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WHAT ARE ADJUSTMENTS?

You may be wondering what “adjustments” for the settlement of your property refers to and how adjustments are worked out. Adjustments are a small but important part of the conveyancing transaction can sometimes be difficult to understand.

Owning a property involves many ongoing costs and possibly income:

Costs

Council rates

Water bills

Land tax (if applicable)

Owners corporation fees (if applicable)

Registration fees

Income

Rent (if applicable)

These are the costs and income which need to be “adjusted” between a vendor and purchaser at settlement.

When a property is bought or sold, responsibility for the ongoing costs associated with owning the property SWITCHES from the vendor to the purchaser on the date of settlement. To ensure that each party pays their FAIR SHARE of the ongoing costs for the period that they own the property, these costs are “adjusted” at the date of settlement. Likewise, the right to receive rent SWITCHES from vendor to purchaser and this is also adjusted.

The most common costs that must be adjusted at settlement are council and water rates. These apply from 1 July to 30 June each year. Accounts are usually sent by the rating authorities on a quarterly basis, therefore rates will usually have been partly paid by the vendor on the day of settlement. The vendor is responsible for payment of these rates up to and including the day of settlement and the purchaser is responsible for payment for the rest of the rating year.

To ensure rates are fully paid for the year in which settlement occurs we deduct from the total amount due to the vendor at settlement any balance due to finalise payment of the rates for that year and send that amount to the rating authority after settlement. As a result the purchaser must reimburse the vendor for the amount of rates that the purchaser is liable to pay, that is, the amount of the rates due for the remainder of the year after the day of settlement. The statement of adjustments achieves this objective.

Adjustments are worked out by calculating the daily rate for whatever is being adjusted (for example council rates), and then working out how many days each party is responsible for.

A simple example would be:

Settlement takes place on 1 January 2015. Council rates for the year (from 1 July 2014 to 30 June 2015) are \$365 and the vendor has paid them in full. The daily rate is \$1 ($365/365$), meaning for each day the vendor or purchaser owns the property they must pay the council \$1. As the purchaser will get the property on 1 January he will have to pay rates from that day. From 1 January to 30 June there are 180 days, and the purchaser must therefore pay to the vendor \$180 to reimburse him for the rates already paid.

Most adjustments are not this simple as they do not use such round figures and may be adjusted over different periods (quarterly, monthly etc.), but the process of working out the right figures is the same in each case.