

**LAND TAX ASSESSMENT BILL 2001**

*Cognate Debate*

On motion by Mr Ripper (Treasurer), resolved -

That leave be granted for the Land Tax Assessment Bill 2001 and the Land Tax Bill 2001 to be debated cognately, and that the Land Tax Assessment Bill 2001 be the principal Bill.

*Second Reading*

Resumed from 5 December 2001.

**MR BARNETT** (Cottesloe - Leader of the Opposition) [12.44 pm]: Similar to the stamp duty legislation, the Land Tax Assessment Bill is re-enacting the existing legislation with the addition of the new administrative procedures as adopted under the Taxation Administration Bill. Land tax, along with payroll tax, probably annoys the most people most of the time. People see all sorts of inequities with land tax. Indeed, land tax is a significant tax. This year it will raise some \$226.5 million or 9.5 per cent of total tax revenue. Land tax is defined as a tax levied on the unimproved value of taxable land. Essentially it is an ad valorem, or a percentage, tax, although it is defined in amounts of dollars per \$1 000. I am a bit curious about why sometimes percentages are used and at other times dollars per \$1 000 or cents in the dollar are used. I do not see much point in that. They are effectively the same thing. One of the more earth-shattering reforms might have been to have a consistent nomenclature in the way tax rates are defined. Using percentages might be a good idea.

Mr Ripper: That is a good point.

Mr BARNETT: I do not see why there must be a change; it is only moving noughts. It is an ad valorem tax, so it is based on a percentage of the value of the land. It is a progressive tax so the rate increases as it is done. What really irks people is that, like most ad valorem taxes, it is effectively a percentage tax and is on a progressive scale. The higher the value of the land, the higher the amount that is paid and the higher the percentage rate that is applied. Land tax is based on the unimproved value of the land; it is not a transaction like that which occurs in stamp duties on conveyances. A valuation by the Valuer General is put in place. There may be an escalation in the amount of land tax paid through a variety of mechanisms. That may happen because the Government of the day increases the rate. In a sense, at least that is up front and honest. People may pay more because the value of their land increases. Indeed, that can be a double-edged sword: they may find that the value of their land increases so they pay a higher percentage, but that value increase may also push the value of their land into a higher bracket and then a higher rate would apply. People get hit three times, and then the Valuer General might revalue their land even though no transaction has taken place. In that sense, there are at least four ways in which people can pay an increased amount of dollars on any given block of land from one year to the next. Probably the changes in land valuations annoy people most, and they are a source of uncertainty and instability. Neither individual landowners subject to land tax as private citizens nor company entities on commercial property can predict what their land tax obligations will be with any certainty. That is a failure of the structure, regardless of the amount of revenue actually raised.

I do not particularly want to go into the consideration in detail stage on this Bill. However, I would appreciate some comments relating to the exemptions and concessions that apply. The most significant exemption is for the principal or private place of residence. That issue was raised in the budget debate last year. People do not pay land tax on the house positioned on the land where they live. That is a long-term principle. In the last budget, this Government changed that so that if the principal place of residence is held by a trust, land tax will apply. We had a debate at that time about the issue. It is still a serious issue, because the only real asset that many small businesses have as necessary collateral for their business loans is their place of residence. That is very common. Often it is placed in a trust as part of the company structure to raise collateral. It is a very normal, usual business practice. It is done not to avoid land tax, but to provide security against a loan for the small business. Now owners of small businesses will find that, because the home may be in a trust, it will be subject to land tax; yet it is their place of residence. These people are individuals and are part of families just like everyone else. However, that small business group will now find that the family home will be subject to land tax. That is wrong and unfair. If it were clearly a contrivance to avoid land tax that would otherwise apply, I would not be sympathetic. However, some small business people, in particular, have little option but to put their place of residence in a trust arrangement because of the business loans attached to it and the collateral it provides; otherwise they cannot run their business. Therefore, I make it clear that the Liberal Party's policy is to restore, and retain, a situation in which people will not pay land tax on their principal place of residence, so long as that is a genuine circumstance. The Liberal Party will not provide protection to people who contrive to avoid paying land tax that would otherwise be due.

The second area is one of growing confusion. That relates to agricultural land used for primary production. It had been my understanding - I think misunderstanding - that essentially land tax applied only to commercial property and that agricultural land was exempt. I believe my understanding is wrong and that agricultural land is exempt only if it is used primarily for primary production. I seek clarification of that. What is the actual exemption? The land will be zoned as agricultural. I had always assumed that land tax did not apply to agricultural land. There is an argument about whether that is equitable. I should not do this, but I will use my own circumstance as an example to prove the point.

Mr Ripper: Are we going to take a little trip to Toodyay in this debate?

Mr BARNETT: Yes. I am a typical example. My neighbour, for example, may have a holiday house in the south west, say, at Busselton. It is a second residence - a holiday home. Clearly, land tax applies. I have a holiday house at Toodyay - a true example - which happens to be on agricultural land. For me, it is a holiday home. Does land tax apply? I had assumed that it did not because it is agricultural land. I believe I am wrong in that assumption and that it does apply. However, the question is whether the land is used primarily for primary production. We then get into areas of definition. At the moment, 17 cows are on my Toodyay property. I do not know whether that makes me a primary producer. I do not know where the line is drawn.

Mr House: It does not.

Mr BARNETT: It does not. I thank the National Party.

Mr Ripper: Do you have goats on this property?

Mr BARNETT: No, and I think that is a very unfair reference to my wife. She would take great offence if the Treasurer was implying that she is -

Mr Ripper: I know your wife, and I completely withdraw any suggestions to that effect!

Mr BARNETT: I am interested in some clarification - it is not for personal reasons. I believe that it is quite proper that I, similar to my neighbour, should pay land tax on a second residence. I do not have a philosophical objection to that. Clearly, the National Party will define the situation. However, I am interested in how primary production is defined and implemented. If someone is a genuine farmer - that I am not - whose livelihood depends on the land, clearly, that is primary production - wheat, sheep, the lot.

However, I notice that exemptions related to particular agricultural activities were given at some stage. There seems to be some confusion in this area. I believe that an exemption related to horse breeding was given. What about dog kennels on agricultural land; they are essentially boarding kennels? Is that agriculture? Perhaps it is not. What about dog breeding on agricultural land? Is that agricultural primary production?

Mr House: Some people specialise in breeding sheepdogs, for example.

Mr BARNETT: Yes. It is an interesting issue. What is the difference in logic between someone breeding cattle and someone else breeding dogs? There may be a distinction between domestic pets and sheepdogs - working dogs. What about someone in the wine industry? If a person is growing grapes, I believe he is involved in agricultural primary production. If those grapes are used to produce wine, is that primary production? No, it is not; it is manufacturing. It is a secondary industry. However, it is taking place on agricultural land. Many people are involved in value-adding activities in agriculture, or in activities such as breeding dogs or llamas. Is llama farming an agricultural activity? I do not know. Some are hobby farms and others are genuine commercial enterprises. There is a great deal of confusion there. Take a dairy. If cows are wandering around grazing and producing milk, that is clearly primary production. If the milk is used to produce cheese, is that primary production or manufacturing? It is value added to primary production, but is it primary production according to the legislation? If, for example, a dog kennel owner, a dog breeder, a wine producer rather than a grape grower, or a cheese manufacturer rather than a dairy farmer were each operating on the one piece of land in the one business, which, if any, part of that would become subject to land tax?

Mr Ripper: What about farm-stay arrangements?

Mr BARNETT: Yes, indeed - tourism operations on agricultural land. In recent times a number of tax invoices have been issued to dog kennel owners, dog breeders and potential cheese manufacturers. I do not know about the wine industry. This is an area in which there is a lack of clarity in policy. Maybe my good friend the farmer from down south can help me out. However, there is confusion, and significant matters of equity are involved. For example, is it the situation with wine production that it is agricultural land for growing grapes, therefore it is agricultural primary production, and no land tax applies? Will land tax be applied to that part of a property on which wine, cheese or whatever is produced - essentially a manufacturing process?

As I said, I do not necessarily need this Bill to go into the consideration in detail stage if the Treasurer is able to provide some explanation. However, the National Party may give an explanation first, which would be interesting.

**MR BRADSHAW** (Murray-Wellington) [12.56 pm]: Unfortunately, the member for Vasse is over east with one of the standing committees. It is a pity that he is not here today, because I am sure that he would say a few words on this land tax issue. Land tax is a problem for certain people, particularly around the Busselton area, where the amount of land tax imposed has increased dramatically from a reasonable amount to an over-burdening amount for the proprietors of caravan parks and holiday villages. This has come about because of the sudden increase in the unimproved value of the land. Even though land values may have shot up dramatically, the facts are that people are trying to make a living off that land. The increase in the tax burden is probably pushing some people to the brink, and they are asking whether they will continue to provide a service to not only the people of Western Australia but also tourists from elsewhere, or whether they will subdivide the land and sell it as residential lots, which will take that land away from the tourism scene. The Government should examine this situation and make it fairer for those people who are providing a great service, with holiday homes and caravan parks etc by the sea, but who are now being priced out of it because of the dramatic increase in the amount of land tax imposed upon them.

I do not have the details to hand. As I said, it is unfortunate that the member for Vasse is not here, because he would have all the details of the increased amounts. However, I am sure that everybody is aware of this matter, because it has been publicised in the newspapers and in the media over the years. It is important that the Government examine this issue to try to ameliorate the situation. Those huge imposts should not be pushed onto those people; they should be reduced in some way so that those businesses will remain viable. Taxes keep rolling in. It is not a one-off situation. They come in every year. Once the land values are set, they rarely decrease. They tend only to increase. Therefore, it is important that the Government examine this situation and work out ways to help those people.

There are probably other anomalies that should be considered. I am sure that in other areas there are problems similar to those in Busselton. These problems are not confined to Busselton. Busselton is a great destination for many people to have seaside holidays. In many cases, those people do not have lots of money, and they stay in budget-priced accommodation in that area. When people are unable to make a living by charging reasonable prices for providing these services, the good that comes out of people having holidays there will be done away with, because, in the end, the areas to which people can go for a holiday will be limited. They will not be able to stay on the beachfront, as they do currently. They will have to go further inland, and the attraction for people to spend their time in the Busselton area will be lessened. The Government should consider helping those people in those circumstances.

**MR HOUSE** (Stirling) [1.00 pm]: I congratulate the Leader of the Opposition for his contribution to this debate and I support his remarks about primary producers. Primary producers are defined clearly in the federal taxation Act. Clear benchmarks and criteria must be met before anyone can claim primary producer benefits such as the averaging of income over five years. The Leader of the Opposition's two or three cows do not qualify him as a primary producer, so he is unable to claim tax benefits under the federal taxation legislation.

The SPEAKER: I think he said he had 13 cows.

Mr HOUSE: The problem with St Georges Terrace farmers is that they are prone to exaggerating, for example, the size of their acreage. We genuine farmers would never do anything like that except when we are at the pub talking about grain deals!

The nature of primary production is changing fairly rapidly. It now involves a mix of things that were not involved some years ago; for example, farm and pastoral station stays are now common. Many of the people who holiday on a station-stay property are housed in accommodation that is used for shearers' quarters during the normal primary production operation of shearing. In the electorate of the member for Ningaloo, homesteads are used very successfully for station stays. These variations have created grey areas.

Years ago horse breeding was essential in primary production. We all used horses. I rode every day as part of the work I did on the farm. Nowadays we would be battling to find too many farmers who could genuinely claim they use horses for work. Some cattle farmers, particularly in station country, might use them, but not very many. Among sheep breeding farmers in the southern part of the State motorbikes have superseded horses. Horse breeding occurs more for equestrian sports such as pony club, polocrosse and eventing. That is another grey area.

With regard to value adding, every primary producer in agriculture has been considering ways of adding value to his product. Joint arrangements have been established between farmers and companies whereby the primary producer does not take the profit from his product until the end product is sold. That occurs, for example, when

people make noodles out of wheat. Some farmers have shares in those companies. These variations in primary production are creating a very grey area that requires more detail. I am concerned, because to the best of my knowledge no in-depth consultation has occurred between the Government and primary producers on how this issue will affect them. I gather from the Treasurer's earlier remarks that he is genuinely concerned about the effects of this Bill. I am not trying to make a political point; I am seeking to resolve something that has not been examined in sufficient detail. We need a consultative process to ensure that an unfair, inequitable tax, the effects of which cannot be justified, is not imposed on people.

I am not sure how it will affect areas such as the fishing industry, which involves processors and people with professional fishing licences who also charter recreational fishing businesses. Eco tourism operators do the same sort of thing. Those operators work from an office on a land base. A range of issues come into play. No doubt during the consideration in detail stage more detail will be revealed. However, before this legislation is enacted or even debated in the other place, I would like the Treasurer to indicate whether a consultation process will be held with industry to resolve some of the anomalies raised in this debate.

Debate adjourned, on motion by Mr Johnson.

[Continued on page 9702.]