organisations have approached this analysis using utility data and related information. We consider estimates by:

- the ABS based on electricity and administrative data
- Prosper Australia based on water usage data.

### Electricity usage and administrative data

The ABS released a snapshot of population and housing in August 2023. This snapshot presents 2 sets of Australian and state estimates for vacant dwellings based on:

- electricity data showing no consumption over a reference period, depending on electricity meter type
- administrative and population data from a multi-agency data integration project (MADIP), showing the property was inactive at 30 June 2021.

Figure 5 – ABS vacant residential property rates

	Based on MADIP (%)	Based on electricity usage (%)
Australia	1.3	1.3
NSW	1.4	1.3
VIC	1.3	1.4
QLD	1.4	1.1
SA	1.3	1.9
WA	1.3	0.7
TAS	1.4	0.6
NT	2.4	1.5
ACT	1.2	0.5

Note: MADIP and electricity data provide separate measures of inactivity. See Attachment E for further details on methodology.

Source: Australian Bureau of Statistics.

The ABS analysis covers around 95.0% of houses across Greater Melbourne and 91.0% of houses across the rest of Victoria, based on addresses in government administrative data. In Victoria, the ABS identified houses used as a primary residence for:

- 88.9% of houses in Greater Melbourne
- 88.7% of houses in the rest of Victoria.

### Water usage

Prosper Australia, a non-profit organisation, publishes the Speculative Vacancies report series. The reports analyse 12-month water usage data at a postcode level to assess vacancy rates across Greater Melbourne.

Prosper Australia identifies water consumption data as appropriate for vacancy detection because:

- it is necessary for survival
- property owners cannot change water retailers mid-reporting cycle.

Its latest Speculative Vacancies report, published in 2020, found that 1.4% of all observed residential properties in Greater Melbourne, or 24,042 properties, used 0 litres of water per day on average over the full year of 2019.

Attachment E provides further details on ABS and Prosper Australia methodologies for estimating vacancy rates.

## Vacant properties that may be liable for the VRLT

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A proportion of vacant residential properties would be exempt from the VRLT under:

- land tax exemptions
- VRLT-specific exemptions.

Estimating the number of properties that may be liable for the VRLT based on the number of vacant properties requires consideration of:

- any PPRs that may be measured as being vacant, but are not subject to the VRLT
- secondary residences which may be exempt from the VRLT, such as properties:
  - under major renovation
  - used for work purposes
  - recently sold or transferred properties
  - occupied as a holiday home for at least 4 weeks of the year.

Based on the available data relating to these exemptions, we estimate that around 5,000 vacant properties may currently be liable to pay the existing VRLT – or 0.5% of all properties in the 16 liable LGAs.

If the VRLT were expanded to apply to all metropolitan Melbourne, we estimate that around 8,000 vacant properties may be liable for the VRLT – or 0.4% of all properties in metropolitan Melbourne.

If the planned amendments took effect from 1 January 2025 onwards, we estimate that around 10,000 vacant properties may be liable for the VRLT in Victoria, or around 0.4% of all Victorian properties.

Vacant residential land tax

Based on public information, around 900 properties currently self-declare their vacant status to the SRO and pay the VRLT, which currently applies to 16 LGAs. This suggests that a large proportion of owners of potentially liable properties may not be self-reporting and paying the tax – however it is difficult to estimate the extent of this with certainty. Estimates of potentially liable properties are highly sensitive to:

- uncertainties associated with data on vacant properties
- uncertainties associated with the proportion of vacant properties that would be liable for the tax, including a lack of data on exempted properties
- other changes in the number of vacant properties in the 16 liable LGAs, metropolitan Melbourne and Victoria over time.

# Attachment A – Assumptions and approach

In this section we provide the assumptions and approach we used to estimate the number of liable dwellings and number of self-reported vacant dwellings.

## Assumptions

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When preparing this advice, we made the following assumptions:

1. The number of vacant properties would be broadly stable across years

## Approach

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When estimating the number of potentially liable vacant properties in Victoria, we:

- obtained the number of total dwellings in the currently liable LGAs, metropolitan Melbourne and Victoria based on data published by Valuer-General Victoria
- applied an estimated vacancy rate, based on dwelling activities such as water and electricity usage
- adjusted results for exemptions, such as properties undergoing renovation or reconstruction.

## Attachment B – Data sources

- Australian Bureau of Statistics. 2023. Administrative data snapshot of housing, 30 June 2021. [ONLINE] Available at: <https://www.abs.gov.au/statistics/people/housing/administrative-data-snapshot-population-and-housing-experimental-housing-data/30-june-2021#dwelling-activity>. [Accessed 20 November 2023]
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- Victorian Legislation. 2023. State Taxation Acts and Other Acts Amendment Bill 2023. [ONLINE] Available at: <https://content.legislation.vic.gov.au/sites/default/files/bills/601061bi1.pdf>. [Accessed 8 November 2023]
- Victorian Legislation. 2023. *Land Tax Act 2005*. [ONLINE] Available at: <https://content.legislation.vic.gov.au/sites/default/files/2023-08/05-88aa075-authorized.pdf>. [Accessed 8 November 2023]

# Attachment C – Vancouver vacancy tax

**In this section** This attachment considers the City of Vancouver Empty Homes Tax (EHT).

We identified the City of Vancouver's Empty Homes Tax (EHT), introduced in 2017, as an example of a tax that is similar to the VRLT but with strong compliance and enforcement mechanisms.

Like the VRLT, the EHT targets properties which are not occupied for 6 months or more in the calendar year, and it has similar exemptions. It started from 2017 with a tax rate of 1% of an eligible property's assessable tax value. The rate increased to 3% from 2021 onwards.

Unlike the VRLT, the EHT requires all residential property owners to declare the occupancy status of their property each year, and identify the occupants. Property owners are billed for the tax if their property is liable, or if they do not declare the occupancy status on time. There are strong penalties for false declarations, with fines of up to \$10,000 per day of continuing offense, in addition to payment of the tax.

**Figure 6 – EHT rates, vacancy and compliance**

	2017	2018	2019	2020	2021
Tax rate	1%	1%	1%	1.25%	3%
Vacancy rate	1.4%	1.1%	0.9%	0.9%	0.7%
Compliance rate	-	-	94.0%	95.2%	98.5%

Notes: The vacancy rate is based on the number of properties declared vacant, determined vacant through compliance process or deemed vacant because the owner did not declare their property status. The compliance rate is based on audits of all properties and resulting non-compliance rates. These rates are subject to change as the City of Vancouver reports each year, due to owners having the opportunity to appeal. We have included the compliance rates based on the 2022 EHT annual report. Audits for the 2021 reference period are still in progress.

Source: City of Vancouver EHT annual reports.

City of Vancouver EHT annual reports results suggest that:

- Vacancy rates decline from 1.4% to 0.7% over the 5 years following the introduction of the EHT
- Compliance rates have been above 90% in all years measured.

# Attachment D – Land tax exemptions

Figure 7 – Land tax exemptions

Land tax exemptions
Principal place of residence
Primary production
Owned or used by a charitable organisation
Registered rooming house
Crown land
Municipal and public land
Public statutory authority
Armed services personnel
Friendly societies
Sporting, outdoor recreation or outdoor cultural activities land owned by not for profit organisations
Land leased for outdoor sporting, recreational or cultural activities by member of the public
Health centres and services (not commercially operated businesses)
Residential services for people with disabilities
Retirement villages
Caravan parks
Mines
Agricultural shows and farm field machinery days
Not-for-profit clubs (excluding horse and harness racing clubs and private gender-exclusive and gender-restrictive clubs)

Source: State Revenue Office.

# Attachment E – Vacancy rate methodologies

**In this section** This attachment outlines the ABS and Prosper Australia methodologies used to estimate vacancy rates.

## ABS – electricity usage and administrative data

The ABS released the administrative data snapshot of population and housing in August 2023, using administrative data at a dwelling level. The data sources they used were:

- the ABS address register, a list of all known physical addresses in Australia
- MADIP, a secure data asset combining income and tax, government payment, health education and demographic information over time
- electricity consumption data.

The ABS collected basic electricity meter data, which require manual reads every 3 months, for the period 1 May 2021 to 17 August 2021. They also collected smart meter data, which is sent directly to energy distributors throughout the day, for the reference period 17 July 2021 to 17 August 2021. The data did not take into account electricity generated from solar panels.

To create the housing snapshot and assess estimated inactive dwellings, the ABS:

- defined a set of residential dwellings by selecting a subset of anonymised addresses to represent Australian residential dwellings
- assessed dwelling activity based on three categories – in use as a primary residence, in use but not as a primary residence and inactive.

Dwellings classed as inactive were residences which did not have active addresses in MADIP at 30 June 2021. Where dwellings did not consume any electricity data over the reference period, the ABS classed these as inactive.

## Prosper Australia – water usage

Prosper Australia last released the Speculative Vacancies report in 2020. They analysed 2019 water usage data collected from Yarra Valley Water, South East Water and City West Water, as a proxy for vacancy.

The water usage data covered 237 postcodes for Greater Melbourne over 2019, covering 92.1% of total residential property. Prosper calculated absolute vacancy rates based on properties recording 0 litres of water usage per day on average for 12 months. They also excluded postcodes which they deemed holiday home regions from their analysis.