EXPLANATORY MEMORANDUM

REVENUE LAWS AMENDMENT (TAXATION) BILL 2007

This Bill seeks to amend the Land Tax Act 2002, the Land Tax Assessment Act 2002, the Metropolitan Region Improvement Tax Act 1959 and the Stamp Act 1921, to implement the taxation measures announced in the 2007-08 Budget, which focus on first home buyer stamp duty relief, motor vehicle licence stamp duty cuts and reform of the land tax and metropolitan region improvement tax scales.

The total value of the tax relief to be provided by these measures is $433 million in 2007-08 and $2.1 billion over four years.

Parts 2, 3 and 4 of the Bill contain the proposed new land tax and metropolitan region improvement tax scales for 2007-08 and subsequent financial years. Part 5 of the Bill contains the stamp duty amendments for first home buyers and for motor vehicles.

**Land tax rate**

On the basis of preliminary land values from the Valuer General’s Office for 2007-08, land tax and metropolitan region improvement tax revenues were forecast to grow much more strongly than the forward estimates published in the 2006-07 Mid-Year Review. If there were no adjustment to the scale, land tax revenue would have soared by around 80% in 2007-08, reflecting a combination of an average 49% increase in land values and bracket creep.

The new land tax scale to apply from 1 July 2007 significantly reduces the total tax payable compared to existing arrangements. It counters bracket creep by stretching the land value ranges by an average of 114% and reducing three of the marginal tax rates.

The land tax exemption threshold will increase by $100,000, to $250,000. As a result, around 80,000 land owners who would otherwise receive a land tax bill in 2007-08 will now be below the taxable threshold.

The second tier threshold will be increased by $485,000 to $875,000, the third tier threshold will be increased by $1.125 million to $2 million, the fourth tier increased by $3 million to $5 million and the top tier doubled from $5 million to $10 million.

The reductions in the marginal rates are from 1.62% to 1.3% in the third tier, from 2.3% to 1.55% in the fourth tier and from 2.5% to 2.3% in the top tier. While the marginal rate in the second tier increases from 0.45% to 0.75%, the increase in the thresholds ensures that significantly less land tax is payable at all land values.
These changes are consistent with a recommendation in the State Tax Review that flattening the land tax scale should be a high priority. As a result of these and previous amendments to the land tax scale, the Government will have effectively capped growth in aggregate land tax revenues at less than half the growth in the Perth median house price over the past six years.

The cost of this measure is estimated to be around $280 million in 2007-08 and $1.3 billion over the four years to 2010-11.

**Aged care providers**

The Bill proposes an exemption from land tax for private aged care providers from 1 July 2007. This will ensure consistent treatment of private and not-for-profit aged care providers who operate in the same industry, and follows similar arrangements in other jurisdictions.

The cost of this measure is estimated to be around $1 million in 2007-08 and $4 million over the four years to 2010-11. About 60 aged care providers in Western Australia are expected to benefit.

**Metropolitan region improvement tax**

Metropolitan region improvement tax is payable on any land in the metropolitan region that is also subject to land tax.

The Bill provides for the metropolitan region improvement tax scale to be reformed in 2007-08 so that tax only applies to the value of land above the new exemption threshold of $250,000, in the same manner as land tax. Under current arrangements, the tax is levied on the full value of land once the exemption threshold is exceeded, which means that the tax would start at a minimum of $375 for a property valued at $250,000. This will now drop to zero at $250,000.

Around 90% of metropolitan region improvement tax payers will pay less tax under the new arrangement, after taking into account the revised tax rate of 0.18%. While owners of properties of over $1.5 million will pay more metropolitan region improvement tax, their combined land tax and metropolitan region improvement tax bill will be much lower than if the current scales had been retained.

The cost of this measure is estimated to be around $36 million in 2007-08 and $167 million over the four years to 2010-11.

**Stamp duty – first home buyers**

The exemption thresholds under the first home buyer stamp duty scheme will be doubled, from $250,000 to $500,000 for home purchases and from $150,000 to
$300,000 for purchases of vacant land. A concessional rate will apply to purchases of homes priced between $500,000 and $600,000 and to purchases of vacant land priced between $300,000 and $400,000.

These new thresholds will apply to instruments entered into on or after 10 May 2007, being the date of the 2007-08 Budget, to avoid disruption to property market activity. The Bill contains a provision to ensure that a person executing an instrument prior to 10 May 2007 that would not be eligible for the first home owner rate of duty, or that would be subject to a higher amount of duty, could not execute a replacement instrument, on or after 10 May 2007 in order to get the benefit of the new thresholds and rates.

Under the new thresholds, around 88% of first home buyers will receive a full stamp duty exemption and further 6% will receive a concessional rate. This compares to around 22% receiving a full exemption and a further 31% a concessional rate under the current thresholds, which have been in place since October 2004.

As announced by the Premier on 11 April 2007, a stamp duty exemption is to be provided for purchases under the First Start Shared Equity Scheme, which commenced on 12 February 2007. As purchases under First Start are subject to a maximum property value of $365,000, this exemption will be delivered through the higher exemption thresholds for all first home buyers from 10 May 2007 onwards. However, transitional provisions are included in this Bill for the between 12 February 2007 and 10 May 2007.

In total, these benefits for first home buyers will cost around $11 million in 2006-07, $80 million in 2007-08 and $350 million over the four years to 2010-11.

**Motor vehicle licence stamp duty**

Motor vehicle stamp duty relief is provided in this Bill by increasing the thresholds under the stamp duty scale that applies to light passenger vehicles.

Currently, vehicles valued below $15,000 are subject to a minimum duty rate of 2.75% and vehicles valued above $40,000 are subject to a maximum rate of 6.5%. Between these thresholds, a sliding scale progressively increases the duty rate from 2.75% to 6.5%.

Both thresholds will be increased by $10,000, to $25,000 and $50,000 respectively. This will be implemented in two stages, with a $5,000 increase in the thresholds for the grant or transfer of a licence on or after 1 July 2007 and a further $5,000 increase for the grant or transfer of a licence on or after 1 January 2009.
For a standard family vehicle, such as a new Falcon or Commodore valued at around $35,000, the amount of stamp duty payable will be reduced by 26% or $525, by 1 January 2009. The largest dollar reduction will be $600, for a vehicle valued at $40,000.

This measure will cost around $27 million in 2007-08 and $197 million over the four years to 2010-11.

**Motor vehicle licence duty – heavy vehicles**

The single rate of duty of 3% for new heavy vehicles is to be extended to used heavy vehicles. This will simplify the stamp duty treatment of heavy vehicles by eliminating the sliding scale that is currently only applied to used heavy vehicles. It will also eliminate an inequity whereby purchases of used heavy vehicles above $20,000 currently incur more stamp duty than purchases of new heavy vehicles of the same value. The changes will apply to the grant or transfer of a licence on or after 1 July 2007.

This measure will cost around $2 million in 2007-08 and $8 million over the four years to 2010-11.

**Motor vehicle licence duty – caravans**

An exemption from stamp duty is being provided for caravans (trailer type) and camper trailers in order to bring the taxation treatment into line with a number of other States and reduce any tax incentive to purchase a caravan interstate. The exemption will apply to the grant or transfer of a licence on or after 1 July 2007.

This measure will cost around $7 million in 2007-08 and $33 million over the four years to 2010-11.

### Part 1 – Preliminary

#### Clause 1: Short title

This clause provides that the short title of this Act is the *Revenue Laws Amendment (Taxation) Act 2007*.

#### Clause 2: Commencement

This clause provides the commencement dates for Parts of the Act.

Paragraph (a) provides that Part 1 comes into operation on the day it receives the Royal Assent. Part 1 provides the short title
Paragraph (b) provides that Parts 2 and 4 come into operation on the day after it receives the Royal Assent.

Part 2 amends the *Land Tax Act 2002* to provide a new land tax rate scale for the 2007-08 assessment year.

Part 4 amends the *Metropolitan Region Improvement Tax Act 1959* to provide a new rate scale for the 2007-08 assessment year.

Paragraph (c) provides that Part 3 comes into operation, or is deemed to have come into operation, on 30 June 2007. Part 3 provides a land tax exemption for land that is used for an aged care facility.

Paragraph (d) provides that Part 5 (other than section 13(2)) comes into operation, or is deemed to have come into operation on 1 July 2007. Part 5 provides amendments to the *Stamp Act 1921* to provide increased thresholds for the first home owner rate of stamp duty, increase the thresholds at which the various rates of stamp duty apply on the grant or transfer of a motor vehicle licence with effect from 1 July 2007, provide an exemption from duty on the grant or transfer of a licence for a caravan or camper trailer and make the duty payable on the grant or transfer of a licence for a used heavy vehicle the same as for a new heavy vehicle.

Paragraph (e) provides that section 13(2) comes into operation on 1 January 2009. Section 13(2) provides increased thresholds at which the various rates of stamp duty apply on the grant or transfer of a motor vehicle licence with effect from 1 January 2009.

### Part 2 – *Land Tax Act 2002* amended

**Clause 3:** The Act amended

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

**Clause 4:** Section 5 amended

This clause amends section 5 by limiting the rates in Table 5 to the 2006-07 assessment year and inserting a new Table 6 to specify the land tax rate scale for the 2007-08 assessment year and subsequent years.
The proposed table is set out below:

<table>
<thead>
<tr>
<th>Unimproved value of the land</th>
<th>Rate of land tax</th>
</tr>
</thead>
<tbody>
<tr>
<td>Exceeding ($), Not exceeding ($)</td>
<td></td>
</tr>
<tr>
<td>0, 250 000</td>
<td>Nil</td>
</tr>
<tr>
<td>250 000, 875 000</td>
<td>0.15 cent for each $1 in excess of $250 000</td>
</tr>
<tr>
<td>875 000, 2 000 000</td>
<td>$937.50 + 0.75 cent for each $1 in excess of $875 000</td>
</tr>
<tr>
<td>2 000 000, 5 000 000</td>
<td>$9 375 + 1.30 cents for each $1 in excess of $2 000 000</td>
</tr>
<tr>
<td>5 000 000, 10 000 000</td>
<td>$48,375 + 1.55 cents for each $1 in excess of $5 000 000</td>
</tr>
<tr>
<td>10 000 000</td>
<td>$125 875 + 2.30 cents for each $1</td>
</tr>
</tbody>
</table>

Part 3 – Land Tax Assessment Act 2002 amended

Clause 5: The Act amended

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

Clause 6: Section 38A inserted

This clause inserts the new section 38A.

38A. Land used as an aged care facility

Subsection (1) provides definitions of “aged care facility” and “residential care”. The definitions are self-explanatory.

Subsection (2) provides a land tax exemption for land that is used for the purposes of an aged care facility. The land must actually be being used as an aged care facility as at midnight 30 June prior to the assessment year.

Where only part of the land is used as an aged care facility, the apportionment provision in section 18 of the Land Tax Assessment Act will apply so that the exemption will only be allowed in respect of the portion of the land being used for the
exempt purpose.

For example, if part of the land is used for the purposes of an aged care facility and part of the land for a non-exempt purpose, land tax is payable on the proportion of the land used for the non-exempt purpose.

The owner of the land will be required to make an application for the exemption in accordance with section 19 of the Land Tax Assessment Act.

**Part 4 – Metropolitan Region Improvement Tax Act 1959 amended**

**Clause 7:** The Act amended

This clause provides that the amendments in this Part are to the *Metropolitan Region Improvement Tax Act 1959*.

**Clause 8:** Section 9 amended

This clause amends section 9 to limit its application so that it does not apply to any assessment year after the assessment year ending on 30 June 2007.

**Clause 9:** Section 10 inserted

This clause inserts section 10 into the Act to provide the metropolitan region improvement tax rates for the 2007-08 assessment year and subsequent years.

The proposed table is set out below:

<table>
<thead>
<tr>
<th>Unimproved value of land</th>
<th>Rate of MRIT</th>
</tr>
</thead>
<tbody>
<tr>
<td>Exceeding ($)</td>
<td>Not exceeding ($)</td>
</tr>
<tr>
<td>0</td>
<td>250 000</td>
</tr>
<tr>
<td>250 000</td>
<td></td>
</tr>
</tbody>
</table>

**Part 5 – Stamp Act 1921 amended**

**Division 1 – The Act amended**

**Clause 10:** The Act amended

This clause provides that the amendments in this Part are to the
Stamp Act 1921.

Division 2 – Amendments relating to first home owners

Clause 11: Section 75AG amended

Paragraph (a) amends section 75AG(1a) to ensure that the first home owner stamp duty provisions do not apply where the unencumbered value of the land and home exceeds $600,000. This represents the upper limit for the first home owner rate of duty for land that includes a home.

Paragraph (b) amends section 75AG(1a) to ensure that the first home owner stamp duty provisions do not apply where the unencumbered value of the land exceeds $400,000. This represents the upper limit for the first home owner rate of duty for vacant land.

Clause 12: Second Schedule amended

Subclause (1) amends item 4(2) to set out the new thresholds for the first home owner rate of duty for a home.

Paragraph (a) amends item 4(2) so that no duty is payable by a first home owner on the transfer of land that includes a home (within the meaning of section 75AG) where the amount or value of the consideration does not exceed $500,000.

Paragraph (b) amends item 4(2) so that the concessional rate of stamp duty for a first home owner on the transfer of land that includes a home (within the meaning of section 75AG) applies where the amount or value of the consideration exceeds $500,000 but does not exceed $600,000.

Paragraph (c) amends item 4(2) so that the concessional rate of stamp duty for a first home owner on the transfer of land that includes a home (within the meaning of section 75AG) is $26.10 for every $100 and any fractional part of $100 by which the amount or value of the consideration exceeds $500,000. This is a phase-out rate, and ensures that duty is payable at the normal conveyance rate at a value of $600,000.

Subclause (2) amends item 4(3) to set out the new thresholds for the first home owner rate of duty for vacant land.

Paragraph (a) amends item 4(3) so that no duty is payable by a first home owner on the transfer of vacant land where the
amount or value of the consideration does not exceed $300,000.

Paragraph (b) amends item 4(3) so that the concessional rate of stamp duty for a first home owner on the transfer of vacant land applies where the amount or value of the consideration exceeds $300,000 but does not exceed $400,000.

Paragraph (c) amends item 4(3) so that the concessional rate of stamp duty for a first home owner on the transfer of vacant land is $15.70 for every $100 and any fractional part of $100 by which the amount or value of the consideration exceeds $300,000. This is a phase-out rate, and ensures that duty is payable at the normal conveyance rate at a value of $400,000.

**Division 3 – Amendments relating to motor vehicles**

**Clause 13: Second Schedule amended**

Subclause (1) amends item 14(1) to specify the rate scale applicable to the grant or transfer of a licence for a vehicle that is not a heavy vehicle from 1 July 2007.

Paragraph (a) provides that where the market value of the vehicle does not exceed $20,000, duty is calculated at the rate of 2.75% of the market value.

Paragraphs (b), (c) and (d) provide that where the market value of the vehicle exceeds $20,000 but does not exceed $45,000, the rate at which duty is calculated varies between 2.75% and 6.5% and is calculated using the formula:

\[
\text{The % rate of: } \frac{2.75 + (MV - 20,000)}{6,666.66}\text{ of the market value (MV)}
\]

The resulting percentage rate is to be rounded to 2 decimal places.

Paragraph (e) provides that where the market value of the vehicle exceeds $45,000, duty is calculated at the rate of 6.5% of the market value.

Subclause (2) amends item 14(1) to specify the rate scale applicable to the grant or transfer of a licence for a vehicle that is not a heavy vehicle from 1 January 2009.

Paragraph (a) provides that where the market value of the vehicle does not exceed $25,000, duty is calculated at the rate of 2.75% of the market value.
Paragraphs (b), (c) and (d) provide that where the market value of the vehicle exceeds $25,000 but does not exceed $50,000, the rate at which duty is calculated varies between 2.75% and 6.5% and is calculated using the formula:

\[
\text{The } \% \text{ rate of: } 2.75 + \left( \frac{\text{MV} - 25,000}{6,666.66} \right)
\]

The resulting percentage rate is to be rounded to 2 decimal places.

Paragraph (e) provides that where the market value of the vehicle exceeds $50,000, duty is calculated at the rate of 6.5% of the market value.

Subclause (3) amends the rate of duty applicable to the grant or transfer of a licence for a heavy vehicle that has previously been licensed or registered, to make it consistent with the rate that applies to a heavy vehicle that has not previously been licensed or registered. The rate for all heavy vehicles will be the lesser of 3% of the market value and $12,000.

Subclause (4) deletes item 14(3) of the Second Schedule which provided the rate of duty for a heavy vehicle that had previously been licensed or registered. This item is no longer required.

**Clause 14: Third Schedule amended**

This clause inserts new subclauses (7) and (8) into clause 9 of the Third Schedule to provide an exemption from stamp duty on the grant or transfer of a vehicle licence for a caravan or a camper trailer from 1 July 2007.

Subclause (7) specifies that an exemption is provided for a caravan or camper trailer that is permanently fitted for human habitation in the course of a journey. This does not mean that it is designed for a person to travel in while it is in the process of moving, but rather that it is designed to be used as accommodation while a person is on a journey.

Subclause (8) specifies that for the purpose of subclause (7), “trailer” means a vehicle designed to be drawn by another vehicle.

This exemption is not applicable for self-propelled caravans.
Division 4 – Transitional provisions

Clause 15: Schedule 4 amended

This clause inserts a new Division 2 into Schedule 4 to provide transitional provisions for the Revenue Laws Amendment (Taxation) Act 2007.

Division 2 – Provisions for Revenue Laws Amendment (Taxation) Act 2007

1. Application of Act in relation to certain first home owners

Subclause (1) provides that, subject to subclause (3), the new thresholds and rates for first home owners apply to instruments executed on or after 10 May 2007, being the date the changes were announced in the 2007-08 State Budget.

Subclause (2) provides that the new thresholds and rates for first home owners acquiring a home through the First Start Shared Equity Scheme provided by the State through the Department of Housing and Works, apply to instruments executed on or after 12 February 2007. This is the date that the scheme commenced.

Subclauses (3) and (4) provide that the existing thresholds and rates continue to apply to an instrument executed before 10 May 2007, other than an instrument to which subclause (2) applies.

The existing threshold and rates also apply to any instrument executed on or after 10 May 2007, that replaces an instrument executed before 10 May 2007. This is to ensure that a person executing an instrument before 10 May 2007 that would not be eligible for the first home owner rate of duty, or that would be subject to a higher amount of duty, could not execute a replacement instrument, where all or the majority of the instrument’s terms and conditions remain unchanged, on or after 10 May 2007 in order to get the benefit of the new thresholds and rates.


Subclause (1) provides that the amendments in this Act apply to an application for the grant or transfer of a licence for a motor vehicle, a heavy vehicle or a caravan or camper trailer that is made on or after 1 July 2007.
Subclause (2), paragraph (a) provides that where an application for the grant or transfer of a licence for a motor vehicle, a heavy vehicle or a caravan or camper trailer is made before 1 July 2007, the old provisions continue to apply and stamp duty will be payable at the old rates.

Paragraph (b) provides that where the amount of duty in respect of the grant or transfer of a licence has been assessed under section 76K before 1 July 2007, the old provisions will apply. An assessment under section 76K usually arises where a person has failed to apply for the transfer of a licence when required to do so by the Road Traffic Act 1974.


Subclause (1) provides that this clause has effect from 1 January 2009, which is the date when the second increase in thresholds for stamp duty on the grant or transfer of a licence for a motor vehicle takes effect.

Subclause (2) provides that the new thresholds apply where an application for the grant or transfer of a licence is made on or after 1 January 2009.

Subclause (3) paragraph (a) provides that the thresholds that apply from 1 July 2007 continue to apply where an application for the grant or transfer of a licence is made before 1 January 2009.

Paragraph (b) provides that where the amount of duty in respect of the grant or transfer of a licence has been assessed under section 76K before 1 January 2009, the thresholds that apply from 1 July 2007 will apply. An assessment under section 76K usually arises where a person has failed to apply for the transfer of a licence when required to do so by the Road Traffic Act 1974.

4. Reassessments

This clause puts an obligation on the Commissioner to make any reassessment necessary to give effect to this Division.