

TRANSACTIONAL PRACTICE

KATRINA. S

1	Revenue Implications in Property and Commercial Transactions.....	10
1.1	<i>The Practitioner's Role.....</i>	10
1.2	<i>NSW State Taxes.....</i>	10
1.2.1	Relevant Legislation.....	10
1.2.2	Transfers.....	11
1.2.3	Dutiable Property.....	11
1.2.4	Abolition of Duty.....	13
1.2.5	Apportionment.....	13
1.2.6	Anti-Avoidance Provisions.....	14
1.2.7	Liability to pay duty	15
1.2.8	No Double Duty	16
1.2.9	Ad Valorem and Nominal Stamp Duty	17
1.2.10	Duty Concessions and Exemptions	18
1.3	<i>Commonwealth Taxes</i>	23
1.4	<i>Goods and Services Tax.....</i>	24
1.4.1	Taxable Supplies.....	24
1.4.2	Exemptions from GST.....	24
1.4.3	Who must register for GST?.....	25
	If your business is under these thresholds, registration for GST is optional.....	25
1.4.4	When you must apply for registration.....	25
1.4.5	Buying and Selling a Business.....	25
1.4.6	Reporting GST to the ATO.....	26
1.4.7	Buying and Selling Real Property.....	26
1.5	<i>Capital Gains Tax.....</i>	27
1.5.1	CGT Discounts and Concessions	28
1.5.2	CGT Events	29
2	Contract for Sale and Purchase of Land: Vendor and Purchaser's Interest	30
2.1	<i>Overview.....</i>	30
2.2	<i>Solicitor's should not act for both vendor and purchaser</i>	37
2.3	<i>Agency Agreements.....</i>	37
2.3.1	Exclusive Agency	38
2.4	<i>Draft Contract for the Sale of Land</i>	39
2.4.1	The Contract.....	39
2.4.2	The Standard Contract for the sale and purchase of land 2014 edition.....	40
2.5	<i>Instructions.....</i>	40
2.5.1	Preliminary Issues	41
2.5.2	Finance.....	41
2.5.3	Cooling-off/Anti-Gazumping Legislation.....	41
2.5.4	Warnings.....	45
2.5.5	Enquiries.....	46
2.5.6	Costs.....	46
2.6	<i>Vendor Disclosure</i>	47
2.6.1	Vendor Disclosure Legislation – s52A Conveyancing Act and Conveyancing (Sale of Land) Reg. 2010 - Prescribed Documents	48
2.6.1.1	Section 149(2) Environmental Planning and Assessment Act 1979.....	49
2.6.1.2	Sewerage Service Diagram	49
2.6.1.3	Folio of the Register.....	49
2.6.1.4	Deposited Plan	50
2.6.1.5	Copy of Any Instrument creating Easement/Profit a Prendre, Restriction on Use or Positive Covenant.....	50
2.6.1.6	Consequences of vendor's failure to annex prescribed documents	50
2.6.2	Vendor Disclosure Legislation - s52A Conveyancing Act and Conveyancing (Sale of Land) Reg. 2010 - Vendor Warranty	51

TRANSACTIONAL PRACTICE
KATRINA. S

2.6.2.1	Remedies for breach of vendor warranty	51
2.7	<i>Additional Documents</i>	52
2.8	<i>Recent Building Work Requirements – Home Building Act 1989</i>	52
2.9	<i>Purchaser’s Finance</i>	53
2.10	<i>Tenancy</i>	54
2.11	<i>Purchaser’s Pre-exchange Property Enquiries/Inspections</i>	55
2.11.1	Purchaser’s Use of the Property.....	56
2.11.2	Illegal or Non-complying Structures	56
2.11.3	Building Certificates	58
2.11.4	Land development	59
2.11.5	Fixtures and Fittings	60
2.12	<i>Before Exchange</i>	60
3	Contract for Sale and Purchase of Land: Exchange and Post-Exchange	61
3.1	<i>Exchange</i>	61
3.2	<i>Cooling-Off Period</i>	61
3.3	<i>Execution of Contracts</i>	62
3.3.1	By Individuals	62
3.3.2	By Corporations	62
3.3.3	Under Power of Attorney.....	63
3.3.4	General.....	63
3.4	<i>Methods of Exchange</i>	63
3.4.1	Physical exchange	63
3.4.2	Exchange by Post or DX.....	64
3.4.3	Exchange by Telephone.....	65
3.5	<i>The Deposit</i>	66
3.5.1	Reduced Deposit.....	66
3.6	<i>Caveat</i>	68
3.7	<i>Following Exchange</i>	68
3.8	<i>Post Exchange Searches and Enquiries</i>	68
3.8.1	Folio Searches	69
3.8.2	Local Council enquiries.....	69
3.8.3	Section 149D Building Certificate	69
3.8.4	Section 603 Certificate Local Government Act.....	69
3.8.5	Section 66 Certificate Sydney Water Act 1994.....	69
3.8.6	Land Tax – Office of State Revenue	69
3.8.7	Other common enquiries	69
3.9	<i>Survey and Building Certificate</i>	70
3.9.1	Survey Reports	70
3.9.1.1	“Peg Out Survey”	71
3.9.2	Building Certificates.....	71
3.10	<i>Requisitions</i>	72
3.11	<i>Duty</i>	73
3.11.1	Payment of Duty.....	74
3.12	<i>Transfer</i>	75
3.12.1	Manual Transfer	75
3.12.2	Electronic Transfer	76
4	Contract for the Sale and Purchase of Land: Pre-Settlement and Settlement.....	77
4.1	<i>Arrangements to Settle</i>	77
4.2	<i>Insurance</i>	77
4.3	<i>Adjustments</i>	79
4.3.1	Land Tax.....	79
4.3.1.1	What is land tax?	80
4.3.1.2	Exemptions from Land Tax	80

TRANSACTIONAL PRACTICE
KATRINA. S

4.3.2	Council and Water Rates	81
4.3.2.1	Council Rates	82
4.3.2.1.1	Reduced Rates	82
4.3.2.2	Water Rates	83
4.3.2.3	Water Usage	83
4.4	Completion	83
4.4.1	Time	83
4.5	Settlement Statement and Sheet	85
4.6	Settlement Agenda	88
4.7	Cheques	90
4.8	Order on Agent	90
4.9	Place for Completion	90
4.10	Settlement	91
4.11	Final Search	92
4.12	Registration	93
4.12.1	National Electronic Conveyancing and Clause 30	94
4.13	Final Report to Client	94
5	Mortgages and Securities	96
5.1	Steps in a Mortgage Transaction – Overview	97
5.2	Finance for the residential buyer	98
5.2.1	Interest rates	99
5.3	Investigation of Mortgagor's Title	100
5.4	Mortgage Terms and Covenants	100
5.4.1	Drafting mortgage covenants	101
5.4.2	Repayment of the principal sum	102
5.4.3	Interest Provisions	102
5.4.4	Insurance	102
5.4.4.1	Insurance for Strata Title Property	103
5.4.4.2	Insurance Under the National Credit Code	103
5.4.5	Covenant to repair	103
5.4.6	Right to redeem mortgage before the due date	104
5.4.7	Power of attorney by mortgagor	105
5.4.8	Default	105
5.4.8.1	Foreclosure: An Alternative to Mortgagee's Sale	108
5.4.8.2	Defences of the Mortgagor	108
5.4.9	Guarantor	108
5.4.10	Need for mortgagee's consent to leases	110
5.5	Mortgage Duty	110
5.6	Discharge	110
5.7	Variations of Mortgages	111
5.8	Postponement of Mortgages	111
5.9	Sub-mortgages	112
5.10	THE NATIONAL CONSUMER CREDIT PROTECTION ACT 2009 (CTH) (NCCPA) AND NATIONAL CREDIT CODE	113
5.11	Financing Commercial Transactions	115
5.11.1	Commercial Freehold Interests	115
5.11.2	Commercial Leasehold Interests	115
5.11.3	Personal Property	115
5.11.4	SOLICITORS' ADVISING ON LOAN OR SECURITY DOCUMENTS AND PROVIDING EVIDENCE OF ADVICE	116
6	Commercial Leases	117
6.1	Terminology: Lessor and Lessee	117
6.2	Professional Liability	117

TRANSACTIONAL PRACTICE
KATRINA. S

6.3	<i>Preliminary Questions</i>	118
6.4	<i>Operation of the Retail Leases Act 1994</i>	118
6.4.1	Definitions	118
6.4.2	Retail Shop Businesses to which the Act applies.....	119
6.4.3	Exemptions	119
6.5	<i>Retail Lease Bond Scheme</i>	121
6.6	<i>Leasing Procedures and Disclosure Requirements of Lessor and Lessee</i>	122
6.6.1	Before the Lease is entered into.....	122
6.6.2	Where an Agreement for Lease is required.....	124
6.6.3	Formal Requirements of an Agreement for Lease	124
6.6.4	Conveyancing Procedures	125
6.7	<i>Formal Requirements of Leases</i>	125
6.7.1	Capacity.....	126
6.7.2	When should a lease be registered?.....	126
6.7.3	Commercial Building Disclosure	126
6.7.4	Subdivision approval	127
6.7.5	Mortgagee's Consent.....	127
6.7.6	Foreign acquisition.....	127
6.8	<i>Lease Costs and Disbursements</i>	127
6.9	<i>Lease Duty</i>	128
6.10	<i>Drafting and Negotiating Commercial Leases</i>	128
6.10.1	Role of the Lessor's Solicitor.....	128
6.10.2	Role of the Lessee's Solicitor	129
6.10.3	Important Lease Provisions.....	129
6.10.3.1	Parties	129
6.10.3.2	Premises.....	130
6.10.3.3	Term – commencement date and duration	130
6.10.3.4	Option for renewal	131
6.10.3.4.1	Ineffective exercise of option for renewal	131
6.10.3.5	Rent.....	133
6.10.3.6	Rent Review.....	134
6.10.3.7	Outgoings - Rates, taxes and other expenses.....	134
6.10.3.8	Fixtures.....	134
6.10.3.9	"Make Good"	135
6.10.3.10	Signs	135
6.10.3.11	Covenants relating to user.....	135
6.10.3.11.1	Trading Hours	136
6.10.3.11.2	Drafting the user covenant	136
6.10.4	Checklist for Drafting Lease Provisions	136
6.10.5	Guarantees.....	137
6.10.6	Implied covenants	137
6.11	<i>Assignment, Subleases and Mortgages of the Lease</i>	137
6.12	<i>Variation of the Lease</i>	140
6.13	<i>Surrender of Lease</i>	140
6.14	<i>Termination for breach</i>	141
6.15	<i>Termination by notice</i>	141
6.16	<i>Expiry</i>	141
6.17	<i>Capital Gains Tax (CGT)</i>	142
6.18	<i>Goods and Services Tax (GST)</i>	142
6.19	<i>Mediation</i>	142
6.20	<i>'Green' leases & BEEDA</i>	143
6.21	<i>Steps for Registered Lease</i>	145
6.22	<i>LPI Lease Form 07L</i>	146
7	Business Structures	149

TRANSACTIONAL PRACTICE
KATRINA. S

7.1	<i>Content of Commercial Advice</i>	149
7.2	<i>Types of Business Structures</i>	150
7.2.1	The Sole Trader.....	150
7.2.1.1	Advantages	150
7.2.1.2	Disadvantages	151
7.2.1.3	Becoming a Sole Proprietor.....	151
7.2.1.4	Ongoing Costs.....	151
7.2.1.5	Ongoing Compliance Requirements	152
7.2.2	Partnerships	152
7.2.2.1	Advantages	152
7.2.2.2	Disadvantages	153
7.2.2.3	Setting up and Running a Partnership.....	153
7.2.2.4	Ongoing Compliance Requirements of a Partnership.....	154
7.2.2.4.1	Fiduciary obligations	154
7.2.2.5	Partnership Agreements.....	155
7.2.2.6	Limited Partnerships	155
7.2.3	Companies	156
7.2.3.1	Directors	156
7.2.3.2	Shareholders.....	156
7.2.3.3	Advantages	157
7.2.3.4	Disadvantages	157
7.2.3.5	Establishing and Maintaining a Company.....	158
7.2.3.6	Ongoing Compliance Requirements	158
7.2.4	Trusts.....	158
7.2.4.1	Establishing and Maintaining a Trust.....	159
7.2.4.2	Ongoing Compliance Requirements - Trustee's Rights and Liabilities	160
7.2.4.3	Unit Trust	160
7.2.4.3.1	Advantages.....	160
7.2.4.3.2	Disadvantages.....	161
7.2.4.4	Discretionary Trust.....	161
7.2.4.4.1	Advantages.....	161
7.2.4.4.2	Disadvantages.....	162
7.2.5	Franchises.....	162
7.2.5.1	Advantages	163
7.2.5.2	Disadvantages	164
7.2.6	Joint Ventures	164
7.2.6.1	Advantages	164
7.2.6.2	Disadvantages	164
8	Contract for the Sale of Business: Pre-Exchange	166
8.1	<i>Initial Considerations</i>	166
8.1.1	'Caveat Emptor'	167
8.1.2	The Subject Matter of the Sale: What is the Vendor Selling?.....	167
8.2	<i>Disclosure</i>	168
8.2.1	Are there disclosure obligations imposed on negotiating parties?.....	169
8.2.2	Is there an implied obligation on negotiating parties to act in good faith?	170
8.3	<i>Due Diligence</i>	171
8.3.1	Pre-Exchange Searches and Inquiries.....	171
8.4	<i>Drafting an agreement</i>	173
8.5	<i>The Contract for the Sale of Business – 2004 Edition</i>	174
8.5.1	Particulars of the Standard Contract (Pages 1-3)	175
8.5.2	Standard Terms & Conditions (Pages 4-10)	175
8.5.2.1	Clause 1 - Definitions	175
8.5.2.2	Clauses 2 and 3 - Deposit.....	175
8.5.2.3	Clause 4 – Trading Stock.....	176
8.5.2.4	Clause 5 – Passing of Risk.....	176
8.5.2.5	Clause 6 – Confidentiality.....	176

TRANSACTIONAL PRACTICE

KATRINA. S

8.5.2.6	Clause 7 – Certificates and Inspections	176
8.5.2.7	Clause 8 - Audit.....	176
8.5.2.8	Clause 9 - How the vendor must conduct the business until completion	176
8.5.2.9	Clause 10 – Vendor’s Promises.....	176
8.5.2.10	Clause 11 - Foreign Acquisitions and Takeovers Act	177
8.5.2.11	Clause 12 - Restrictions on rights of purchaser.....	177
8.5.2.12	Clause 13 - GST.....	177
8.5.2.13	Clause 14 - Requisitions	177
8.5.2.14	Clause 15 - Vendor’s right to rescind	177
8.5.2.15	Clause 16 - Compliance with work orders	177
8.5.2.16	Clause 17 - Restriction on vendor’s competition	178
8.5.2.17	Clause 18 - Adjustments.....	178
8.5.2.18	Clause 19 - Completion date.....	178
8.5.2.19	Clause 20 - Completion	178
8.5.2.20	Clause 21 - Book debts.....	178
8.5.2.21	Clause 22 - Purchaser’s Default	178
8.5.2.22	Clause 23 – Rescission	179
8.5.2.23	Clause 24 - Miscellaneous.....	179
8.5.2.24	Clause 25 - Time limits	179
8.5.2.25	Clause 26 - Training before and after completion	179
8.5.2.26	Clause 27 - Lease of premises – general provisions.....	179
8.5.2.27	Clause 28 - Grant of new lease.....	179
8.5.2.28	Clause 29 - Transfer of existing lease.....	179
8.5.2.29	Clause 30 - Consent to transfer of franchise	179
8.5.2.30	Clause 31 - Employees	180
8.5.3	Additional Conditions.....	180
8.5.4	Annexures.....	180
8.5.5	Collateral Documents	180
8.6	Goodwill.....	181
8.7	Equipment	182
8.7.1	Where Premises are Leased	182
8.7.2	Stock-in-Trade.....	182
8.8	Deposit	183
8.9	Completion	183
8.10	New Lease or Transfer of an Existing Lease	183
8.10.1	Liability of the vendor and purchaser on and after the transfer of lease.....	183
8.10.2	Mortgagee’s consent.....	184
8.11	Restrictions on Vendor’s Competition.....	184
8.12	Summary of Pre-Exchange for Vendor and Purchaser	185
9	Contract for the Sale of Business: Exchange and Post-Exchange.....	186
9.1	Exchange.....	186
9.2	Requisitions on Title.....	187
9.3	Vendor’s Post-Exchange Obligations with regard to Conduct of the Business and Preparing Title for Transfer.....	188
9.3.1	Conduct of Business	188
9.3.2	Transfer of Title	189
9.4	Purchaser’s Post-Exchange Obligations with regard to Duty, Finance, Training and Preparation of Documents.....	189
9.4.1	Duty on the Contract.....	189
9.4.1.1	Agreement for Sale.....	189
9.4.1.2	Transfer of Lease & Deed of Assignment of a Lease	190
9.4.1.3	Duty on Mortgagee’s Consent.....	190
9.4.2	Finance.....	190
9.4.2.1	Vendor Finance.....	190
9.4.2.2	Personal Property Securities Register.....	190
9.4.2.3	“Subject to Finance” Clauses	191

TRANSACTIONAL PRACTICE
KATRINA. S

9.4.3	Training	191
9.4.4	Preparation of Documents	191
10	Contract for Sale of Business: Pre-Settlement and Settlement.....	193
10.1	<i>Vendor's Solicitor's Tasks Between Exchange and Settlement.....</i>	<i>193</i>
10.2	<i>Purchaser's Solicitor's Tasks Between Exchange and Settlement.....</i>	<i>193</i>
10.3	<i>Adjustments.....</i>	<i>194</i>
10.3.1	Rents and Outgoings	194
10.3.2	Employee Entitlements.....	195
10.3.3	Settlement Sheet	195
10.4	<i>Purchaser's Pre-Settlement Searches</i>	<i>196</i>
10.5	<i>Preparation for Settlement</i>	<i>196</i>
10.5.1	Settlement Agenda	196
10.5.2	Order on the Agent.....	197
10.5.3	Consents and Discharges.....	197
10.6	<i>Settlement.....</i>	<i>198</i>
10.6.1	Time and Place.....	198
10.6.2	Telephone and Electricity	198
10.6.3	Stocktake	198
10.6.4	At Settlement	198
10.6.5	Registration	199
10.7	<i>Closing the Accounts.....</i>	<i>199</i>
10.7.1	Documents to clients.....	199
10.7.2	Safe custody	199
10.7.3	Final letter	199
11	Strata Title.....	201
11.1	<i>Relevant Legislation</i>	<i>201</i>
11.1.1	Definitions	201
11.1.1.1	Strata Scheme	201
11.1.1.2	Lots and Common Property.....	202
11.1.1.3	Boundaries.....	202
11.1.1.4	Alterations to Boundaries	203
11.1.1.5	Initial Period.....	204
11.2	<i>Unit Entitlement.....</i>	<i>205</i>
11.3	<i>Owners Corporation</i>	<i>205</i>
11.3.1	Key Management Areas	205
11.3.2	Maintenance and Repairs.....	206
11.3.3	The Executive Committee	207
11.3.4	Meetings of Owners Corporation.....	208
11.3.4.1	Voting Rights – Strata Schemes Management Act, Schedule 2, Part 2 Division 1 Clause 10	209
11.3.4.2	Proxy Voting - Strata Schemes Management Act, Schedule 2, Part 2 Division 1 Clause 11	209
11.3.4.3	Quorum For Meetings - Strata Schemes Management Act, Schedule 2, Part 2 Division 1 Clause 12	209
11.3.4.4	Chairing Meetings - Strata Schemes Management Act, Schedule 2, Part 2 Division 1 Clause 15	209
11.3.5	Legal Advice	210
11.4	<i>By-Laws.....</i>	<i>210</i>
11.4.1	Changes to By-Laws.....	211
11.4.2	Exclusive Use/Special Privileges By-Law	212
11.5	<i>Finances of Strata Schemes.....</i>	<i>212</i>
11.5.1	Administrative Fund	212
11.5.2	Sinking Fund.....	213
11.5.3	Managing Agents.....	214

TRANSACTIONAL PRACTICE
KATRINA. S

11.5.4	Records and Accounts to be kept by the Owners Corporation.....	215
11.5.5	Estimates.....	217
11.5.6	Interest and Discounts on Contributions.....	218
11.5.7	Restrictions on Spending.....	218
11.6	<i>Insurance</i>	218
11.6.1	Owners Corporation obligation to obtain insurance.....	219
11.6.2	Other Insurance.....	220
11.7	<i>Disputes</i>	221
11.8	<i>Strata Provisions: Clauses 23 and 28 of the Contract for the Purchase and Sale of Land – 2004 Edition</i>	221
11.8.1	Clause 23.1.....	222
11.8.2	Clause 23.2.....	222
11.8.3	Clause 23.3.....	222
11.8.4	Clause 23.4.....	222
11.8.5	Clause 23.5.....	222
11.8.6	Clause 23.6.....	223
11.8.7	Clause 23.7.....	223
11.8.8	Clause 23.8.....	223
11.8.9	Clause 23.9.....	223
11.8.10	Clauses 23.10-23.12 & Section 118 Notice.....	224
11.8.11	Clauses 23.13-23.16 & Section 109 Certificate.....	224
11.8.12	Clause 23.17.....	225
11.8.13	Clause 23.18.....	225
11.8.14	Acting for the Vendor.....	225
11.8.14.1	Implied Warranty.....	225
11.8.14.2	Disclosure and Clause 23 of the Contract.....	226
11.8.14.3	Instructions Checklist.....	227
11.8.14.4	Replies to Requisitions.....	231
11.8.15	Acting for the Purchaser.....	231
11.8.15.1	Searches & Enquiries.....	231
11.8.15.2	Checklist for Purchaser's Solicitor.....	232
11.9	<i>Clause 28 of the Standard Contract – Unregistered Plans</i>	234
12	Powers of Attorney, Options & Residential Tenancies.....	235
12.1	<i>Powers of Attorney</i>	235
12.1.1	Capacity.....	235
12.1.2	Scope of Power.....	236
12.1.3	Power of Attorney under the <i>Powers of Attorney Act 2003</i> (NSW).....	236
12.1.3.1	Power under the Act.....	236
12.1.3.2	General Power of Attorney.....	237
12.1.3.3	Enduring Powers of Attorney.....	238
12.1.4	Powers by Deed.....	238
12.1.5	Registration.....	238
12.1.6	Checking Execution of a Document executed under a Power of Attorney.....	238
12.1.7	Duties.....	239
12.1.8	Termination.....	239
12.1.9	Appointment of an Enduring Guardian.....	240
12.2	<i>Options</i>	241
12.2.1	Why use an option?.....	242
12.2.1.1	Residential property – Part 4, Divisions 8 and 9.....	242
12.2.2	Duty.....	243
12.2.2.1	Duty payable upon Exercise of Option.....	243
12.2.2.2	Duty on Transfer of an Interest under an Option.....	243
12.2.3	Caveat.....	244
12.2.4	Exercise of the Option.....	244

TRANSACTIONAL PRACTICE
KATRINA. S

12.2.5	Parties.....	244
12.2.6	Nominees	244
12.2.7	Options to purchase in leases.....	245
12.2.8	Capital Gains Tax	245
12.3	<i>Residential Tenancies</i>	245
12.3.1	Legislation	245
12.3.1.1	Residential Tenancies Act 2010 (RTA).....	245
12.3.2	Residential Tenancy Agreements.....	246
12.3.2.1	Costs:	247
12.3.2.2	Rent, Rent Increases and Bonds:	247
12.3.2.3	Mortgagee repossession	248
12.3.2.4	Termination.....	248
12.3.2.4.1	Termination, but no breach of residential tenancy agreement.....	248
12.3.2.4.2	Termination for non-payment of rent solely.....	248
12.3.2.4.3	Termination for breach of agreement other than non-payment of rent	248
12.3.2.4.4	Termination following sale of the premises	249