

## REVENUE LAWS AMENDMENT BILL 2014

### EXPLANATORY MEMORANDUM

This Bill seeks to amend the *Duties Act 2008* and the *Land Tax Act 2002* to implement two of the revenue and savings measures announced in the 2014-15 State Budget, which make changes to the first home buyer transfer duty concession and introduce a new land tax scale from 2014-15.

This Bill also seeks to amend the *Pay-roll Tax Assessment Act 2002* to implement the Government's 2013 election commitment to progressively increase the payroll tax exemption threshold to \$850,000.

In response to the high demand for services in Western Australia and the costs of providing those services, combined with weaker than expected revenues and a lower share of the GST revenue, the Government announced a new package of revenue and savings measures in this year's State Budget. These new measures build on the Fiscal Action Plan announced in the 2013-14 State Budget and allow additional spending to be directed towards front-line services, including health, education, disabilities and child protection services.

One of the new measures announced in this year's State Budget seeks to adjust the property value thresholds under the first home buyer transfer duty concession to provide a full exemption for home purchases of \$430,000 or less, down from the current exemption threshold of \$500,000. The concession will then phase out for homes valued between \$430,000 and \$530,000, down from the current \$600,000. These changes better reflect the value of homes being purchased by first home buyers in Western Australia. Amendments to the Duties Act are required to implement this measure.

No changes will be made to the concession for the purchase of vacant land, with a full exemption continuing to be available on land valued up to \$300,000, phasing out at \$400,000.

It is estimated that 64 per cent of first home buyers will be unaffected by the changes as the purchase price of their properties would either be below the new exemption threshold of \$430,000, above the previous concessional scale threshold limit of \$600,000, or they qualify for the concession for vacant land that will not change.

Even after these changes, Western Australia's assistance to first home buyers is still generous compared to most other States, with many providing no transfer duty concession, or no first home owner grant on the purchase of an established home.

An interstate comparison of the duty payable by first home buyers on the purchase of an established home worth \$450,000 shows that the duty currently payable in other States and Territories, other than Queensland, ranges from \$11,382 to \$20,057. In comparison, first home buyers in Western Australia will pay just \$3,838. This measure is expected to save \$222 million over the four years from 2014-15 to 2017-18.

This amendment is proposed to commence on 1 July 2014, or on the day after the amending legislation receives Royal Assent, if Assent is not received before 1 July 2014.

The 2014-15 State Budget also announced a 10 per cent across the board increase to land tax rates, to apply from the 2014-15 land tax assessment year. The change to the land tax rates will offset lower than expected growth in land values and help fund the demand for additional expenditure on government services.

Subject to the passage of legislation, the new land tax scale will be reflected in the 2014-15 assessment notices that the Commissioner of State Revenue will start to issue from around late September this year.

The majority of taxpayers are expected to experience only a small increase in their land tax bills in dollar terms as a result of the changed scale. For example, just under half of taxpayers – those holding land with an unimproved value of up to \$500,000 – will experience an increase of \$20 or less per year as a result of these changes. For around 80 per cent of taxpayers – those with land valued up to \$1 million – the increase in their land tax bills will be no more than \$70.

Despite the increase in rates, Western Australia's land tax will remain lower than that of other jurisdictions for land valued up to \$10 million. For example, for a landholding with an unimproved value of \$1 million, land tax payable in Western Australia will increase from \$700 to \$770, substantially below the \$9,508 payable in New South Wales, the \$2,975 payable in Victoria and the \$4,500 payable in Queensland. This measure is estimated to raise \$334 million over the four years 2014-15 to 2017-18.

The final measure included in this Bill is to amend the Pay-roll Tax Assessment Act to increase the payroll tax exemption threshold from \$750,000 to \$800,000 from 1 July 2014 and from \$800,000 to \$850,000 from 1 July 2016. This honours the 2013 election commitment given by the State Government and builds on the tax rebates provided for the 2009-10 and 2012-13 payroll tax years to support small businesses. This measure is estimated to benefit over 16,000 employers at a total cost of about \$121 million over the three years 2014-15 to 2016-17.

## **Part 1 – Preliminary**

### **Clause 1: Short title**

This clause provides that the short title of this Act is the *Revenue Laws Amendment Act 2014*.

### **Clause 2: Commencement**

This clause provides the commencement dates for the Act.

Paragraph (a) provides that Part 1 of the Act comes into operation on the day the Act receives the Royal Assent.

Paragraph (b) provides that the rest of the Act comes into operation on 1 July 2014 if assent day is on or before 1 July 2014.

Paragraph (c) provides that if assent day is after 1 July 2014, Part 2 of the Act comes into operation the day after assent day and Parts 3 and 4 of the Act are deemed to have come into operation on 1 July 2014.



## **Part 2 – Duties Act 2008 amended**

### **Clause 3: Act amended**

This clause provides that the amendments in this Part are to the *Duties Act 2008*.

### **Clause 4: Section 142 amended**

Section 142 sets out the conditions that must be satisfied for a transaction that is a transfer or an agreement for the transfer, of dutiable property to be considered a first home owner grant concessional transaction and eligible for a concessional rate of duty.

This concession applies to dutiable property that is vacant land on which a home is to be built or land on which there is already a home.

One of the conditions for the concession requires that the property must not exceed a maximum threshold.

This clause lowers the maximum threshold for land on which there is a home from \$600,000 to \$530,000. The threshold for vacant land on which a home is to be built remains at \$400,000.

### **Clause 5: Schedule 2 amended**

This Schedule contains the rates of transfer duty, with Division 2 setting out the concessional rates of duty that apply to certain concessional transactions in the Transfer Duty Chapter, including the first home owners concessional rate of duty.

This clause adjusts the thresholds for dutiable value applicable to property that includes a home for a first home owner grant concessional transaction with a corresponding adjustment to the rate of duty.

The tax free threshold is reduced from \$500,000 to \$430,000 and the maximum eligibility threshold for the concession is reduced from \$600,000 to \$530,000.

The concessional rate of duty for a dutiable value from \$430,000 to \$530,000 is \$19.19 per \$100 or part thereof. The concession in this range tapers so that at a dutiable value of \$530,000 the duty payable is equivalent to the duty payable at the residential rate of duty.

## **Part 3 – Land Tax Act 2002 amended**

### **Clause 6: Act amended**

This clause provides that the amendments in this Part are to the *Land Tax Act 2002*.

**Clause 7:**      **Section 5 amended**

This clause amends the Land Tax Act to insert new land tax rates for 2014-15 and subsequent financial years. It also limits the land tax rates in Table 9 so they do not extend beyond the 2013-14 financial year.

Subclause (1) deletes the heading in Table 9 and inserts a new heading so that the rates in that Table apply for the 2013-14 financial year only.

Subclause (2) inserts Table 10, which sets out the land tax rates for 2014-15 and subsequent financial years.

**Part 4 – *Pay-roll Tax Assessment Act 2002* amended**

**Clause 8:**      **Act amended**

This clause provides that the amendments in this Part are to the *Pay-roll Tax Assessment Act 2002*.

**Clause 9:**      **Section 8 replaced**

Section 8 provides for the annual and monthly tax free thresholds for payroll tax.

This clause replaces section 8.

The annual tax free threshold amount is increased from \$750,000 to \$800,000 for the financial years beginning on 1 July 2014 and 1 July 2015 and to \$850,000 for a financial year beginning on or after 1 July 2016.

The monthly tax free threshold amount is increased from \$62,500 to \$66,667 for the financial years beginning on 1 July 2014 and 1 July 2015 and to \$70,833 for a financial year beginning on or after 1 July 2016.