PAY-ROLL TAX AMENDMENT (DEBT AND DEFICIT REMEDIATION) BILL 2017

Consideration in Detail

Clause 1: Short title —

Mr D.C. NALDER: Clause 1 deals with the short title. The opposition accepts that this is a payroll tax amendment bill, but the title also includes "debt and deficit remediation". The opposition is concerned about "debt and deficit remediation", particularly given that debt will increase by 34 per cent or 35 per cent over the next four years, and the interest expense on that debt will increase by some $500 million a year over the next four years. The opposition is concerned that the justification for the title of the bill is debt and deficit remediation, when in fact we will not be seeing any remediation of debt and deficit. The opposition is suggesting that this tax is to pay for the unfunded election commitments of the government, and the bill should be titled accordingly. The opposition would probably accept the bill straight up if it did not include "debt and deficit remediation" in its title, but given that I have just said that the bill will not be providing for debt and deficit remediation, the opposition would like to understand the basis upon which the Treasurer has put this forward in this place—that it is such a thing.

Mr B.S. WYATT: I thank the member for the question. Unsurprisingly, titles of bills have proved contentious over the years. When I sat on that side of the chamber in the chair next to the member for Bateman, over the years I sought to change a few titles of bills that the government of the day put up. I understand the member's argument. I do not accept the member's argument. If this bill does not make it through the Parliament, both the debt and deficit will be $435 million higher—and that is worse. I understand the member's position. If he wants to move an amendment, so be it. I would fully understand that; it is something I did whilst I was on his side of the chamber.

Mr D.C. NALDER: Does the Treasurer accept that the revenue to be generated by this bill will not actually cover the increased interest expense on the new debt that will accumulate during this term of government?

Mr B.S. WYATT: It also will not cover the interest accumulated under the previous term of government—nowhere near it. What we need to do, member, is to do all we can. There are no revenue sources left that I can look to easily that will provide me with an ongoing, reliable, large income. That is the reality. There is none left. That is why we are looking at all these others, including this bill—the payroll tax levy we are introducing now. Regardless of what people may think, it will ensure that both the deficits and the amount of debt across the forward estimates are $535 million at least.

Mr D.C. NALDER: The Treasurer is correct when he says that the debt will not contribute to the current debt—that interest expense is around $975 million a year—but by the end of the term, the interest expense will be up to about $1.485 billion a year, or up by about $510 million, based on bond rate forecasts shifting from three to 3.4 per cent. The increase in debt will be from around $32 billion to $43.6 billion or thereabouts. Therefore, we are seeing an interest expense growth by $510 million. I come back to the point that the title of the bill refers to "debt and deficit remediation", but debt is still out of control and is continuing to grow. It is beyond what was estimated in the *Pre-election Financial Projections Statement* for the end of this term. There may be legitimate reasons for that, but this bill will not tackle the debt and deficit the government has inherited. We acknowledge that debt got to a point at which it needed to be dealt with. The Under Treasurer said going into the last election that irrespective of who wins government, they will need to deal with the debt. This bill is not dealing with that debt and, therefore, the title of the bill is somewhat misleading.

Mr B.S. WYATT: I will say it again: I think the title is accurate because it means that the debt and deficit of $435 million is less than it otherwise would be. By way an aside, when I gave my second reading reply, the member was not in the chamber. As a critique, he asked a specific question about a labour hire firm. I have an answer for that. I will not do it here, but at some point I will come to that if the member reminds me.

The ACTING SPEAKER: Before we carry on, Attorney General, when you enter the chamber, you are required to seek the leave of the Chair.

Dr M.D. NAHAN: This is not a semantical issue. Generally, when alterations are made to longstanding bills, such as payroll tax or land tax bills, the bill would not include in its title the parenthesis "debt and deficit remediation". This opens up politicisation of the bill. The title is simply not accurate because, irrespectively, in this budget the government increased recurrent expenditure over the forward estimates by $816 million. Most of that was by additional decisions by the government of the day to increase expenditure following its election commitments. Okay, that is what the government did. If, in fact, it did not do that—there were a few choices—it would have had $815 million or $816 million less to play with. It would not have to do this because it would not have to do this more significantly. The bill is not actually about debt and deficit reduction; it is about meeting election commitments. Of course it is fungible; it can be used everywhere. The government is not tying this to anything specific because each dollar of expenditure and borrowing is not tied to a specific action. But if we look at this, it can be seen it does not reduce the deficit. The deficit this year, properly measured, especially if the government does that one-off fiddle—it adjusts for that one-off fiddle of $300 million from the electricity industry—and puts it back, the deficit in 2017–18 will be higher than that of last year, and the highest in the history of this state. Second, debt will go to the highest level, and the government will have $816 million worth of additional expenditure. Where is the restraint on this? Where are the deficit and debt payments? Yes, the government has to fund that somehow. It has to fund it either by borrowing more, which means deficit funding in our case, and borrowing more. This is being driven by a policy initiative in this budget to increase expenditure. That is the reality. If the government wants to, as the member for Bateman has indicated, we would prefer that "debt and deficit remediation" be taken out altogether, because they are clearly a misnomer. Otherwise, put in something like "Payroll Tax (Meeting Election Commitments) Amendment Bill 2017". That is a more accurate description of what the money is going to be used for or for the need for this payroll tax.

Mr B.S. WYATT: The Leader of the Opposition can move that amendment and we will vote on it, but I will not move an amendment to change the title from "debt and deficit remediation". The Leader of the Opposition is right: expenses increase across the forward estimates as they did when the former government got into power in 2008 and when it was re-elected in 2013. That is the reality. Of course, we are projecting—I am saying "projecting" because we have not achieved them—much lower expense growth as the former government did in both of its maiden budgets in 2008 and 2013. If the Leader of the Opposition wants to move an amendment to that, so be it, and we will deal with that in due course. I understand the point he is making. I do not accept the point he is making, but that is the title of the bill as the government puts it.

Mr D.C. NALDER: For two years whilst in opposition, before he was in government, the Treasurer prosecuted arguments in this house that the issue was an expense issue, and not a revenue issue. We talked about that if we took the position of the previous government up to the election, the issues with the debt and the deficits were an expense issue, according to the Treasurer's arguments. He prosecuted them very well for two years. He has come into government and introduced new taxes while the government has increased spending, deficits and debt. The Treasurer can understand our question and position that this is not about funding the previous administration. This title insinuates that the bill is about the past and that the Treasurer is dealing with a legacy that he has inherited from a former government, when in reality—we have to point out factually—it is about funding the increased spending and level of debt that this new government is creating. It does not remediate what it has inherited from the previous administration because it does not even meet the commitments of the new expense liabilities that the government is generating for this state at this point in time.

We are highlighting the concerns we have around the title and they are legitimate concerns. We do not think it reflects what this bill stands for. We have said we will not get in the way of this bill, we are going to let it through, but we do not believe that the title reflects what it is designated to do. Whatever the government wants to call it, just call it the "Pay-roll Tax Amendment Bill"—do not worry about "debt and deficit". The reality is that it is funding Metronet, the government's unfunded election commitments or its increased spending. Whatever the Treasurer wants to call it, it is not remediating what the government has inherited from the previous administration, which is what is implied in the title of this bill. We would implore the Treasurer to consider changes to the title of the bill

Mr B.S. WYATT: Again, I understand the opposition's argument; we are not going to change the title of the bill. I was unsuccessful so many times—probably half a dozen, I dare say—over eight a half years, and I tried to change the titles of bills. I was very unsuccessful in that regard. I understand the argument that the member is making. I am not agreeing with it, but I understand the argument that he is making. The title is the title and it is will not be reconsidered by the government.

Mr V.A. CATANIA: I, too, like the member for Bateman, see that this short title, the Pay-roll Tax Amendment (Debt and Deficit Remediation) Bill 2017, is misleading to Parliament when it has nothing to do with paying down debt or the deficit. In the Treasurer's projections he wishes to gain $435 million over the next five years from this payroll tax amendment bill of 2017. Revelations have occurred over the last few days over the "Paradise Papers", in which companies hold their accounts offshore; talk about Singapore trading hubs; and, Rio Tinto possibly employing another person to oversee its operations in Singapore.

Mr B.S. Wyatt: Member, can you just clarify? Did you say "paradise"? I am not familiar with that.

Mr V.A. CATANIA: *Four Corners* reported on the Paradise Papers and companies that hold offshore accounts in countries that are known to be quite beautiful, hence why we say "the run to paradise." We are also seeing companies such as Rio Tinto and BHP have their trading hubs in places like Singapore, growing their workforce offshore, automating their workforce as much as possible and therefore reducing the workforce. The Treasurer says that this bill will get more money off the bigger end of town, being Rio Tinto and BHP. We are seeing the decline of payroll tax from those companies over the years through automation and trading hubs occurring offshore in places such as Singapore, the Bahamas and so forth; that was reported by *Four Corners* last week and in *The West Australian* today. Is it not going to have a dramatic impact on this bill? The forecast of $435 million over five years, in my mind, seems to be a figure that has been plucked out of the air, because the companies that the government wants to reap the most off are moving away from employing locals in Western Australia and Australia, and making sure that automation is the key to their success. How is this short title going to impact on debt and deficit when we see this type of behaviour from the big end of town, the core that the government's payroll tax amendment bill is trying to target? How are these changes going to impact on the $435 million over the next five years?

Mr B.S. WYATT: As I understand it, there are a couple of parts to the member's question. Firstly, what do we think the impact of automation is likely to be on the payroll tax take? That is a question that probably needs to be applied to the entire payroll tax take, not just this levy increase. This levy increase is simply an analysis made by Treasury on individual employers that we know. It is not a huge number of payroll taxpayers that will be impacted by this but, I guess, over time the member is right. A threat to the payroll tax base is automation. I dare say that if, for example, significant employers such as Bunnings or Coles got heavily into automation, that would have a more dramatic impact than the miners do now because of their nature and the size that they take. We are trying to focus on the big end of town. Interestingly, the member expressed a concern about the ability to be delivered, but my understanding is that the National Party is opposing this levy on large corporations, which is an interesting position for the National Party to take. The National Party is supporting these big businesses paying less payroll tax. That is its position, so be it. Overall, automation will have an impact on the payroll tax base regardless of where automation is occurring.

Mr V.A. CATANIA: This short title is going to impact small businesses, as the National Party has stood up for in this place. It is going to create debt and deficit for small business, because that is the impost that this title is imposing on businesses in Western Australia. The argument that the National Party put forward was that we should be increasing the threshold that generates greater productivity in this state. That has a concertina effect by making sure that the bigger end of town can ultimately pay more. We oppose this bill because of the effect that it will have on small business and because we have an alternative revenue source due to automation, trading hubs overseas and tax evasion occurring, and the scenario in which we have been shafted by both sides of politics when it comes to the GST. Today we debated whether the federal Labor Party will ever fix our GST, and the answer was no. We are in a massive predicament, hence why the National Party went to the election with a policy to ensure that the big end of town, being Rio Tinto and BHP, paid more by way of royalties.

The Payroll Tax Amendment (Debt and Deficit Remediation) Bill, under the guise of covering up debt and deficit, is really about paying for the Labor Party's election commitments by imposing another tax—an increased tax for small businesses—which will ultimately hit those people employed by small businesses, which is mums and dads. Our point is that it did not have to be this way, hence why we are opposing the payroll tax bill. There are alternatives that would raise, as I said in this place before, not just 5c, 10c, $100, $1 million or $1 billion. Billions of dollars are needed to repair the state's position, not $435 million over five years. In the Treasurer's words, that will not pay down debt or have an effect on the deficit. When cost blowouts with Metronet are occurring, there goes the $435 million pretty quickly. It will have no impact. We are debating something in this place that will have a negligible impact on the state's finances, both debt and deficit, because the Labor Party had no financial plan when it got into government to try to repair the state's finances. That is why we said we believe that looking at the special lease rental is the only alternative.

Point of Order

Dr A.D. BUTI: Mr Acting Speaker, I ask for your ruling on relevance. I am not sure what the issue about policy considerations of the National Party and the plan that they took to the election has to do with the short title of this bill.

Mr D.T. REDMAN: The title makes clear reference to debt and deficit. I think the member for North West Central is clearly articulating an argument with respect to that.

The ACTING SPEAKER (Mr R.S. Love): I have allowed quite a bit of discussion on this from other members as well, particularly around the issue of the appropriateness of some of the wording. Member, could you wind it up, because we have heard you.

Debate Resumed

Mr V.A. CATANIA: As I said, we had an alternative. We were going to raise the money that was needed to ensure that debt and deficit would be under control. Clearly, this bill and this impost on small business will not fix the debt and deficit. The Treasurer says that this state is under a huge amount of pressure. We do not support the bill because there are alternatives. The Treasurer and this Labor Party have failed in their duty to ensure that they can get the money needed from the miners who are automating, who have offshore trading hubs and who are not paying the right amount of tax. The resources belong to everyone who lives in this state. The Treasurer is failing to look at alternatives to ensure that we get the best deal possible.

Mr D.T. REDMAN: On the back of the comments made by the member for North West Central and with respect to the title of the Pay-roll Tax Amendment (Debt and Deficit Remediation) Bill 2017, I think the points he makes are very relevant. It is interesting that we have this bill in the house at the moment, which seeks to increase payroll tax paid by the big end of town, raising $435 million over the four-year forward estimates. At some stage—I am not sure whether it will be in the latter part of this week—the Iron Ore (Channar Joint Venture) (Hamersley Range) Agreements Amendment Bill 2017, which is about a state agreement that the Premier introduced recently, will be debated. It is very clear that the government has rolled over that agreement. There is a point at which we can assess and take up an argument with the company about the conditions under which it is able to mine iron ore in this state. There has seemingly been little argument about that for a company—in this case, Rio Tinto—that will contribute, along with the other iron ore companies, about 20 per cent of the payroll tax increase that the government is commanding through this bill. For those iron ore companies, it is effectively a rounding error of $50 million or $60 million a year.

When introducing that state agreement, there was no pressure to look at the very old conditions that have been in place and under which those companies operate. Yet there was a point when the government was able to exert that pressure. I am making the distinction between a bill that will put a clear imposition on business—a signal that was not put during the election—versus the alternative of a company coming to the state seeking support from government to set some positions in place for rolling over or renewing the conditions that are currently in place at a point when the government can exert some pressure. It is nothing to do with an election commitment; it is to do with the operation of the big miner. The National Party historically took up some debate about the state agreement being an important way of exerting pressure from the government in order to look at other ways of getting revenue for the state because of conditions that we feel are somewhat outdated.

Mr B.S. WYATT: I will deal with a few issues. We are not revisiting the lease rental fee. That argument has been had. The member for Warren–Blackwood made the point that the payroll tax increase—the levy increase—and the impact on iron ore miners will, in effect, amount to a rounding error and it will have a very small impact on their total revenue. He is quite correct, hence my surprise that the National Party will be voting against the bill to protect those iron ore miners from having to pay this rounding error increase.

This bill will have a much smaller impact on employment, which the member for North West Central worries about, than increasing the lease rental fee from 25c to $5, which presumably is why the Liberal Party does not support that either, because that will have a dramatic impact on employment and the rush to automation et cetera. As he pointed out, our increase is effectively a rounding error and is unlikely to have an impact on jobs. We are not revisiting the question of lease rental fees. The issue around the joint venture legislation is an issue for the Minister for State Development, Jobs and Trade, who also happens to be the Premier.

Some points made by the member for North West Central also raise the question: what is a small business? The National Party defines a small business as a business with wages of $100 million plus. I do not. I describe that as quite a large business. We could spend the next hour talking about what determines a large and a small business. The Australian Securities and Investments Commission describes a small business as an organisation with revenue of less than $25 million and fewer than 50 employees, whereas the Australian Taxation Office describes a small business as one that has annual revenue turnover, excluding GST, of less than $2 million. Clearly, if the wages are $100 million, it is a large business, and that is what we are focusing on—over $100 million in respect of the payroll tax levy.

I understand the position that the National Party took to the election. I do not agree that it is a sustainable source of revenue because ultimately it is all redistributed. The question that the National Party never answered was: once it is redistributed and those payroll tax cuts and other spending has been locked in, what taxes will be increased to fill the hole? We had that argument during the state election and I do not intend to revisit it in great detail now.

Dr M.D. NAHAN: The problem we have with the short title is essentially the word “remediation”. Remediation means to remedy something, particularly reversing or stopping, not going ahead but stopping and giving remedy to something. It implies that we are reversing an action that is going to take place without this bill. The reality is that this bill will raise more money to stop or limit, not remedy, the inheritance, but stop the growth in debt and deficit under the government’s own policy rules. It is not remediation at all; it is basically a bill to raise payroll tax to fund the Labor Party’s election commitments going forward. As the member for Bateman indicated, the bill is not addressing the deficit or debt that the government inherited. It is not doing that. I know the government’s tactic is to use words to blame us, or the past, for all its fiscal predicaments, but this will not do that. Yes, if the government does not raise the money, it will have to fund it somehow. But that additional funding—this money or the debt that will replace it—is not addressing the debt levels and the deficit the government inherited. It actually addresses the government’s actions and its responsibilities. Some of the government’s actions are additional expenditure, both recurrent and capital, that the Labor Party promised during the election campaign. The Labor Party manipulated the assessment process in the run-up to the election so that it was not scrutinised, and it made promises it could not meet. We all knew that. Secondly, the government inherited the softening of own-source revenue that the previous government had experienced for four years. That is just the process of governing in Western Australia.

This bill tries to address those two things, but it is not a remedy; it will not fix the problem the government inherited. It is trying to address revenue that the government needs to address its own governance issues—policy decisions to spend more and policy decisions to deal with the softening of revenue flows. That is the problem we have here. I know the government has the numbers and that this is a consistently cute mechanism to try to say that all the government's problems are somebody else's fault, but this payroll tax amendment does not address the inheritance at all; it essentially gets larger each year. The problem we have is that this legislation is inaccurate and misrepresents to Parliament the purpose and the need for this bill. The government will say, "So what?" because it has the numbers to put this propaganda forward, but this legislation will not remediate anything. If the government was being truthful, it would just take out "(Debt and Deficit Remediation)" and title it "Pay-roll Tax Amendment Bill 2017" and get on with life and govern. We ask the government to accept an amendment to take "(Debt and Deficit Remediation)" out of the title of the legislation.

Mr B.S. WYATT: I think the Leader of the Opposition and I are in agreement that I have had to deal with the softening of our own-source revenue—absolutely. I dare say that if revenue were coming in as expected in the *Pre-election Financial Projections Statement* we would not be debating this bill. There would be no need to introduce this legislation because the revenue would have held—hopefully. I think we will probably see in the midyear review some further downgrades of own-source revenue, particularly around property taxes. That is the reality, and that is the reason we have introduced this legislation. The Leader of the Opposition is right: to quote him, it is not fixing a problem that I inherited. That is a big problem and it will take time to fix that problem. But I dare say we will agree to disagree on what remediation is and whether it should be applied to the debt and deficits that I inherited versus the debt and deficits that were accumulated post–election day. It is not one that I agree with, but, perhaps for the purposes of debate tonight, we can agree to disagree on.

Dr M.D. NAHAN: One of the issues we have is: yes, the government has softening revenue—that is just part of governing in Western Australia in our current times. Because it is not always possible to do so during the consideration in detail and second reading speech debates, may I ask: has Treasury done a distributional impact of what businesses actually pay—the incidence of this? We know that firms that earn over $100 million have higher payroll tax, because that is the way the bill works, but that is the first payment and then the incidences paid filter through the system onto contractors. Certain assumptions can be made about how the firm paying the tax will respond. Has Treasury estimated what economists call the dead-weight loss of this or the loss of jobs and distributional impact on small business? As the Treasurer has no doubt been informed, the Chamber of Commerce and Industry of Western Australia has done some of that work; it has done some modelling on the impact of the government's payroll tax and identified that 5 297 jobs will be affected. Has Treasury done similar modelling? Most regulations require a regulatory impact statement—the Department of Finance does it. Has Treasury done this for this payroll tax increase, given that the general acceptance in debate in this chamber in the past has been that payroll tax is a tax on jobs and that businesses respond by reducing employment somewhat? Many big businesses that will be impacted by the legislation hire contractors, which is probably the most easily adjusted area of their wages or purchase bill. Has Treasury tried to find an estimate of the net impact on jobs and economic activity of the proposed increase?

Mr B.S. WYATT: That is a good question. I dealt with this issue to some extent in my reply to the second reading. I will make a couple of points. The Leader of the Opposition is right: ultimately, payroll tax will be dealt with in a range of ways. I had a conversation across the chamber with the Deputy Leader of the Opposition who, in her contribution to the second reading debate, went through in some detail the example of someone in her electorate with a large construction company. He told her that he would just have to deal with it because he is in an environment in which he is not going to pass it on. Bearing in mind my response to the member for Churchlands' contribution to the second reading debate that we are in an environment of increasing consumer confidence, so forward-looking work is now starting to be reasonably significant, particularly in the construction and mining sectors; so is it likely to all fall to businesses not employing staff? I do not think so. I acknowledge the CCI analysis that we discussed during the second reading debate. Ultimately, from what I can gather—I have not seen all its assumptions—it seems that to get to its figure of 1 300 jobs, the CCI assumed that the reaction of all employers will be to pass it all on to their employment assumptions. I do not think that is correct because ultimately with any cost impost—whether it is a form of tax or whatever, including a payroll tax increase—businesses can seek to maintain their profit margins by passing the impost on to customers in the form of prices, in which case this increase will have an almost insignificant impact. Secondly, businesses can accept a reduced profit margin, which is the point I think the Deputy Leader of the Opposition was making during her contribution to the second reading debate, and therefore pay a lower dividend to shareholders, which, again, is unlikely to be very significant at all. Thirdly, businesses can pass the cost on to employees in the form of lower wages, in which case that is likely to have very little impact. I think the CCI has assumed that the total burden will fall around passing the total cost on to consumers.

On the Leader of the Opposition's specific question, Treasury's analysis was on the cost impact of the measure on individual employers and industries, as opposed to creating a range of assumptions around where the incidences will fall, which is the more specific part of the question.

Dr M.D. NAHAN: In our briefing, Treasury officials gave us a breakdown of the sectors that are expected to pay this increase. My memory is that the largest will be the mining sector, which is a price-taker, so it cannot pass it on. The second is the construction sector. In the short term, I would assume that businesses in that sector are mostly on contracts, so they cannot pass it on. Then there are the other sectors, which is quite a large group. I would assume that is Woollies, Coles and the banks in particular. It would be useful to have a breakdown of the composition of the impact of this tax, by sector, to see which ones are price-taking, which means their ability to pass on the increase to consumers is about zip, so they have to absorb it in either profits or output—production—and lowering costs. Most of the time "cost" means either wages or other things. It would be good if the Treasurer could do that. I know it is a little bit outside the terms of reference for this short Pay-roll Tax Amendment (Debt and Deficit Remediation) Bill, but it is probably most convenient to do these things here rather than later during the detailed part of the bill.

Mr B.S. WYATT: That is fine. The Leader of the Opposition is right: 20 per cent of the contribution will be from large iron ore miners; mining, oil and gas as a whole will be 35 per cent; the construction industry just over 10 per cent; and all other industries are expected to contribute less than 10 per cent each. It is that group the Leader of the Opposition wants a breakdown of. Can I give that to him by way of further information—I guess?

Dr M.D. Nahan: Yes.

Mr B.S. WYATT: I understand the question. I am pretty sure that it is easy enough to get; I think I have seen it somewhere. I think Treasury will have it. I will not be able to get it to him tonight, but I will get it to him.

The ACTING SPEAKER: Leader of the Opposition, I remind you that we are still on the short title.

Dr M.D. NAHAN: We are stretching it here —

The ACTING SPEAKER: You are stretching it, yes.

Dr M.D. NAHAN: We are stretching the debate.

The ACTING SPEAKER: Yes, I would agree.

Dr M.D. NAHAN: It is hard to get the specific information during second and third reading debates because of the mechanism, and the rest of the bill contains the detail.

The ACTING SPEAKER: Some of the stuff you are asking for is quite detailed. Perhaps if you directed yourself at me, it would make it much easier for Hansard and the Treasurer to hear what you are saying.

Dr M.D. NAHAN: Yes. One of the issues—when we go into this later—is the grouping regulations. There might be a very large national firm. Let us say it pays, nationally, $100 million worth of wages but in Western Australia it pays very little. Let us say it is entering the market. Let us say Aldi is coming into the market. Under this bill, if it is $100 million nationally, an additional surcharge will be put on the 5.5 per cent tax.

Mr B.S. Wyatt: On the WA wage base.

Dr M.D. NAHAN: Yes. It will go from 5.5 per cent to six per cent. That is a very large impost on entry. When we impose progressive payroll tax and there are grouping regulations, they can cause really big distortions for new entrants to the market, because the grouping is on a national basis and the state-based operations are quite small. In fact, in some of the grouping arrangements a WA business can be very distinct from the interstate businesses. Can the Treasurer ask Treasury to discuss some of those grouping arrangements and see whether there are any distortions in that to inhibit new competitors coming into the market because of the national groupings when their Western Australian operations might be quite small? This has been a problem in the past.

Mr B.S. WYATT: It is a problem regardless of progressive scale. It will still be a similar issue. Effectively, the flat rate we have had now since—the Leader of the Opposition will know—Eric Ripper's review changed from a progressive scale to a flat rate in the early 2000s.

Dr M.D. Nahan: That is why he did it.

Mr B.S. WYATT: Yes, that is right, and that is one of the other reasons I want it to expire. The Leader of the Opposition knows what it is like. It will be there forever unless there is a mechanism in the legislation for it to expire. We will see, as budgets come, that it will expire in the forward estimates. We will see that reflected in the revenue going forward, but by then, of course, our GST, subject to global commodity prices, will be back at a much more sustainable level than it is now. I would say that is subject to all the things that influence that. There is an opportunity to deal with some more specific groupings, but on the issue the Leader of the Opposition raises, he is right about new entrants—large corporations with a large national wage base entering WA for the first time will face the same issue whether it is a flat rate or a progressive rate.

Dr M.D. NAHAN: Not necessarily. Say Aldi comes in with a few stores. They are grouped in Western Australia; their operations will probably be less than $100 million but once they are added nationally they might be competing with operations in Western Australia with the same scale of 5.5 per cent, so it becomes six per cent. That is why Eric Ripper levelled it off, among other reasons.

I would like to deal with a couple of other issues that come up later. When discussing payroll tax, the Premier indicated that discussions had been held with the Chamber of Commerce and Industry of Western Australia and that at the next budget the government would consider increasing the threshold from $850 000 to some other figure. The Premier said he had been lobbied by CCI to consider increasing the threshold from its current level of $850 000 to a higher figure. Can the Treasurer confirm that consideration of that will be reflected in the next budget, which I assume will be May, and it will be before this increase in tax comes into effect? What kind of consideration will he give to that?

Mr B.S. WYATT: This legislation will come into effect on 1 July 2018. I made some points in my second reading speech. The Leader of the Opposition is right: I can confirm that is what the Premier said—we would consider, potentially, increasing the payroll tax threshold in the 2018–19 budget. I also made the point in response, I think, to the member for Warren–Blackwood. I do not think he was here when I gave my reply to the second reading debate. I think he asked whether we can afford it. The Deputy Leader of the Opposition said that of course we cannot because we are operating a large deficit. So can we afford it? No. If we are going to have some form of tax cut, what will be the biggest economic impact? If we are going to borrow to fund it, let us make sure it will have a good economic impact. One thing I would like to look at—the Leader of the Opposition may recall the abolition of payroll tax grouping provisions that Eric Ripper introduced. You guys had a global financial crisis; they delayed and now it is still there. Maybe that is a better outcome; I do not know.

Dr M.D. Nahan: Or the rebates.

Mr B.S. WYATT: That is right. I do not know yet, but now that we have made this commitment, I am keen to look at what may be the best around that payroll tax area because it is not going to wander off and do something in some other space. It might have a bigger economic impact. It may be that lifting the threshold does; I do not yet know. It will be a useful conversation to have.

The ACTING SPEAKER: I remind members that we are still on the short title and a lot of questioning is going on that is relevant to clauses that are further on in the bill.

Mr D.C. NALDER: I agree, Mr Acting Speaker, and I intended to ask my question during another clause, but because it started around this I have to close that off. The CCI raised some interesting economic analyses, including that there will be a flow-on effect through the supply chain. The intent of this bill is to target the large end of town—$100 million plus and $1.5 billion plus. The CCI's argument, in its analysis, is that job losses will be created. The real impact on jobs is always arguable but the CCI's analysis suggests that 68 per cent of the flow-on effect will go down to small and medium enterprises. I am interested in the Treasurer's thoughts on that economic analysis by the CCI and whether he acknowledges that is one of the potential ramifications of this bill. Therefore, in light of the Leader of the Opposition's question around the Treasurer considering an increase in thresholds to support a negative impact that is likely as a result of this bill, will he do something in the next budget in advance of this coming into effect?

Mr B.S. WYATT: In terms of timing, if we did it for the 2018–19 budget, it would effectively come in at the same time as this, assuming it applied from 1 July 2018. I have seen the CCI analysis. I have not seen all its assumptions under it, and this is the point I tried to make before. The assumptions drive all the outcomes. I think the rate of 68 per cent of the flow-on effect going down the supply chain is probably high. I base that on simply a suspicion more than anything else because, as I said, there are three types of impact any cost impost will have on business, and that includes payroll tax. It can hit profit margins or be passed onto customers, or companies can accept a reduced profit margin, so it affects shareholders' dividends or it can affect employees in the form of lower wages.

Mr D.T. Redman interjected.

Mr B.S. WYATT: Or in that; that is right, which is down the supply chain, effectively. With all three, due to the size of the increase and the temporary nature of it, I suspect the effect will be very insignificant.

That is the view of the Department of Treasury and the government. I understand the Chamber of Commerce and Industry of Western Australia's arguments. It is presenting an analysis. In the long term, it has been consistently hostile to payroll tax; I get that. It is not happy about this payroll tax levy. I understand and I accept a lot of the arguments that it makes about payroll tax. I am not disputing the arguments that were raised by the opposition during the second reading debate. Indeed, I have raised them here myself. Ultimately, because of the size and the temporary nature of this increase, it is my view that it is unlikely to have a significant impact on any one of those three ways it could be dealt with by the organisation that pays the payroll tax.

Dr M.D. NAHAN: I would like to move a very simple amendment to the short title. I move —

Page 2, lines 2 and 3 — to delete —

(Debt and Deficit Remediation)

We have gone through the argument for this, which is that the title is misleading. Remediation means to fix something that has been inherited or has been foisted upon someone and they have adopted—that is, this budget. This bill will not do that. On all the indicators, the governments' debt and deficit is going up relative to its forward estimates. It has had some further reduction in revenue but that is basically a non-policy decision; the government has had some deterioration. The budget has a substantial increase in capital and recurrent expenditure that is a result of policy decisions. We could, of course, have done a cute thing and called it something like the "Pay-roll Tax Amendment (Meeting the 2017 Election Commitments) Bill" or we could have called it the payroll tax amendment bill to fund Metronet or something like that. When the government was in opposition it came up with some cute titles, which were sometimes rude. This amendment brings the title back to what the bill is. It is a decision of the government to break election promises and to increase payroll tax in a manner targeted at the high end of town, with a five-year limit, which we support. This is a very important amendment because for the first time, I think, ever Western Australia's top payroll tax will be the highest of any state.

Mr B.S. Wyatt: South Australia, I think, might still have a higher rate. I know the ACT's is.

Dr M.D. NAHAN: No-one pays payroll tax in the ACT. I do not think that its largest business pays tax. Its second-largest business may be the computer business. It used to be, as members will remember, pornography.

Nonetheless, I think that for the first time Western Australia is, if not the highest, close to the highest. It is a significant move that will lead to a very high payroll tax during a period of downward pressure on wages. A range of businesses, large and small, are under stress to pay their wage bills. Members may disagree with the details of the CCI's modelling—as the Treasurer indicated, it has been at this game on payroll tax for a long time. It has honed its arguments and they are consistent with arguments elsewhere. A lot of this tax will be borne by smaller businesses. Particularly in the construction and contracting sectors, smaller businesses are under real stress to pay their wages bills. This is a very large increase at a very important time in a targeted area that we on this side and, I assume, the government side, are most concerned about—that is, job creation in the small to medium industry sector. This is an important bill and the amendment goes to the task. The bill will not fix the inheritance. It will address the commitments made in this budget by this new government from 1 July 2018. This amendment takes the cuteness out of the title and makes it accurate for what it is—a payroll tax increase.

Mr B.S. WYATT: Ultimately, the argument of remediation versus previous debt and future debt et cetera has been had tonight. I am not surprised that this amendment has come. I would have been disappointed if it had not. The Leader of the Opposition is quite correct. Over the years, I moved a few amendments to the titles of bills and I was unsuccessful with those. The government will not support the proposed amendment.

Division

Amendment put and a division taken, the Acting Speaker (Mr I.C. Blayney) casting his vote with the ayes, with the following result —

Ayes (14)

Mr I.C. Blayney	Mr Z.R.F. Kirkup	Dr M.D. Nahan	Mr P.J. Rundle
Mr V.A. Catania	Mr S.K. L'Estrange	Mr D.C. Nalder	Mr A. Krsticevic *(Teller)*
Ms M.J. Davies	Mr R.S. Love	Mr K. O'Donnell	
Mrs L.M. Harvey	Mr W.R. Marmion	Mr D.T. Redman	

Noes (32)

Dr A.D. Buti	Mr W.J. Johnston	Mr P. Papalia	Ms J.J. Shaw
Mr J.N. Carey	Mr D.J. Kelly	Mr S.J. Price	Mrs J.M.C. Stojkovski
Mrs R.M.J. Clarke	Mr F.M. Logan	Mr D.T. Punch	Mr C.J. Tallentire
Mr M.J. Folkard	Mr M. McGowan	Mr J.R. Quigley	Mr D.A. Templeman
Ms J.M. Freeman	Ms S.F. McGurk	Mrs M.H. Roberts	Mr R.R. Whitby
Ms E. Hamilton	Mr S.A. Millman	Ms C.M. Rowe	Ms S.E. Winton
Mr T.J. Healy	Mr Y. Mubarakai	Ms R. Saffioti	Mr B.S. Wyatt
Mr M. Hughes	Mrs L.M. O'Malley	Ms A. Sanderson	Mr D.R. Michael *(Teller)*

Pairs

Mr P. Katsambanis	Mr M.P. Murray
Ms L. Mettam	Mr P.C. Tinley
Mr J.E. McGrath	Ms M.M. Quirk

Amendment thus negatived.

Clause put and passed.

Clauses 2 to 5 put and passed.

Clause 6: Section 5 amended —

Mr D.C. NALDER: I have some simple questions on the administration of this.

Mr B.S. Wyatt: I will try to find you some simple answers.

Mr D.C. NALDER: This one should be fine, I am fairly sure. I refer to proposed section 5(4), which states —

> Pay-roll tax on wages paid or payable on or after 1 July 2023 is imposed at the rate of 5.5%.

That is just going back to the old threshold—we did all that—but does it require, just to ensure that we do not trip over anything, the initial thresholds that are published, so that it does not just become 5.5 per cent across the whole board? It does not state that the old thresholds are to be reinstated, but thresholds are not included in this clause.

Mr B.S. WYATT: The thresholds remain the same, at $850 000, unless we make a change on the way before 2023, as set out in the Pay-roll Tax Assessment Act. That stipulates the threshold, which is not being amended. So I can confirm exactly what the member wanted me to confirm.

Dr M.D. NAHAN: This deals with non-group employers. Are group employers treated differently?

Mr B.S. WYATT: Clause 6 applies to all employers, group and non-group. This clause effectively deals only with what happens post-2023, going back to the threshold, and then we deal with non-group employers in proposed section 7 and with group employers in proposed section 10, in proposed division 1 and proposed division 3, respectively.

Clause put and passed.

Clause 7: Part 3 inserted —

Dr M.D. NAHAN: Rather than going through these things step-by-step, we made some changes under which we moved the initial threshold. After $7.5 million, we phased it out.

Mr B.S. Wyatt: It phases out at $7.5 million.

Dr M.D. NAHAN: At $7.5 million—okay. Has there been any change to that phase-out on the list? The only changes are the introduction of those top-ups—over $100 million by 0.5 per cent, and then an additional 0.5 per cent at $1.5 billion, for a five-year period. Those are the only effective changes.

Mr B.S. Wyatt: Correct.

Dr M.D. NAHAN: In terms of computation, is everything else the same?

Mr B.S. WYATT: That is right. I want to confirm that there is no change to the progressive phasing out of the payroll tax threshold from $850 000 through to $7.5 million. That was done through a pretty good amendment last year. There is no change to that—absolutely not. However, as the Leader of the Opposition made the point, I am fairly relaxed with him wandering around with the questions that he has. I am not going to worry about a particular section because this is a broad conversation around payroll tax.

Mr D.C. NALDER: Has the Treasurer actually tried to read through clause 7 and work out what on earth it is saying? The reason I ask is that, generally, mathematics is my strength, but it did my head in reading through these.

I acknowledge that the explanatory memorandum was very helpful, and I cannot help but suggest that that explanatory memorandum perhaps could have been part of the bill, so that people would actually understand what the issues are. It goes through all these different formulas with different initials. the question, I suppose, is: why did we leave it so complex in the bill, and not actually allow the layperson to pick up the bill and read it and understand it?

Mr B.S. WYATT: The member is right; it is incredibly complicated, but I just want to make one point. The Department of Finance and Treasury also understand that it is complicated, and when I first got it, I was asking what I was supposed to do with it. I was thinking straightaway of consideration in detail—good luck with that. However, importantly for people outside of this place, taxpayers are no longer required to manually calculate their payroll tax liability when they lodge their payroll tax returns. I did not know this until I was preparing for this debate. All taxpayers now lodge payroll tax returns through Revenue Online, which is an online lodgement portal enabling registered payroll tax clients or their agents to assess and pay payroll tax using electronic lodgement of payroll tax returns. Currently—this is what I was surprised by—there are no employers who lodge manual returns. I did not know that, as I said, until I was preparing for this. A taxpayer is only required to enter the details of taxable wages and exempt wages in their online return, and the system will calculate the rate applicable to determine the payroll tax liability for that return. I dare say that the companies we are dealing with here would pretty much know what that is going to be before they plug into that, because they will have professionals telling them exactly what it is going to be, to the nearest cent. But, helpfully for those who do not have that army of staff, an online calculator available on the Office of State Revenue website will also be updated to calculate the estimated tax payable by employers using the new progressive payroll tax scale. The member is right, this proposed section is incredibly complicated. I am just looking for something to help update the member on how the formulas work, and how they land on the two different rates. I will look for it while the next question is being asked, because I found it quite interesting. When that is plugged in with our own calculators, the numbers are slightly different, but that is taken account of in how we work our way through to 6.5 per cent.

Mr D.C. NALDER: While the Treasurer is looking for that additional information, can he just clarify that these formulas are exactly what sits behind the online system for employers? Are they the formulas that feed into the system so, as they calculate their payroll, it will push them down into those appropriate formulas and punch out the exact payroll tax requirement?

Mr B.S. WYATT: I will read something out that I am sure is not going to be helpful to anyone, but I will read it out anyway. This is about the issue of the marginal rate that is in the legislation —

> The formulas in the proposed amendments are the simplest way to incorporate the three effective marginal rates in the legislation. To reflect the marginal rates in the legislation would involve more formulas and calculations in the proposed amendments. The proposed amendments are based on the principle that a single equation can be used to take into account all relevant factors, such as whether the employer operates interstate, operates as part of a group, or operates for only part of a financial year. The rate determined based on Australian taxable wages is then applied to the employer's Western Australian wages. The use of this formula also minimises the compliance and administration cost. A similar formula was used to incorporate effective marginal rates into a sliding scale for the previous progressive tax scale regime, which applied prior to 1 July 2003.

There is the date I was trying to think of before. I am not sure whether that has helped, but it is good to get it on the record.

Dr M.D. NAHAN: Again, using this as an information collection point, there are effectively, at the state and federal level, and maybe also local government, a raft of other payroll taxes, and there have been others in the past. There used to be a training levy, and other levies on payroll. Of course, we have superannuation, to some extent, which is effectively a payroll tax. Does Treasury know any of those that exist now so that we can calculate at least the total payroll tax of large businesses? We have this as six per cent at over $1.5 billion. We know that. Do we have any of those left?

Mr B.S. WYATT: Off the top of my head, other than payroll tax, there is the Building and Construction Industry Training Fund levy, which is only on construction payrolls. I assume that the Leader of the Opposition is not referring to workers' compensation.

Dr M.D. Nahan: No.

Mr B.S. WYATT: The only thing I can think of now is the BCITF and payroll tax. I am not aware of any.

Dr M.D. NAHAN: In the 1990s, there was a very large training levy and it got up to about two or three per cent.

Mr B.S. Wyatt: Presumably, that applied on all payrolls.

Dr M.D. NAHAN: It was a cut-off, but it was on most payrolls. It was not progressive like this threshold. When they were all added up, the top payroll tax rate was pushing nine per cent. None of that has changed. Does this amendment bill make any change in the act to the treatment of the assessment of payrolls, the groupings arrangements or the treatment of employees?

Mr B.S. WYATT: No; there has been no change to any of that. The bill is very specific to the progressive scale. This is the only payroll tax bill we have dealt with since the election. We are not dealing with anything else in this legislation. Today I gave notice of the Land Tax Assessment Amendment Bill, which deals with something very specific about public statutory bodies that the Leader of the Opposition might recall. That bill will deal just with that matter. Next year I will probably bring in another land tax bill that will encompass some other bits that you guys had slowly coming through the system. This bill is very specific, just like the land tax bill that will be second read tomorrow. It is on a very specific issue and there will be no broader consequence.

Clause put and passed.

Title put and passed.

Leave granted to proceed forthwith to third reading.

Third Reading

MR B.S. WYATT (Victoria Park — Minister for Finance) [5.23 pm]: I move —

> That the bill be now read a third time.

I thank members and I look forward to a more comprehensive third reading debate on the second of the cognate bills.

Question put and passed.

Bill read a third time and transmitted to the Council.