



## REIA SUBMISSION TO TREASURY ON THE FOREIGN ACQUISITIONS AND TAKEOVERS FEES IMPOSITION REGULATIONS 2020

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PREPARED BY

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The Real Estate Institute of Australia (REIA) is the national body for the real estate profession in Australia.

REIA's members are the State and Territory Real Estate Institutes, through which around 75%- 80% of real estate agencies are collectively represented.

REIA represents an integral element of the small business sector. 99% of real estate agencies are small businesses and 11% of all small businesses in Australia are involved in real estate. Only 0.6% of businesses employ 50 or more persons.

The Census records the Rental, Hiring and Real Estate Services Industry employment as sitting at around 120,000 which includes business brokers, property managers, principals, real estate agents and representatives. Property contributes \$300 billion annually in economic activity.

REIA is committed to providing research and well-informed advice to the Federal Government, Opposition, professional members of the real estate sector, media and the public on a range of issues affecting the property market.

### Background

The REIA welcomes the opportunity to provide a submission to Treasury on the *Foreign Acquisitions and Takeovers Fees Imposition Regulations 2020*.

The REIA had made a submission to Treasury on the *Foreign Investment Reform (Protecting Australia's National Security) Bill 2020* in August of this year.<sup>1</sup> REIA sought a balanced approach to infringement, compliance and fees that placed residential property on a level playing field to other sectors.

In support of this, REIA provided four key recommendations:

1. REIA supports the proposal to expand the infringement notices regime to cover all types of foreign investments.
2. REIA supports the proposal to introduce a new Tier 3 infringement which applies to residential real estate where the market value is more than \$5 million.
3. REIA supports the proposal to increase penalties applicable to residential real estate provided they are treated no differently to other forms of investment.
4. REIA strongly suggests that if fee increases beyond CPI changes are to be set by regulation that a mechanism be introduced that provides for stakeholder input.

The underlying basis for Recommendation 4 was that CPI increases were supported but that beyond that a justification would need to be presented to stakeholders for consultation.

Foreign investment activity in residential real estate has declined in the last four years – from over 40,000 in 2015/16 to 7,500 in 2018/19 – due to a range of factors.

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<sup>1</sup>Source: REIA. Available at: [https://reia.asn.au/wp-content/uploads/2020/09/REIA\\_FI-Reform-Bill-2020.pdf](https://reia.asn.au/wp-content/uploads/2020/09/REIA_FI-Reform-Bill-2020.pdf)

This includes that during this period that some states also introduced fees on the purchase of residential property by foreign investors.

Anecdotal information from agents operating in this area is that the cumulative impact of Commonwealth and State government fees has overall contributed to the decreased demand from foreign investors.

REIA also observed that this plunge in demand by foreign investors negated the benefits of foreign investment by reducing supply of housing rather than increasing it.

### **Rationale**

The REIA is extremely disappointed with the fee structure proposed in the *Foreign Acquisitions and Takeovers Fees Imposition Regulations 2020*.

This disappointment is based on the lack of equity in the fees between different types of investments and proposed increases for residential property.

Key applications of this are:

- For any value, the proposed fee for residential is **twice that for agricultural and fifty times that for commercial land and business**. REIA understands that the fees are based on the principle that the applicant pays the cost not the Australian tax payer. **It is difficult to fathom that the complexity involved with the assessment of a residential property is twice that of agricultural land and fifty times that for commercial property.**
- The proposed level of fees on assets where there is a **notifiable national security action compared to residential property**. The Explanatory Memorandum gives the example of such an asset with a value of \$210 million and a proposed fee of \$52,800. This is the same fee level as a residential property valued at \$5 million. **It is difficult to see how the complexity involved with the assessment of an asset with a national security risk is the same as a residential property at a fraction of the value.**
- The REIA also notes that the proposed fee increases for residential property up to the value of \$6m are 30% or more whilst for properties of greater value the increase is half of that. **REIA challenges the disparity in the proposed fee structure.**

**Recommendation: The REIA recommends that all fees be structured to reflect the cost of undertaking the assessment and administration.**

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