EXPLANATORY MEMORANDUM

REVENUE LAWS AMENDMENT (TAXATION) BILL 1998

This Bill seeks to implement the taxation rate changes announced in the 1998/99 Budget speech on 30 April 1998.

The remaining Budget taxation measures are contained in the Revenue Laws Amendment (Assessment) Bill 1998.

The Bill is structured in 3 Parts as follows:

Part 1 - Preliminary;
Part 2 - Land Tax Act 1976; and
Part 3 - Stamp Act 1921.

Each of these Parts is discussed below.

PART 1 - PRELIMINARY

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

<u>Clause 1</u>: Short title and citation.

<u>Clause 2</u>: This clause provides for the Act to commence on 1 July 1998, regardless of when it receives Royal Assent so that the amendments contained within the Bill apply for the full 1998/99 financial year.

This clause also contains provisions to ensure that the higher rates of stamp duty cannot be avoided by the early cancellation and renewal of an insurance policy, or the prepayment of premiums.

Subclause (1) provides for the changes to the stamp duty and land tax regime to commence on 1 July 1998, if Royal Assent is received on or before that date, subject to specific exceptions relating to insurance duty.

Subclause (2) provides for the changes to the stamp duty and land tax regime to commence on 1 July 1998, if Royal Assent is received after that date, subject to specific exceptions relating to insurance duty.

Subclause (3) seeks to ensure that the higher rates of stamp duty will apply in relation to a policy of insurance that is <u>effected</u> on or after 30 April 1998 and before 1 July 1998 if:

- the period of insurance commences on or after 1 July 1998; or

- the period of insurance commences on or after 30 April 1998 and before 1 July 1998 and the policy replaces another policy with the same insurer that would otherwise have expired on or after 1 July 1998.

Subclause (4) seeks to ensure that the higher rates of stamp duty will apply in relation to policies which are renewed on or after 30 April 1998 and before 1 July 1998 if:

- the period for which the policy is renewed commences on or after 1 July 1998; or

- the policy being renewed would otherwise have expired on or after 1 July 1998.

PART 2 - LAND TAX ACT 1976

The Bill seeks to amend the Land Tax Act to introduce a new land tax scale to apply from the 1998/99 year of assessment.

The new scale is intended to ameliorate the impact on taxpayers of recent sizeable increases in unimproved land values.

The scale has been designed to provide land tax relief to most taxpayers, and especially 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)		Change	
$	Current Scale $	Proposed Scale $	$	%
10 000	Nil	Nil	Nil	Nil
25 000	37.50	37.50	0.00	0.00
50 000	75.00	75.00	0.00	0.00
75 000	112.50	112.50	0.00	0.00
100 000	175.00	165.00	-10.00	-5.71
150 000	320.00	290.00	-30.00	-9.37
200 000	545.00	475.00	-70.00	-12.84
300 000	1 310.00	1 030.00	-280.00	-21.37
400 000	2 410.00	1 830.00	-580.00	-24.07
500 000	3 610.00	2 630.00	-980.00	-27.15
750 000	6 810.00	5 630.00	-1 180.00	-17.33
1 000 000	10 810.00	9 430.00	-1 380.00	-12.77
1 500 000	20 410.00	18 630.00	-1 780.00	-8.72
2 000 000	30 410.00	28 630.00	-1 780.00	-5.85
5 000 000	90 410.00	88 630.00	-1 780.00	-1.97
10 000 000	190 410.00	188 630.00	-1 780.00	-0.93

(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 value range 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 $168 million in 1997/98 to $191 million in 1998/99, an increase of 14%.

The proposed tax scale is expected to raise $177.5 million in 1998/99, thereby limiting growth in collections to around 5.6%.

It is also noteworthy that:

- under the proposed tax scale, 56% of all taxpayers will receive either a decrease, or no increase, in their land tax bill in 1998/99; and

- of the 44% of taxpayers whose land tax bill will increase in 1998/99, more than three quarters will receive an increase of less than $20.

Furthermore, the proportion of taxpayers facing increases in their tax bills of more than $100 in 1998/99 falls from 11% to 3.5% under the proposed tax scale.

This will be the fifth time since coming to office that the Government has amended the land tax scale to provide 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 3: This clause identifies that the amendments in this Part are to the Land Tax Act 1976, as amended.

Clause 4: This clause amends section 10 to limit the application of the current scale of land tax rates so that it does not extend beyond the 1997/98 year of assessment.

Clause 5: This clause inserts a new section 11 into the Act to specify that from the 1998/99 year of assessment, land tax will be imposed at the rates shown in the proposed Schedule 7.

Clause 6: This clause inserts a new schedule of rates in the Act which will be in force from the 1998/99 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	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

PROPOSED SCALE

Unimproved Value of Land		Land Tax
Exceeding $	Not Exceeding $	
0	10 000	NIL
10 000	85 000	$15.00 + 0.15 cent for each $1 in excess of $10 000
85 000	170 000	$127.50 + 0.25 cent for each $1 in excess of $85 000
170 000	270 000	$340.00 + 0.45 cent for each $1 in excess of $170 000
270 000	500 000	$790.00 + 0.80 cent for each $1 in excess of $270 000
500 000	800 000	$2 630.00 + 1.20 cents for each $1 in excess of $500 000
800 000	1 200 000	$6 230.00 + 1.60 cents for each $1 in excess of $800 000
1 200 000		$12 630.00 + 2.00 cents for each $1 in excess of $1 200 000

PART 3 - STAMP ACT 1921

This Bill seeks to amend the Stamp Act 1921 to:

- increase the stamp duty rates on general insurance and workers' compensation insurance;
- increase the stamp duty rates on property transfers;
- increase nominal stamp duty charges; and
- extend stamp duty concessions that are currently available to certain home buyers and small businesses.

Additional base broadening measures are contained in the Revenue Laws Amendment (Assessment) Bill 1998.

This Bill provides that the stamp duty rate on general insurance policies will be increased from the current 5% of the premium, to 8% of the premium value.

It also provides for the concessional stamp duty rate on workers' compensation insurance policies to be increased by a similar proportion, from the current 3% of the premium, to 5% of the premium value.

These changes will not affect life insurance, nor will they apply to health insurance, motor vehicle third party insurance, insurance on the transport of goods, or insurance on commercial marine hulls. All of these insurance types are either exempt from stamp duty or subject to only nominal duty.

The proposed increases in stamp duty on general insurance and workers' compensation insurance are estimated to raise additional revenue of \$34 million in 1998-99 and \$37 million in a full year.

The Bill also seeks to increase stamp duty rates on transfers of property by an average of around 12.5%.

This translates to an increase of around \$410 for property valued at \$140,000 or around 0.3% in the total cost of the property.

This measure is estimated to raise additional revenue of \$37 million in 1998-99 and \$44 million in a full year.

Nevertheless, to cushion the impact of these measures on lower income earners, the Bill also increases the existing stamp duty concessions for home buyers and purchasers of a small business.

Specifically, the property value threshold for the first home buyers' rebate of up to \$500 will be increased from \$85,000 to \$135,000, with similar proportional increases in the thresholds for first home land and properties north of the 26th parallel – to \$52,000 and \$202,500 respectively.

In addition, the threshold for the concessional 1.5% rate of duty for all home buyers and purchasers of a small business will be increased from $85,000 to $100,000.

The concessional rate will then be phased out for properties valued between $100,000 and $135,000.

By way of example, these concessions will mean that a purchaser of a first home valued at $100,000 will save up to $900, or nearly 50%, compared to the stamp duty currently payable.

The extension of these concessions is estimated to cost an additional $10 million in 1998-99 and $12 million in a full year.

The final stamp duty change proposed in the Bill is to increase the nominal stamp duty charges as follows:

- the general nominal fee will be increased from $5 to $20. This will apply, for example, to deeds signed under seal which do not fall under any other head of duty;

- the nominal fee for a mortgage sale will be increased from $10 to $20; and

- the nominal fee for duplicates will be increased from $2 to $5.

These increases are estimated to raise additional revenue of around $2 million per annum.

<u>Clause 7:</u> This clause identifies that the amendments in this Part are to the Stamp Act 1921, as amended.

<u>Clause 8:</u> This clause seeks to amend section 31(7) of the Act to increase the amount of duty chargeable on an instrument which may be waived by the Commissioner from $2 to $5. This has been raised in line with increases in certain stamp duty rates and recognises that the Commissioner should have the ability to waive duty up to $5 in certain circumstances.

<u>Clause 9:</u> This clause amends section 75AE of the Stamp Act to increase the maximum value of property which qualifies for a concessional rate of duty from $85,000 to $135,000 with the full concessional rate phasing out for properties valued between $100,000 and $135,000.

Section 75AE provides a concessional rate of stamp duty for certain dutiable property which includes a dwellinghouse which the purchaser intends to occupy as their principal place of residence, or a business undertaking where the purchaser intends to carry on that business undertaking.

Where the value of the dutiable property does not exceed $100,000 the rate of duty is $1.50 per $100 or part thereof.

Where the value of the dutiable property is greater than $100,000 and less than $135,000 the duty is $1,500 plus $5.50 for each $100 or part thereof on the amount above $100,000.

As a result of the phase-out, the duty payable at a value of $135,000 is equivalent to that payable under the general conveyance rate scale.

Clause 10: This clause amends section 75AG to increase the dutiable property value thresholds for the first home owner rebate.

Section 75AG provides a rebate of up to $500 for first home owners acquiring properties at the lower end of the market.

It is recognised that property values have increased and that the rebate thresholds should also increase to ensure that people on lower incomes continue to benefit from the rebate scheme.

The value threshold for property containing a dwellinghouse has increased from $85,000 to $135,000.

The value threshold for a dwellinghouse located above the 26th parallel has increased from $127,500 to $202,500.

The value threshold for property which does not include a dwellinghouse has increased from $33,000 to $52,000.

Clause 11: This clause amends section 80 to make reference to a new subitem being inserted into the Second Schedule to ensure that the existing $5 duty applying to each re-appraisement of rent contained in a lease agreement is maintained. This amendment was necessary to prevent an increase to $20 in line with other increases in the nominal duty rate, as such an increase was considered to impose too great a burden on lessees leasing lower value properties.

Clause 12: This clause amends the Second Schedule to reflect the increased rates of stamp duty.

Subclause (1) amends item 4(1) of the Second Schedule to delete the existing rates of duty to be applied to a conveyance or transfer on sale of a property and insert the increased rates.

A comparison of the old and new rates is as follows:

OLD RATES

Property Value	Conveyance Duty Rate
$0 - $80 000	$1.75 per $100 or part thereof
$80 001 - $100 000	$1 400 + $2.50 per $100 or part thereof in excess of $80 000
$100 001 - $250 000	$1 900 + $3.25 per $100 or part thereof in excess of $100 000
$250 001 - $500 000	$6 775 + $4.00 per $100 or part thereof in excess of $250 000
$500 001 upwards	$16 775 + $4.25 per $100 or part thereof in excess of $500 000

PROPOSED RATES

Property Value	Conveyance Duty Rate
$0 - $80 000	$1.95 per $100 or part thereof
$80 001 - $100 000	$1 560 + $2.85 per $100 or part thereof in excess of $80 000
$100 001 - $250 000	$2 130 + $3.70 per $100 or part thereof in excess of $100 000
$250 001 - $500 000	$7 680 + $4.55 per $100 or part thereof in excess of $250 000
$500 001 upwards	$19 055 + $4.85 per $100 or part thereof in excess of $500 000

Subclause (2) deletes the existing item 4(5) of the Second Schedule which provides for the concessional rate of duty for dwellinghouses and businesses in accordance with section 75AE.

A new item 4(5) is inserted in its place. The new item provides in paragraph (a) that where the value of the dutiable property does not exceed $100,000, the rate of duty is $1.50 per $100 or part thereof.

Paragraph (b) provides that where the value of the dutiable property is greater than $100,000 and less than $135,000, the duty is $1,500 plus $5.50 per $100 or part thereof on the amount above $100,000.

This phases out the concessional rate for properties valued between $100,000 and $135,000 so that the duty payable at a value of $135,000 is equivalent to that payable under the general conveyance rate scale.

Subclause (3) amends item 5(1) of the Second Schedule to increase the nominal duty imposed upon the conveyance or transfer of a lot to facilitate the carrying out of a town planning scheme from $5 to $20.

Subclause (4) amends item 6 of the Second Schedule to increase the nominal duty imposed upon a conveyance or transfer of a kind not described elsewhere in the Schedule, and not being a settlement, deed of gift or an exchange from $5 to $20. This item would have application, for example, where property is transferred pursuant to the terms of a Will.

Subclause (5) amends item 8 of the Second Schedule to increase the nominal duty imposed on deeds or declarations from $5 to $20. This item may have application, for example, to a deed which evidences the change of the trustee of a discretionary trust.

Subclause (6) amends item 9 of the Second Schedule to increase the duty chargeable on a duplicate or counterpart of an instrument chargeable with duty from $2 to $5.

A duplicate is a copy (not photocopy) of an instrument which has been executed by all parties, whereas a counterpart arises where there are two copies of an instrument, one of which has been signed by the purchaser and the other by the vendor, which together form the one instrument. In such circumstances, one part would be charged with the full ad valorem duty with the other part charged with duty under this item.

Subclause (7) amends item 12(4) of the Second Schedule to increase the nominal duty imposed on a lease or agreement for lease not specifically provided for elsewhere in the Schedule from $5 to $20.

Subclause (8) inserts a new subitem into item 12 of the Second Schedule to ensure that a re-appraisement of rent remains subject to duty of $5. This amendment complements the amendment to section 80 contained in clause 11.

Subclause (9) amends item 13 of the Second Schedule to increase the duty on an instrument which transfers a mortgage on sale for a consideration in money for not less than market value from $10 to $20, and on a transfer of any other kind not specifically provided for, from $5 to $20.

Subclause (10) amends item 15 of the Second Schedule to increase the duty imposed on an instrument effecting a partition of any property from $5 to $20. An example of a partition would be where a package of jointly owned shares is split equally amongst the owners in their own right.

Subclause (11) amends item 16 of the Second Schedule to increase the rate of duty for certain types of insurance.

Paragraph (a) amends subitem (1)(a) to increase the duty applicable to workers' compensation insurance from 3% to 5% of the premium value.

Paragraph (b) amends subitem (1)(c) to increase the duty applicable to general insurance from 5% to 8% of the premium value.

Paragraph (c) amends subitem (2) to increase the rate of duty for general insurance with an undisclosed premium from 5 cents to 8 cents per $100 of the value of the sum insured.

Clause 13: This is a saving provision to ensure that the rates in force prior to 1 July 1998 continue to apply to instruments executed before 1 July 1998, but subject to the commencement provisions set out in Part 1.

This will assist in ensuring that notwithstanding that the rate increases operate from 1 July 1998, a house purchaser who executes their contract of sale on 29 June 1998 and has the instrument stamped on say 1 September 1998 so settlement can proceed, will pay duty on that instrument at the pre 1 July 1998 rates.