EXPLANATORY MEMORANDUM

REVENUE LAWS AMENDMENT (TAXATION) BILL 1999

This Bill seeks to implement the taxation rate changes announced in the 1999/2000 Budget speech on 6 May 1999.

The Bill is structured in three Parts as follows:

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

An explanation of the amendments in each Part is provided 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: This clause provides the relevant commencement dates for the amendments contained in the Bill.

Subclause (1) provides that the Act comes into operation on the date upon which it receives the Royal Assent, unless otherwise specified.

Subclause (2) provides that where the Act receives the Royal Assent on or before 1 July 1999, the amendments to the Land Tax Act contained in Part 2 of this Act are to come into operation on 1 July 1999.

Subclause (3) provides that where the Act receives the Royal Assent after 1 July 1999, the amendments to the Land Tax Act contained in Part 2 of this Act are to commence retrospectively with effect from 1 July 1999.

Subclause (4) provides the commencement provisions for amendments detailing changes in the rate of stamp duty payable on the issue or transfer of a motor vehicle licence contained in section 7.

Paragraph (a) provides that where the Act receives the Royal Assent on or before 1 July 1999, the amendments are to come into operation on 1 July 1999.

Paragraph (b) provides that where the Act receives the Royal Assent after 1 July 1999, the amendments are to come into operation on the date upon which the Royal Assent is received.

PART 2 - LAND TAX ACT 1976

This Part of the Bill seeks to amend the Land Tax Act to introduce a new land tax scale to apply from the 1999/2000 year of assessment.

The new scale is intended to reduce the impact on taxpayers of "bracket creep", where increased land values push land taxpayers into higher tax brackets.

The scale has been designed to provide land tax relief to most taxpayers, and especially those with land in the mid-value ranges where "bracket creep" most impacts on small businesses and small investors (including self-funded retirees).

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	165.00	150.00	-15.00	-9.09
150 000	290.00	275.00	-15.00	-5.17
200 000	475.00	420.00	-55.00	-11.57
300 000	1 030.00	870.00	-160.00	-15.53
400 000	1 830.00	1 582.50	-247.50	-13.52
500 000	2 630.00	2 382.50	-247.50	-9.41
750 000	5 630.00	5 182.50	-447.50	-7.94
1 000 000	9 430.00	8 782.50	-647.50	-6.86
1 500 000	18 630.00	17 782.50	-847.50	-4.54
2 000 000	28 630.00	27 782.50	-847.50	-2.96
5 000 000	88 630.00	87 782.50	-847.50	-0.95
10 000 000	188 630.00	187 782.50	-847.50	-0.44

(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 $178 million in 1998/99 to $201 million in 1999/2000.

The proposed tax scale is expected to raise $194 million in 1999/2000. After adjustments for LandCorp becoming liable to pay land tax for the first time in 1999/2000 the growth in collections has been limited to around 7%.

It is also noteworthy that:

- under the proposed tax scale, 46% of all taxpayers will receive either a decrease, or no increase, in their land tax bill in 1999/2000; and

- of the 54% of taxpayers whose land tax bill will increase in 1999/2000, nearly 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 1999/2000 falls from nearly 10% if the current scale were retained to less than 5% under the proposed tax scale.

This will be the sixth 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.

<u>Clause 3:</u> This clause identifies that the amendments contained in Part 2 are to the Land Tax Act 1976.

<u>Clause 4:</u> This clause amends section 11 of the Act to limit the application of the current land tax rate scale so that it does not extend beyond the 1998/99 year of assessment.

<u>Clause 5:</u> This clause inserts a new section 12 into the Act to specify that from the 1999/2000 year of assessment, land tax will be imposed at the rates shown in proposed Schedule 8.

<u>Clause 6:</u> This clause inserts a new schedule of rates into the Act which will be in force from the 1999/2000 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	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

PROPOSED SCALE

Unimproved Value of Land		Land Tax
Exceeding $	**Not Exceeding $**	
0	10 000	NIL
10 000	100 000	$15.00 + 0.15 cent for each $1 in excess of $10 000
100 000	190 000	$150 00 + 0.25 cent for each $1 in excess of $100 000
190 000	325 000	$375.00 + 0.45 cent for each $1 in excess of $190 000
325 000	550 000	$982.50 + 0.80 cent for each $1 in excess of $325 000
550 000	850 000	$2 782.50 + 1.20 cents for each $1 in excess of $550 000
850 000	1 250 000	$6 382.50 + 1.60 cents for each $1 in excess of $850 000
1 250 000		$12 782.50 + 2.00 cents for each $1 in excess of $1 250 000

PART 3 - STAMP ACT 1921

This Part of the Bill seeks to amend the Stamp Act to replace the current flat 3% stamp duty rate on the issue and transfer of motor vehicle licences to new owners, with a sliding rate scale.

This amendment will raise an estimated additional $25 million per year and at the same time will redistribute the burden of the tax towards higher valued vehicles.

The proposed rate scale has three tiers.

- for licences issued or transferred for vehicles valued at up to $15,000 the stamp duty will be reduced to 2.5% of the market value of the vehicle;

- for vehicles valued between $15,000 and $40,000, the stamp duty rate will increase proportionately from 2.5% to 5.0%, as the value of the vehicle increases; and

- for vehicles valued at more than $40,000, the duty will be 5.0% of the vehicle value.

Under the new rate scale, buyers of vehicles valued at less than $20,000 will pay less stamp duty on the issue or transfer of the licence than they would under the current scale.

It is estimated that about three-quarters of all vehicle buyers fall into this category, including low income families buying a small new vehicle or a used vehicle.

Only more expensive vehicles will be subject to an increase in stamp duty.

Most other States also apply a sliding stamp duty rate scale.

In Western Australia, non-commercial buyers of lower value vehicles will pay less stamp duty than they would in most other States.

<u>Clause 7:</u> Subclause (1) repeals existing item 14 of the Second Schedule to the Act and replaces it with a three tiered rate scale.

The first tier applies to vehicles where the market value does not exceed $15,000. Duty is calculated at 2.5% of the market value.

The second tier applies to vehicles where the market value is over $15,000, but does not exceed $40,000. Duty is calculated using the formula:

The % rate of: $2.5 + \left(\frac{MV - 15000}{10000} \right)$ of the market value (MV)

Example 1

For a motor vehicle with a market value of $20,000, the stamp duty is calculated using the formula as follows:

$$2.5 + \left(\frac{20000 - 15000}{10000} \right) \quad = \quad 2.5 + 0.5 \quad = \quad 3\%$$

Therefore the stamp duty is 3% of $20,000 or $600

Example 2

For a motor vehicle with a market value of $25,000, the stamp duty is calculated using the formula as follows:

$$2.5 + \left(\frac{25000 - 15000}{10000} \right) \quad = \quad 2.5 + 1.0 \quad = \quad 3.5\%$$

Therefore the stamp duty is 3.5% of $25,000 or $875

The third tier applies to vehicles where the market value exceeds $40,000. Duty is calculated at 5% of the market value.

The duty payable is to be rounded down to the nearest 5 cents.

Subclause (2) is a transitional provision to ensure that where an application for the issue or transfer of a licence is made prior to the new stamp duty rate coming into operation, the stamp duty payable upon the transfer of the licence will be at the existing rate of $3 per $100 or part thereof of the value of the vehicle.

Subclause (3) qualifies the transitional provision in subclause (2) such that if Royal Assent is received after 1 July 1999, any person who makes an application for the issue or transfer of a licence on or after 1 July 1999 but has not paid before Royal Assent will be required to pay duty at the new rate.

This means that persons who make application in person after 1 July 1999 and make immediate payment before the Act commences will pay at the old rate.

Subclause (4) provides that where an assessment has been made by the licensing authority prior to the new stamp duty rate coming into operation, the stamp duty required to be paid when the licence is subsequently issued or transferred will be that shown in the assessment.

These transitional arrangements are required as the stamp duty liability arises upon the issue or transfer of a licence. As the making of an application or the making of an assessment by the licensing authority do not always occur concurrently, transitional provisions are required to ensure the stamp duty amount is static throughout the assessment and collection process.