BUSINESS TAX REVIEW (TAXING) BILL 2003

EXPLANATORY MEMORANDUM

Prior to the February 2001 State election, the Government committed to undertake a review of business taxes in Western Australia in its first year of office. The commitment was confirmed with the announcement of the Review of State Business Taxes in the 2001-02 Budget.

The main objective of the Review was to make recommendations on how to improve the efficiency, equity and simplicity of the State's tax system, with a particular focus on minimising compliance costs.

The Government tasked the Department of Treasury and Finance with conducting the Review. Following submissions from industry, taxpayer and community groups, and the use of an independent Reference Committee as a "sounding board" for reform proposals, Treasury and Finance presented its final report of the Review to the Treasurer on 28 February 2002.

Given the extensive package of reforms proposed by the report, the Government released, on 14 June 2002, a Draft White Paper for public comment titled "Streamlining Western Australia's Tax System – Fewer, Fairer and Simpler". The full report of the Review of State Business Taxes was also made publicly available at that time.

The Reference Committee was reconvened and expanded to consider the submissions responding to the public release of the Draft White Paper, and to provide an independent view of any proposed changes to the package of reforms.

On 22 January 2003, the Treasurer unveiled the Government's response to the Draft White Paper, indicating an intention to introduce legislation into the Parliament to put into effect the changes to the tax system.

This Bill, together with the Business Tax Review (Assessment) Bill 2003, seeks to implement the Business Tax Review recommendations for pay-roll tax and land tax.

PART 1 - PRELIMINARY

Clause 1: **Short Title**

This clause provides that the Act may be cited as the *Business Tax Review (Taxing) Act 2003.*

Clause 2: **Commencement**

This clause provides that the amendments in this Act operate from 1 July 2003.

PART 2 – LAND TAX RATES

This measure seeks to restructure and simplify the land tax scale by reducing the number of threshold brackets from 10 to 6.

The number of threshold brackets for properties with a value of up to $2,000,000 is halved, from eight to four – these properties account for 99% of the total number of land tax payers.

Based on the average annual growth in aggregate unimproved land values since the mid-1990s (around 8%), the average number of years for a property to advance through each threshold bracket would double, from 8 to 16 years.

It is anticipated that the revenue lost by the introduction of this measure (approximately $6 million annually) will be partially offset by the abolition of the land developers' concession.

<u>Clause 3:</u> **The Act amended**

This clause specifies that the amendments effected in Part 2 are to the *Land Tax Act 2002.*

<u>Clause 4:</u> **Section 5 amended**

Paragraph (a) of this clause inserts the phrase "for the relevant financial year" to provide that the tables in section 5 of the *Land Tax Act 2002* set out the rates at which land tax is imposed for different financial years.

Paragraph (b) of this clause replaces the original table heading to specify that the rates set out in that table apply to the 2002/03 financial year.

Paragraph (c) of this clause inserts the new self-explanatory "Table 2" which sets out the rates at which land tax is imposed for the 2003/04 and subsequent financial years.

PART 3 – SINGLE RATE OF PAY-ROLL TAX

This measure seeks to replace the current variable marginal pay-roll tax rate scale with a single marginal rate of 6.0% above an exemption threshold of $750,000.

Moving to a single rate of pay-roll tax will remove distortions and inequities caused by the current pay-roll tax regime, improve interstate harmonisation, and reduce compliance and administration costs.

This measure is estimated to cost $7.8 million in 2003-04 and $24.9 million in the three years to 2005-06. The revenue loss will be approximately offset by the gain from including eligible termination payments in the pay-roll tax base.

It is argued that an effect of the current rate scale is to discourage increased employment at payrolls for which the marginal rate is higher, and discourage the growth of smaller employers.

Under the proposed single marginal rate, the pay-roll tax for each additional dollar of wages will be the same for all employers, thereby removing distortions and inequities caused by the variable marginal rate scale.

It is estimated that around 53% of pay-roll tax payers will benefit from the single marginal rate. Of those employers facing an increase in their pay-roll tax bill, the average rise will be around 11%.

The single marginal rate system will improve interstate harmonisation and be much simpler, reducing both compliance and administration costs.

This measure will operate from 1 July 2003.

Complementary amendments for this change are also included in the Business Tax Review (Assessment) Bill 2003.

Clause 5: **The Act amended**

This clause specifies that the amendments effected in Part 3 are to the *Pay-roll Tax Act 2002.*

Clause 6: **Heading of Part 1 deleted**

This clause deletes the heading to Part 1, as the Act will no longer be divided into Parts.

Clause 7: **Part 2 replaced**

This clause repeals Part 2 as there is now a single rate of pay-roll tax which applies to all categories of employers.

The clause inserts a new section 5 to impose pay-roll tax at the rate of 6%.