

Introduction

The purchase of vacant land and construction of residential property may be eligible for Federal and State Government Grants.

Eligibility for grants and income taxation treatment for the purchase of vacant land and construction of residential property is considered below, for owner occupier, investment property and worker accommodation scenarios.

Federal and State Grants

Both the Federal Government and Western Australian State Government have announced grants to assist with new builds of residential property. These grants are discussed below as they apply to construction of new residential property.

WA State Government – Building Bonus Grants

The WA State Government has introduced two \$20,000 grants aimed to promote investment in the WA residential market and stimulate jobs in the construction industry. The grants will be paid to eligible applicants who:

- Enter into a contract to build new residential property on vacant land; or
- Enter in to an off-the-plan contract to purchase new residential property as part of a single-tier development on a strata plan or other land survey type

Between 4 June 2020 and **31 December 2020**.

An extension of the existing off-the-plan duty rebate scheme has also been announced. The scheme now extends to contracts entered into between 4 June 2020 and 31 December 2020 for the purchase of a new unit or apartment, in a multi-tiered development, that is already under construction.

The grants and rebate scheme are available for owner-occupiers and investors, Australian-citizens and foreign persons, and natural persons, corporations and trustees.

There is no cap on the purchase price or value of the contract and there is no income test.

Multiple grants can be paid to the same applicant on separate transactions that meet the criteria for each grant.

If you are an owner builder, foundations must be laid between 4 June 2020 and 31 December 2020 (inclusive).

If you enter into a home building contract, the contract must be entered between 4 June 2020 and 31 December 2020 and construction must commence within twelve months of entering into the contract.

You must apply for the grant by 30 June 2021.

Federal – HomeBuilder Program

Grants of \$25,000 are available to eligible owner-occupiers who carry out substantial renovations to their existing homes or build a new home where the **contract is signed** between 4 June 2020 and **31 December 2020**.

The grants are subject to certain conditions including:

- **Construction must be contracted to commence within three months of the contract date**
- Eligible applicants must fall under income caps of \$125,000 for singles and \$200,000 for couples;
- The cost of building a new home cannot exceed \$750,000.

First homebuyers

Eligible first homebuyers will be able to access both State and Federal Government grants, the existing \$10,000 first home owner grant and the first home buyer transfer duty concession, meaning potentially up to \$69,440 could be provided to WA first homebuyers.

How to apply for Grants

The *Building Bonus Grant and HomeBuilder Grant* can be applied for using the same form at:

<https://www.wa.gov.au/government/publications/building-bonus-grant-and-homebuilder-grant-application-form>

Taxation Implications

Owner Occupier

Generally, tax deductions will not be available where the property is occupied as your main residence.

Your main residence is generally exempt from capital gains tax (CGT). To get the exemption, the property must have a dwelling on it and you must have lived in it. You're not entitled to the exemption for a vacant block.

Investment Property

Rent received on the investment property is taxable to the property owner(s). Where rent received is at normal market rates, expenses of owning the property can be deducted in the owner(s) income tax return. Such costs include:

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|---------------------------------|---------------------------------|-------------------------------|
| • Interest on borrowings; | • Gardening; | • Quantity surveyor's fees; |
| • Repairs, | • Lawn mowing; | • Security; |
| • Depreciation on improvements; | • Insurance; | • Stationery; |
| • Building cost write-off | • Land tax; | • Postage; |
| • Advertising for tenants; | • Legal expenses re leases etc; | • Telephone; |
| • Bank charges; | • Lease costs; | • Water charges; and |
| • Cleaning; | • Pest control; | • Lenders mortgage insurance. |
| • Council rates | • Mortgage discharge expenses | |
| • Electricity and gas; | • Property agent's fees; | |

When you sell or dispose of a rental property you may make a capital gain or loss.

A capital gain or loss is the difference between what it cost you to obtain and improve the property (the cost base) and the amount you receive when you dispose of it. When an investment property is sold, if you make a:

- Net capital gain in an income year, you'll generally be liable for capital gains tax (CGT); or
- Net capital loss, you can carry it forward and deduct it from your capital gains in later years.

Various exemptions, roll overs and discounts may apply depending upon the ownership structure and circumstances of the disposal.

RSM recommends seeking professional advice in relation to your individual circumstances in respect to the application of CGT.

Worker Accommodation

For a farming business, costs associated with provision of housing to employees would generally be deductible for income tax purposes.

Provision of worker accommodation in Mingenew may be exempt from Fringe Benefits Tax as a Remote Area Housing Benefit.

Examples

Construction of a home – owner occupied, first home buyer

Fred is an individual with taxable income under \$125,000 for the 2018-19 and 2019-20 years.

On 15 November 2020, Fred signs a contract to purchase vacant land for \$1. Settlement on the land is on 15 December 2020 and Fred becomes the registered owner of the land. On 16 December 2020, Fred signs a contract to construct a new home for \$200,000. Fred will occupy the home as his main residence.

Construction of the new home commences shortly after, with the foundations laid by 15 February 2021.

After 15 February 2021, Fred can apply for and receive the Building Bonus grant of \$20,000 for a new detached home. As Fred is an owner-occupier and the construction cost is less than \$750,000, he will also be able to apply for and receive the HomeBuilder grant of \$25,000.

As Fred is a first home buyer, he can also claim the first home buyers grant of \$10,000 and access the first home buyer transfer duty concession.

As Fred occupies the home as his main residence, no income tax is payable and no deductions arise in relation to the property.

When Fred sells the property, he may be eligible to apply the main residence CGT exemption and if so, would not pay capital gains tax on the sale.

The capital outlay is summarised in the following table:

	\$
Purchase of Land	1
Transfer Duty*	152
Construction of House	200,000
Total Purchase Costs	200,153
Less Grants:	
Building Bonus Grant	(20,000)
HomeBuilder Grant	(25,000)
First Home Buyer Grant	(10,000)
First Home Buyer Transfer Duty Concession	(152)
Total Grants	(55,152)
Net Purchase Price	145,001
*Land purchased for \$1. Transfer duty is calculated on the unencumbered value where this greater than the consideration. This example assumes an unencumbered value of \$8,000. Actual unencumbered vary will vary from lot to lot.	

Construction of an investment property

On 15 November 2020, Bill signs a contract to purchase vacant land for \$1. Settlement on the land is on 15 December 2020 and Bill becomes the registered owner of the land. On 16 December 2020, Bill signs a building contract to construct a new house for \$200,000. Bill will rent the property out as an investment property at market value rent.

Construction of a new house commences shortly after, with the foundations laid by 15 February 2021.

After 15 February 2021, Bill can apply for and receive the Building Bonus grant of \$20,000 for a new detached home. As Bill will rent the property out as an investment property, he will not be eligible for the HomeBuilder grant.

Bill will include rent received in his income tax return and claim deductions for expenses in renting and maintaining the investment property.

When Bill sells the property, it will be subject to the capital gains tax regime and will likely qualify for a 50 percent general discount.

The capital outlay is summarised in the following table:

	\$
Purchase of Land	1
Transfer Duty*	152
Construction of House	200,000
Total Purchase Costs	200,153
Less Grants:	
Building Bonus Grant	(20,000)
Total Grants	(20,000)
Net Purchase Price	180,153
*Land purchased for \$1. Transfer duty is calculated on the unencumbered value where this greater than the consideration. This example assumes an unencumbered value of \$8,000. Actual unencumbered vary will vary from lot to lot.	

Provision of Staff Housing

On 15 November 2020, ABC Farms Pty Ltd (ABC Farms) signs a contract to purchase vacant land for \$1. Settlement on the land is on 15 December 2020 and ABC Farms becomes the registered owner of the land. On 16 December 2020, ABC Farms, signs a building contract to construct a new home for \$200,000. ABC farms will use the property to provide accommodation for employees.

Construction of a new house commences shortly after, with the foundations laid by 15 February 2021.

After 15 February 2021, ABC Farms can apply for and receive the Building Bonus grant of \$20,000 for a new detached home. ABC farms will not be eligible for the HomeBuilder grant as it is not a natural person, nor will it be the occupier of the home.

ABC Farms can claim income tax deductions for the costs of maintaining the property as employee accommodation.

When ABC Farms sells the property, it will be subject to the capital gains tax regime and as a company will not qualify for a 50 percent general discount.

The capital outlay is summarised in the following table:

	\$
Purchase of Land	1
Transfer Duty*	152
Construction of House	200,000
Total Purchase Costs	200,153
Less Grants:	
Building Bonus Grant	(20,000)
Total Grants	(20,000)
Net Purchase Price	180,153
*Land purchased for \$1. Transfer duty is calculated on the unencumbered value where this greater than the consideration. This example assumes an unencumbered value of \$8,000. Actual unencumbered vary will vary from lot to lot.	

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