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Developers slam ATO retirement village slug

PRIVATE retirement village developers were up in arms last night over an Australian Taxation Office ruling.

The ATO will impose GST not merely on the sale price when a village changes hands, but also on the much bigger total of the "ingoining contributions" put up by residents when they arrive.

Derek McMillan, chief executive of Australian Unity Retirement living, said the move would produce a situation in which the GST payable on the sale could reach 70 per cent of the value of a transaction.

"That will make access to retirement villages harder for future residents," he said.

"That's not just because of the increase in costs that the higher GST bill will inevitably produce but also because this measure will discourage investment in retirement villages and will thus reduce the supply," he said.

Mr McMillan cited an example of a village with 100 units worth about \$4 million. Since residents had to put up about \$300,000 each on arrival, the total of their ingoining contributions would be \$30m.

"If the village is sold, you would see a \$4 million transaction incurring not only the well-established existing \$400,000 GST liability but you'd also see \$3 million in GST being charged on the ingoining contributions," he said.

"That will therefore produce a \$3.4 million GST liability on what is in reality a \$4 million transaction," he said.

When a village changes hands, it is not the residents who are liable for GST.

Tax experts said the ingoining contributions had hitherto not attracted GST because they have been treated as loans.

Each time a resident moved or died, their contribution would be refunded to them or their family, less management costs, from the new ingoining contribution made by the next resident to occupy their room.

With the over-65 demographic growing at double the rate of the rest of the population, Australia would require a minimum of 2100 additional retirement villages, or more than 311,000 dwellings, by 2050, according to the Retirement Village Association.

Association president Simon Owen said the tax ruling would discourage development.