

TREVOR HARDIE | 17 OCTOBER 2018

Proposed Federal tax changes to hit \$30 billion international education sector



EXPERT OBSERVER

The property industry has warned the Federal Government that proposed tax changes will jeopardise the international education sector – Australia’s third largest export earner worth more than \$30 billion.

The Treasury Laws Amendment (Making Sure Foreign Investors Pay Their Fair Share of Tax in Australia and Other Measures) Bill 2018 will be the subject of a Senate Inquiry to commence in November, 2018.

If passed, the Bill will result in offshore capital providers to the education sector facing a 100 per cent rise in their withholding tax rate, as the meaning of the words “residential dwelling asset” will include tertiary off campus student accommodation.

This last minute change differs from the exposure draft of the bill released earlier this year, which featured a tax exemption for assets comprising “commercial residential premises”, including student accommodation.

If passed, the bill will severely hurt the international student sector as accommodation for them will dry up quickly. Almost all of the investment in this sector is coming from overseas,

yet the government wants to change the rules mid-stream and penalise them for investing in Australia.

Foreign investors have effectively created this property asset class, with 71,000 beds for local and international students have been supplied or being developed by them to date, supporting substantial local jobs in the design, construction and hospitality industry.

The Property Council of Australia has also made a submission to the Senate stating the higher tax rate would have “unintended consequences for the tertiary education sector, which relies on international capital to provide purpose-built student accommodation.

The proposed increase in the tax rate also did not provide any relief for investors who have committed to developments having entered into contracts to acquire sites, prior to September 20, 2018, when the amendments are dated to come into effect.

Not only will the proposed tax changes damage an important export earner for Australia, they will also inflate the rents in the broader rental market as students will be competing for a more limited supply of accommodation.

The sudden changes to the proposed laws will also affect Australia’s reputation with foreign investors who are seeking stability in the rules when they commit capital offshore.

According to the Department of Education and Training, there were 626,988 international students in Australia during July 2018 up 11% on last year.

Trevor Hardie is the CEO of Intergen Property Group, a company which represents overseas investors in student accommodation.