# EXPLANATORY MEMORANDUM

## REVENUE LAWS AMENDMENT (TAXATION) BILL 1997

This Bill seeks to implement the taxation rate changes announced in the 1997/98 budget speech.

The remaining budget taxation measures are contained in the Revenue Laws Amendment (Assessment) Bill 1997.

This Bill is structured in 4 Parts as follows:

- Part 1 - Preliminary;
- Part 2 - Debits Tax Act 1990;
- Part 3 - Land Tax Act 1976; and
- Part 4 - Pay-roll Tax Act 1971.

Each of these Parts is discussed below.

### PART 1 - PRELIMINARY

This Part contains the title of the Act and the relevant commencement provisions.

Clause 1: Short title and citation.

Clause 2: Provides for this Act to commence on 1 July 1997, regardless of when it receives Royal Assent.

The 1 July 1997 commencement date is necessary to ensure that, even though the legislation may not have received Royal Assent by that date, the amendments contained in this Bill apply for the full 1997/98 financial year.

### PART 2 - DEBITS TAX ACT 1990

The Bill seeks to amend the Debits Tax Act to increase the tax rates to the same level that apply in all other mainland States.

Debits tax is a tax which was inherited from the Commonwealth in 1990 and which applies to withdrawals from accounts with cheque facilities.

While all other mainland States have progressively increased their tax rates, Western Australia's have remained static.

The new scale is to apply from 1 July 1997 and, after allowing for some reduction in the use of cheque facilities, these increases are estimated to raise an additional $47 million in 1997/98 and $51 million in a full year.

Apart from the pressures from the budget imperative, these increases are consistent with moves toward national uniformity in State financial taxes.

A national reform package, which is subject to Queensland confirming its participation, is proposing to replace the current debits tax and financial institutions duty with a single, more broadly based ad valorem debits tax.

This represents a significant attempt at co-operative tax reform by the States and Territories.

If achieved, the rationalisation of financial taxes will bring significant equity and efficiency benefits to the community, financial institutions and Governments.

Clause 3: This clause identifies the principal Act in Part 2 as the Debits Tax Act 1990.

Clause 4: Section 5 of the principal Act provides for the amount of tax imposed on taxable or eligible debits.

This clause amends section 5 to recognise the insertion of the new debits tax rate scale included under the substituted Schedule 1.

The amendment provides that one needs to have regard to the period in which the debit was made when applying the appropriate tax rate in the Schedule. Notably, the debits tax rates existing prior to the amendment are preserved so that they apply to taxable or eligible debits arising during the period prior to 1 July 1997.

Clause 5: This clause repeals the existing Schedule 1 and substitutes a new Schedule 1 which comprises 2 Divisions. These Divisions contain the rates of tax which are to apply to taxable and eligible debits.

Division 1 provides that the current debits tax rates continue to be imposed on debits arising prior to 1 July 1997, namely:

| | |
|---|---|
| Not less than $1 but less than $100 | 15 cents |
| Not less than $100 but less than $500 | 35 cents |
| Not less than $500 but less than $5,000 | 75 cents |
| Not less than $5,000 but less than $10,000 | $1.50 |
| $10,000 or more | $2.00 |

Division 2 provides new debits tax rates to be imposed on debits arising on or after 1 July 1997, namely:

| | |
|---|---|
| Not less than $1 but less than $100 | 30 cents |
| Not less than $100 but less than $500 | 70 cents |
| Not less than $500 but less than $5,000 | $1.50 |
| Not less than $5,000 but less than $10,000 | $3.00 |
| $10,000 or more | $4.00 |

## PART 3 - LAND TAX ACT 1976

The Bill seeks to amend the Land Tax Act to introduce a new land tax scale to apply from the 1997/98 year of assessment.

This new scale is intended to soften the impact of significant increases in taxable land values which have occurred as a result of the improving property market.

The scale has been designed to provide land tax relief to most taxpayers, and especially to those with land in the middle land value ranges who are most affected by the progressivity of the land tax scale which compounds the effect of land value increases.

A comparison of the tax payable under the current and proposed scales at selected land values is outlined below.

### LAND TAX PAYABLE AT SELECTED LAND VALUES

| Unimproved Value of Land $ | Land Tax Payable(a) Current Scale $ | Proposed Scale $ | Change $ | % |
|---|---|---|---|---|
| 10,000 | Nil | Nil | Nil | Nil |
| 50,000 | 75.00 | 75.00 | 0.00 | 0.00 |
| 75,000 | 117.50 | 112.50 | -5.00 | -4.25 |
| 100,000 | 180.00 | 175.00 | -5.00 | -2.78 |
| 150,000 | 345.00 | 320.00 | -25.00 | -7.25 |
| 200,000 | 605.00 | 545.00 | -60.00 | -9.92 |
| 300,000 | 1,565.00 | 1,310.00 | -255.00 | -16.29 |
| 400,000 | 2,765.00 | 2,410.00 | -355.00 | -12.84 |
| 500,000 | 3,965.00 | 3,610.00 | -355.00 | -8.95 |
| 750,000 | 7,565.00 | 6,810.00 | -755.00 | -9.98 |
| 1,000,000 | 11,565.00 | 10,810.00 | -755.00 | -6.53 |
| 2,000,000 | 31,165.00 | 30,410.00 | -755.00 | -2.42 |
| 5,000,000 | 91,165.00 | 90,410.00 | -755.00 | -0.83 |

(a) Excludes Metropolitan Region Improvement Tax.

The relief will be achieved by increasing the land value thresholds at which the tax rates apply, for all but the lowest and highest value ranges in the tax scale.

If the Government had not moved to provide this relief, it is estimated that land tax collections would have risen from $162 million in 1996/97 to $175 million in 1997/98, an increase of 8%.

The proposed tax scale is expected to raise $168 million in 1997/98, thereby limiting growth in collections to an estimated 3.7%.

It is also noteworthy that:

- Under the proposed tax scale, 60% of all taxpayers will receive either a decrease, or no increase, in their land tax bill in 1997/98; and

- Of the 40% of taxpayers whose land tax bill increases in 1997/98, more than two thirds will receive an increase of less than $20.

Furthermore, the proportion of taxpayers facing an increase of more than $100 in their tax bill in 1997/98 falls from 8.8% to 5.1% under the proposed tax scale.

This will be the fourth time since coming to office that the Government has provided land tax relief, recognising that with the equity benefits flowing from the system of annual valuations, it is important that the tax scale be constantly monitored and adjusted as appropriate.

Clause 6: This clause identifies the principal Act in this Part as the Land Tax Act 1976, as amended.

Clause 7: Amends section 9 to limit the application of the current scale of land tax rates so that is does not extend beyond the 1996/97 year of assessment.

Clause 8: Inserts a new section 10 into the Act to specify that from the 1997/98 year of assessment, land tax will be imposed at the rates shown in the proposed Schedule 6.

Clause 9: Inserts a new schedule of rates in the Act which will be in force from the 1997/98 year of assessment.

The current and proposed land tax rate scales are outlined below.

## CURRENT SCALE

| Unimproved Value of Land | | Land Tax |
|---|---|---|
| Exceeding $ | Not Exceeding $ | |
| 0 | 10,000 | Nil |
| 10,000 | 70,000 | $15.00 + 0.15 cent for each $1 in excess of $10,000 |
| 70,000 | 130,000 | $105.00 + 0.25 cent for each $1 in excess of $70,000 |
| 130,000 | 190,000 | $255.00 + 0.45 cent for each $1 in excess of $130,000 |
| 190,000 | 260,000 | $525.00 + 0.80 cent for each $1 in excess of $190,000 |
| 260,000 | 600,000 | $1,085.00 + 1.20 cents for each $1 in excess of $260,000 |
| 600,000 | 1,100,000 | $5,165.00 + 1.60 cents for each $1 in excess of $600,000 |
| 1,100,000 | | $13,165.00 + 2.00 cents for each $1 in excess of $1,100,000 |

## PROPOSED SCALE

| Unimproved Value of Land | | Land Tax |
|---|---|---|
| Exceeding $ | Not Exceeding $ | |
| 0 | 10,000 | Nil |
| 10,000 | 75,000 | $15.00 + 0.15 cent for each $1 in excess of $10,000 |
| 75,000 | 140,000 | $112.50+ 0.25 cent for each $1 in excess of $75,000 |
| 140,000 | 210,000 | $275.00 + 0.45 cent for each $1 in excess of $140,000 |
| 210,000 | 325,000 | $590.00 + 0.80 cent for each $1 in excess of $210,000 |
| 325,000 | 700,000 | $1,510.00 + 1.20 cents for each $1 in excess of $325,000 |
| 700,000 | 1,100,000 | $6,010.00 + 1.60 cents for each $1 in excess of $700,000 |
| 1,100,000 | | $12,410.00 + 2.00 cents for each $1 in excess of $1,100,000 |

## PART 4 - PAY-ROLL TAX ACT 1971

The Bill seeks to amend the Pay-roll Tax Act to reduce the rates of tax currently in force and to lift and broaden the wage ranges to which the various tax rates apply.

These measures are complementary to the pay-roll tax reform measures included in the Revenue Laws Amendment (Assessment) Bill 1997.

A comparison of the current and proposed pay-roll tax scales in summary form is outlined below.

### CURRENT SCALE

| Annual Payroll $ Exceeding | | Not Exceeding | Average Tax Rate % |
|---|---|---|---|
| 0 | - | 625,000 | 0.00 |
| 625,000 | - | 2,500,000 | Between 0.00 and 3.95 |
| 2,500,000 | - | 4,166,667 | Between 3.95 and 4.95 |
| 4,166,667 | - | 5,208,333 | Between 4.95 and 6.00 |
| Above 5,208,333 | | | 6.00 |

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### PROPOSED SCALE

| Annual Payroll $ Exceeding | | Not Exceeding | Average Tax Rate % |
|---|---|---|---|
| 0 | - | 675,000 | 0.00 |
| 675,000 | - | 2,700,000 | Between 0.00 and 3.65 |
| 2,700,000 | - | 4,500,000 | Between 3.65 and 4.60 |
| 4,500,000 | - | 5,625,000 | Between 4.60 and 5.56 |
| Above 5,625,000 | | | 5.56 |

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These rate reductions and threshold increases have been designed to make the net pay-roll tax base extensions included in the Revenue Laws Amendment (Assessment) Bill 1997 revenue neutral in 1997/98.

Under the proposed pay-roll tax scale, Western Australia will have the second highest exemption threshold and the second lowest tax rates of all the States.

Clause 10: This clause identifies the principal Act as the Pay-roll Tax Act 1971, as amended.

Clause 11: This clause proposes to amend section 5 of the principal Act which sets down the rates of pay-roll tax for local non-group employers.

It proposes to repeal the existing subsections (2) and (3). It also proposes that the repealed subsections be replaced by the following subsections:

- Subsection (2) which specifies the rate of tax for a month after the month of June 1997; and

- Subsection (3) which specifies the rate of tax to apply for a financial year from 1997/98 onwards.

Clause 12: This clause proposes to amend section 6 of the principal Act which deals with the determination of the rates of tax for non-group interstate employers.

This clause proposes to repeal the existing subsections (6) and (7). It also proposes that the repealed subsections be replaced by the following subsections:

- Subsection (6) specifies the method of determining the monthly rate of tax based on the total of estimated interstate wages and taxable wages for the financial year 1997/98 and any subsequent financial year; and

- Subsection (7) specifies the method of calculating the rate of tax based on the total of actual interstate wages and taxable wages for the financial year 1997/98 and subsequent financial years.

Clause 13: This clause proposes to amend section 7 of the principal Act which deals with the determination of the rates of tax for group employers.

This clause proposes to repeal the existing subsections (7) and (8). It also proposes that the repealed subsections be replaced by the following subsections:

- Subsection (7) specifies the method of determining the monthly rate of tax based on the total of estimated interstate wages and taxable wages for group employers for the financial year 1997/98 and subsequent financial years; and

- Subsection (8) specifies the method of calculating the rate of tax based on the total of actual interstate wages and taxable wages for group employers for the financial year 1997/98 and for subsequent financial years.

Clause 14: Clause 14 is a saving provision which proposes that clauses being repealed in this Act should continue to have force in respect of wages paid or payable prior to 1 July 1997.