

REVENUE LAWS AMENDMENT (TAXATION) BILL 2009

Second Reading

Resumed from 17 June.

HON KEN TRAVERS (North Metropolitan) [5.47 pm]: I note that the parliamentary secretary is away on urgent parliamentary business. I do not think she needs to note anything, but her presence would be a courtesy.

The opposition will be supporting the Revenue Laws Amendment (Taxation) Bill 2009, which seeks to do two things: firstly, to place a cap on the amount of growth in individual land values for the purpose of determining land tax assessment; and, secondly, to reintroduce the concession for land developers to be able to calculate lots on an en globo basis rather than on a subdivided basis after they have received their approvals from the Western Australian Planning Commission. Members in this house will be well aware of the many instances that have occurred over the years in which people have complained about massive growth in their land tax assessments. Although I think this is a good measure, I am not sure that it will ultimately resolve that problem, because 50 per cent is still a significant increase. If that 50 per cent increase in the value of land also triggers a person jumping up into a higher land tax bracket, it may result in that person paying more than a 50 per cent increase.

I understand that last year there was a massive increase in land tax assessments on commercial properties, and when I was Parliamentary Secretary to the Minister for Tourism, a number of properties on the south-west coastal strip between Dunsborough and Busselton experienced a period of rapid growth, and complaints were received from some of the owners down there. At the time, it was interesting talking to them. They were faced with the situation that they had based their revenue collection and room rates on the expected land tax, and when there was a massive jump in land tax, they had to recoup that in the following year's income. They had to find the money, pay the land tax and then recoup it from the people who stayed in their property the following year, whereas they had worked on collecting it in the year that had just gone in anticipation of what they had expected would be the land tax bill. This measure will assist in that situation to some degree. I suspect that we will find that in most cases it will be a quick process of appreciation of the property. Although there will be a 50 per cent cap this year, within one year it will be back up to the land tax assessable value. During the briefing, the Treasury officers agreed that it was unlikely that people would go more than two years without that long-term sustained growth in land tax values.

The other thing I found interesting was that it gave me cause to refocus on the revenue. Although there will be a slight drop in land tax revenue for this financial year, it is only slightly down on what was estimated for 2008-09. The estimate was \$563 million for 2008-09 and \$547 million for 2009-10. It drops a bit further in 2010-11, but starts to grow again over 2011-12 and 2012-13. That refers only to land tax, but despite changes for all the taxes on property, including the abolition of stamp duty on mortgages, there is still expected to be eight per cent growth this year in total property taxes, 6.9 per cent next year, 8.6 the year after, and 8.3 per cent the following year. This reminded me of the arguments we are hearing at the moment that all the problems of the state government result from a reduction in income, when most of its problems are created by the lack of its ability to control growth in expenditure and, more importantly, to target that growth in expenditure to capital works and the like that will provide for the long-term future of the state.

The second measure relates to the ability to consider the global value of land holdings rather than the full subdivided value of lots. The major developers of land made sure that they did not get subdivision approvals through just before the end of the financial year. They waited, and there was a bit of a rush just afterwards, so that they could get them through and hopefully have most of them sold off before the end of the following financial year. I suspect that this will be of some benefit to those small landowners who subdivide the back of their properties around Perth. Metropolitan infill is something that we should be encouraging, but it needs to be controlled and managed in a proper way. It is estimated that 2 600 people will benefit from this measure this year. They are mainly commercial property owners, and that is a flow-on from previous years when there was very positive growth in property prices. It has some revenue implications for the state government, but they are not significant. The opposition will support this legislation.

HON GIZ WATSON (North Metropolitan) [5.55 pm]: The Greens (WA) are happy to support the Revenue Laws Amendment (Taxation) Bill 2009, although we have some questions about its purpose. As I understand it, the first purpose of the bill is to give the government power to cap the annual growth in the land values used as a basis for assessing land tax and metropolitan region improvement tax. It is intended that regulations be introduced to set a cap of 50 per cent for 2009-10. According to the second reading speech, it is intended that this measure will address an apparent problem with the volatility and unpredictability of growth in tax bills. The second purpose of the bill is to reintroduce the so-called en globo concession for land developers. Developers will be given up to one year after subdivision in which they can pay land tax and metropolitan region improvement tax, based on a land value that pretends that the subdivision has not yet happened, which is an

interesting way of dealing with this. This is said to be designed to address the current phenomenon in which the timing of land tax results in a relative flood of sales of subdivision lots in May of each year to reduce taxable land held at 30 June, and a deferral of applications for subdivision until after 1 July for the same reason. This amendment seeks to overcome that congestion. I was provided with a graph in the briefing that I had that appears to show that this has happened since the concession was removed from the books.

One of the concerns that the Greens have is that even if we support the notion of a cap, the bill creates a head power to introduce a system that could be abused. For example, what is to stop the government of the day from introducing regulations setting the cap amount of, say, 10 per cent or five per cent for 2009-10? We note that the intention is to introduce a cap of 50 per cent, but from the point of view of Parliament that is no more than an intention; it is not enshrined in the bill itself. Perhaps being a bit more politically cynical, what is to stop a cap being introduced only for a certain type of landholder or for landholders in certain areas of the state?

Hon Norman Moore: You shouldn't be so cynical. It doesn't become you.

Hon GIZ WATSON: I should not be so cynical; I know. We are just viewing this piece of legislation with a sharp eye, and pointing out that that is something that could happen under this bill.

We do not support the idea behind the proposed cap. The notion of capping the value that forms the basis of this tax amounts to offering concessions to people who have benefited from significant capital gains. We acknowledge the potential for those people to be asset rich but cash poor, but this is not the same issue as the previous government's proposed luxury land tax. People who live in expensive homes but have very little income to pay taxes are not subject to land tax or the metropolitan region improvement tax anyway. From the briefing that I received on this topic, and answers to subsequent questions, we understand that the land tax and MRIT reductions may result in a reduction in rent on these properties, and that will generally be the case for commercial leases, depending on the lease agreements, but they generally will not be passed on in the case of residential tenancies. That will offer a windfall gain for landholders who have benefited from an abnormally large capital appreciation. In a time of declining government revenue generally and across-the-board cuts to essential services, we would ask how this is fair and appropriate.

Turning to the en globo matter that this bill also addresses, although the Treasurer's pre-budget media release of 17 April claims that reintroducing the en globo concession would provide benefits for both developers and homebuyers, it is not at all clear to me how homebuyers would benefit. Surely the biggest single factor driving the supply of newly subdivided blocks is the strength of the property market. At the moment the biggest factor driving the supply is the federal boost to first homeowner grants that has been provided. That is actually a much more significant factor in this market. Even if we were to accept that there would be a more consistent supply of land as compared with the situation with subdivided lots without the en globo concession, that seems to marginally affect housing affordability only for a small part of the year at the most. The interest we have in affordability more generally means that we are more concerned about whether the tax savings will result in cheaper lots for first homebuyers in particular. At this stage, we have not been presented with convincing evidence that tax savings will be consistently passed on in this way. With land prices moving as they are currently, these measures could end up providing only theoretical tax relief. Presumably, subdivided land still benefits from the cap, even in a depressed market.

Sitting suspended from 6.00 to 7.30 pm

Hon GIZ WATSON: I was talking about some of the issues that perhaps ameliorate concerns about these revenue laws amendments. The next thing to note is that the cap affects just the value of the land for the purpose of assessing land tax, and the metropolitan region improvement tax; not the tax per se. Land tax may still increase by more than 50 per cent in a year because of the impact of the progressive land tax scales. I also note that if a developer is able to access the en globo concession, he does not also need a cap for that land tax or MRIT in that year. The value of the subdivided lots will be based on the value of the unsubdivided lots for the previous tax year. This is teased out in the first of the examples that appear as part of the discussion in clause 12 of the bill. It also is elaborated in the explanatory memorandum. We also note that there are a number of hurdles to obtaining the en globo concession in clause 10 of the bill.

I will make some general comments with regards to this area of land tax while we have this opportunity with the amendment before us. The starting point for land tax is that it is paid on the aggregated unimproved value of taxable land. However, there are many exemptions and concessions regarding this idea. For example, land tax is not charged on the principal place of residence. That suggests this is effectively a tax on income-producing properties, with tax percentage rates increasing as the value of the underlying property increases. We have no problem with that idea, but we do have a problem with the fact that not all income-producing properties are in the tax net. The Greens (WA) continue to oppose the idea that investment houses, for example, are charged land tax while mining and agricultural lands are exempt from that tax. It is inequitable and anachronistic to give

special concession to particular land users without a compelling public interest driver in that decision. We note, however, that there are exemptions for lands owned by charitable institutions, public hospitals and universities, provided the land in question has not been leased out to business tenants. We have no problem with those sorts of exemptions.

We congratulate the then Gallop government for changing laws, such that from 1 July 2004 land held under an approved conservation covenant is exempt from land tax. We also note that the Carpenter government legislated effectively on 1 July 2006 for land tax exemptions for parents, grandparents or siblings who were providing independent accommodation for relatives with disabilities. We support those approaches to this tax regime.

On the conservation covenant issue, we now have a situation where land that is to be protected for conservation purposes is tax exempt. That is a good thing, but we also need to look more closely at that. Exemption is only for approved conservation covenants. We would suggest that this needs to be broadened out. There are still people who wish to have conservation covenants over their land who are not accessing that system. To go further and suggest that the privately owned native vegetation should not be subject to land tax at all, unless it is being used for income-generating purposes, is an argument that even hard-headed economic advocates should support. Why should something be taxed if it is not being used to generate income? If what we are seeking to tax is property ownership, surely it is the role of the federal government, through its capital gains system, to do that.

The first thing to note about the metropolitan region improvement tax is that it is effectively a tax on income-producing properties. It is subject to the same exemptions and concessions as land tax, although it is applied at one rate above a single land value threshold. The MRIT is levied upon the unimproved value of land that is both liable for land tax and located within the boundaries of the metropolitan region. The MRIT is hypothecated to a trust fund for expenditure by the Western Australian Planning Commission on road reserves, parks and recreation areas.

I note the contribution to the cognate debate on the Revenue Laws Amendment Bill 2008 and the Revenue Laws Amendment Bill (No. 2) 2008 by my former colleague Hon Paul Llewellyn on 19 June 2008. He observed that reductions in the MRIT—the same point can be made in relation to land tax—have very little impact on the affordability of housing. It reduces our capacity to manage bushland areas because it reduces the pool of money that is available for that management. Members would be aware that it is the MRIT that provides a pool of money to purchase and manage Bush Forever sites. I understand it is a laudable scheme to protect remnant vegetation in the metropolitan area that has been supported by successive governments. It was actually the Court government that set up that scheme. When we have reductions in the MRIT, there are also reductions in the capacity to purchase and manage urban bushland. I agree with Hon Paul Llewellyn that such reductions let the state government off the hook in this area and put more pressure on already stretched local governments. If that money is not coming from the MRIT, often it is local governments that are picking up the tab for management of urban bushland.

Those are my comments on this bill. The Greens (WA) will not oppose it, but we do question who will benefit under these amendments and whether it is doing anything other than assisting those people who are already well off and doing quite nicely, thank you very much, in terms of land sales in Western Australia.

HON HELEN BULLOCK (Mining and Pastoral) [7.38 pm]: I support the Revenue Laws Amendment (Taxation) Bill 2009. This bill seeks to amend the Land Tax Assessment Act 2002 to provide for a couple of measures that are laid out in the 2009-10 budget.

The first measure is to introduce a system of capping on the taxable value of land tax. By doing so it will deliver tax relief of \$6.9 million in 2009-10, nothing in 2010-11 and \$2.3 million in both 2011-12 and 2012-13. This measure will benefit 2 600 fortunate property investors. It will give them great tax relief from the extraordinary increase in the values of their property.

The second measure is the reintroduction of a concession for land developers to ease the property market to solve the bottleneck problem. It is commonsense that if we give money away, that money must come from somewhere. Where has it come from? Has the funding for this tax relief come from the payment that has been cut down for the victims of abuse who were in state care? Has the funding for this tax relief come from government cost-cutting to health services? Has the funding for this tax relief come from the savings made by having the Western Australian museums in Geraldton, Kalgoorlie-Boulder and Albany close their doors one day a week? Has the funding for this tax relief come from the abolition of the state funeral support system? Has the funding for this tax relief come from the fishing tax, which was introduced in the name of protecting endangered species? Is it because of this tax relief that we cannot appropriate more funding for non-profit organisations? Those are my questions. As Hon Giz Watson mentioned, I think this bill will benefit those who are already quite well off.

Extract from *Hansard*

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Hon Ken Travers; Hon Giz Watson; Hon Helen Bullock; Hon Norman Moore

Part of the government's election campaign promised tax reform in order to deliver \$250 million of tax cuts. As we all know, at the state level we have only limited taxation sources of revenue—that is, firstly, payroll tax, which is a large proportion of the taxation source of revenue; secondly, stamp duty; and thirdly, land tax. Land tax actually occupies only a very small proportion of the taxation source of revenue. If the government is really serious about delivering \$250 million of tax reform, it would pick the big taxation source of payroll tax, which is long overdue for reform, or even stamp duty to help first home owners buy their property, like the federal government did with its stimulus package.

As I said, I support this bill that gives a modest \$6.9 million tax relief, but I am looking forward to seeing some more serious tax reforms in the areas of payroll tax and stamp duty, which the government promised to do.

Debate adjourned until a later stage of the sitting, on motion by **Hon Norman Moore (Leader of the House)**.

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