REVENUE LAWS AMENDMENT BILL 2014

Third Reading

MR D.C. NALDER (Alfred Cove — Minister for Finance) [10.04 am]: I move —

> That the bill be now read a third time.

MS R. SAFFIOTI (West Swan) [10.04 am]: I want to make a brief contribution to the third reading debate on the Revenue Laws Amendment Bill 2014. I want to go through some of the key issues that were raised by the opposition during consideration in detail, in what was quite an interesting and informative discussion last night. There are a couple of questions that I forgot to ask during consideration in detail and that I remembered on my way to Parliament today, and I will put those during this third reading debate.

I first want to outline again the interesting background to this bill and the fact that, yet again, a taxation bill is being brought in by the Liberal government. We heard during consideration in detail that the duties increases in this bill will bring in an extra $334 million and the land tax increases will bring in an extra $222 million; however, the payroll tax changes will reduce revenue by approximately $121 million. Therefore, this bill is another significant tax grab. We heard also that there is some urgency to have this bill passed by 30 June so that the duties and land tax increases can take place on 1 July, so there is a time imperative.

What we have seen this week is that this bill has taken precedence over the supply bills. That is unusual; it is not a regular occurrence. It appears from the answer to a question that we asked during consideration in detail that this is the first time in anyone's living memory that two taxation increases and one taxation cut have been contained within the same bill. To make changes to duties, to land tax and to payroll tax all in the same bill is a very interesting way of presenting these changes to Parliament. As I have said, this is the first time in anyone's living memory that we have had presented to Parliament an omnibus bill that makes changes to three taxation and revenue acts. That presented some difficulty in determining our position on the bill, but I think we were able to work through that last night.

Last night, I sought clarification from the Clerk about whether this is the correct way to present all these changes. I did that because I have been told by one of my colleagues who is a bit more learned on these issues than I am that one of the reasons we do not tend to include changes to other acts in the same piece of legislation is that we do not want to go down the American path. In America, they tend to attach provisions to legislation to try to get them through Congress. I was contemplating moving that a Swan Valley land tax assistance package be attached to this bill. However, I was told that that would not be in order. As has been said by my learned friend the member for Victoria Park—I am glad he has come into the chamber—to present to Parliament a bill that contains two massive tax increases and one small tax cut poses some questions about the overall strategy of the government. The government has brought in these increases in duties collection and land tax collection so that it can secure an operating surplus. However, on the other hand, there is also a taxation cut, which was an election commitment—I do give the government that.

Mr P. Papalia: One of the few actually kept.

Ms R. SAFFIOTI: One of the few. It is possibly one of the significant 58 of the Premier's redefined election commitments.

Mr P. Papalia: Is he counting every one of those flashing lights for schools?

Ms R. SAFFIOTI: No, the Premier has redefined election commitments to significant election commitments and others. He therefore believes that there were 58 significant election commitments, member for Warnbro, and that the government is meeting 42.

Mr P. Papalia: MAX was insignificant.

Ms R. SAFFIOTI: I am not sure where the Metro Area Express lies in the significance range of things, but back to the point.

The increases in tax were to maintain an operating surplus. I think the member for Victoria Park asked whether the payroll tax change actually has the adverse effect. We heard a bit of a twisted answer to that one, which I will refer to in a second, which seems to indicate, as always, a lack of financial strategy in this government, as this one bill contains taxation increases and taxation cuts.

Another issue raised by my learned friend the member for Cannington—I will refer to all my learned friends—was about small businesses in a shopping centre that may get some small relief in payroll tax —

Mr P. Papalia: Overwhelmed by the changes.

Ms R. SAFFIOTI: Yes, that relief will be overwhelmed by the significant increases in land tax and the rents for their space. We must also note that this 10 per cent increase in land tax comes on top of the 12.5 per cent increase that occurred last year. An issue that we did not discuss at length but we need to address a little more is that twice in two years this government has increased land tax—by 12.5 per cent last year and by 10 per cent this year. The cumulative effect of these two land tax increases in these two years will be $670 million.

For the taxation effort more generally, the two tax increases in this budget are part of a $1.1 billion tax take. I am not sure whether I highlighted this during the second reading debate, but I did refer to the historical changes to taxation levels in the past 10 years to see how they compare with other years when taxation levels were increased. The policy impact of these taxation changes—$1.1 billion—is by far above anything I have seen since 2000–01. It is probably about $400 million higher than the impact of the next highest taxation increase year—if the chamber understands what I am saying. It is therefore $400 million higher than the biggest taxation increase in the past 14 years. Therefore, a $1.1 billion tax grab is significant both when we look at it in isolation and when we compare it with the tax increases that have occurred in the past 14 years.

I want to talk about something that I am getting more and more interested in when I look at taxation changes. As people may be aware, I worked in Treasury and was involved in the discussions on making these sorts of changes. I know what happens in these discussions. Sometimes we look at particular areas of the make-up of the budget and focus on one that we think will hurt the least or has some justification for change. We look at interstate comparisons, which I know are used broadly. The first thing Treasury does is look at what is happening to tax in every other state. Treasury has done this with the stamp duty for first home owners and it has done it with land tax. Treasury would have said, "Look, this state has not got this and it seems to be okay", and that gives the government some justification to walk into this place and present these tax increases. However, not enough consultation and analysis is done across the government sector or across industry in determining some of these taxation increases. The first home buyer changes are interesting. Business investment is dropping away at a rate of knots because of this government's inability to attract a new major project. Basically, business investment is falling, so the government is clutching onto dwelling investment as a way to secure jobs. I do not know whether there is that level of government strategy behind it, but the government is looking at dwelling investment. The Minister for Planning is getting agitated!

Mr J.H.D. Day: I am just amused by your suggestion that there haven't been major projects happening in this state. If they haven't been happening, they haven't been happening anywhere in the world!

Ms R. SAFFIOTI: No. My point was that the Minister for Planning has not managed to attract any.

Mr J.H.D. Day: That's not true at all. Look at the environment that exists!

Ms R. SAFFIOTI: That is my point. I am not saying there are no major projects.

Several members interjected.

The ACTING SPEAKER (**Mr N.W. Morton**): Thank you, members! The member for West Swan has the call.

Mr F.A. Alban interjected.

The ACTING SPEAKER: Member for Swan Hills, thank you.

Mr B.S. Wyatt interjected.

The ACTING SPEAKER: Members! Member for Victoria Park, thank you. I appreciate the toing and froing but the member for West Swan has the call, so I will listen to the member for West Swan in silence.

Ms R. SAFFIOTI: The Leader of the House ought to be a bit careful.

The ACTING SPEAKER: Member, just direct your comments through the Chair.

Ms R. SAFFIOTI: Through the Acting Speaker, we might all have to stand up and make personal explanations. I think I might need to make a 20-minute personal explanation.

The ACTING SPEAKER: Member! Just get back to the third reading speech of the bill that we are debating.

Ms R. SAFFIOTI: I am actually talking about the bill. I am talking about the level of economic activity and in particular the fact that this government does not want to claim the Mineralogy project but does want to claim the Gorgon project, even though the Barrow Island bill was passed by us and the prospect of going to Barrow Island was something that the Premier was fighting against. He went up and down the Terrace telling people, "Don't put Gorgon on Barrow Island", and I recall he said that in the chamber.

Mr J.H.D. Day: Are you going to mention the Inpex project and the fact that it is happening in Darwin?

Ms R. SAFFIOTI: The Minister for Planning and I ought to have a coffee one day and I will tell him what the Inpex people wanted. No-one would have given them what they wanted. The minister would not have given them what they wanted. Would the minister want to give away a few islands? Would he have given them away holus-bolus?

Several members interjected.

The ACTING SPEAKER: Member for West Swan, just take a seat. Thank you, minister. Thank you, members. The member for West Swan has the call. I would appreciate no more interjections. Hansard is trying to keep an accurate record of this. I ask the member to keep her comments to the third reading speech and direct them to me; and if other members refrain from interjecting, that will be appreciated.

Ms R. SAFFIOTI: As I said, maybe the Minister for Planning and I can sit down and have a lovely coffee and discuss Inpex and I will tell him exactly what happened there. No-one would have conceded to what Inpex wanted. The answer to the interjection from the Minister for Planning is: if he wants to talk about projects that have walked away, just look at Browse and Oakajee and then come back and talk about Inpex.

I come back to economic activity. The justification for increasing stamp duty, which I think was made post decision, is that the government wants to leave it for land because it wants construction to continue. Fair enough; I can see some logic behind that. However, the government is not actually assessing what is happening in the land supply market or creating enough proper infill. I know that the Minister for Planning is a diligent minister, takes his work seriously and does not play too many political games. However, I do not believe that the government is being aggressive enough in getting proper infill, especially in aggregating land with different ownership, or that the reliance on home and land packages as a way of fuelling the economy is the way to go.

I want to point to an issue that struck me as I was driving here this morning about how house and land packages are impacted on by the stamp duty changes. For example, vacant land valued up to $400 000 is stamp duty exempt for first home buyers, but when does the stamp duty apply to house and land packages in that time line?

Mr D.C. Nalder: I will respond to that.

Ms R. SAFFIOTI: We talked a bit about it yesterday, but I did not ask that question.

In the wider economy, sometimes the government brings in a tax bill because we are still okay compared with the other states; I know that is how we sometimes drive our decisions, but not enough discussion is had within government departments about what is happening with land supply and other factors in the market. This is why tax changes distort the market temporarily or in the longer term. In the long term, equilibrium is reached and, as Keynes said, "In the long run we are all dead." Basically, changes in taxes distort market activity; sometimes that assists with general market conditions and sometimes that impacts on particular sectors. I want to raise the issue of land prices. We have not been able to stop the increase in land prices. When we look at the indices for land block prices on a square metre rate, we see that we have not been able to stop the increases in land prices over the past five years. I think one statistic showed that until the end of the March quarter, land prices per square metre increased by 13 per cent over the year. As I said, that has been hidden somewhat by a reduction in the median block size, but there have still been significant increases. These distortionary taxes try to encourage activity in one market, such as in the construction of new house and land packages, and that is fine, but it leads to a significant jump in land prices when supply has not been geared up to meet that increased demand. There are also those factors. Should Labor win the 2017 election, we will have to be far more mindful about what we are doing to distort sections of the market when we look at taxation policy or any general policy. I do not think it is something that this government has done well.

I want to talk about the interesting concept put forward by the Minister for Finance last night. He said that although the payroll tax reduction would spur a level of economic activity, increasing stamp duty collections by $334 million would not impact on the behaviour of consumers. That is a very interesting concept. We asked: what impact will increasing tax collection by $334 million have on the decisions made by people purchasing homes? The answer was that it would be negligible, yet, according to the minister, a payroll tax cut of $121 million would spur a significant level of economic activity. Again, the minister has the opportunity to respond, but I find it quite interesting that we can increase a taxation take by $334 million and have little or no impact on people's behaviour but we can decrease a tax by $121 million and have a significant impact on behaviour. I will allow the minister to go through it.

Housing affordability is an issue that was canvassed at length last night in private members' business and will continue to be canvassed, so I do not want to spend too much time on it. A glossy housing affordability brochure does not reflect what is happening out there in the community. We are simply not getting the required volume of affordable housing. "Affordable housing" means different things to different people, but we are not getting enough affordable housing into the market to provide enough places for Western Australians. That is a huge concern that faces all of us as we deal with our constituents on a daily basis. There is an increasing demand for emergency accommodation because there is simply not enough accommodation out there. This does nothing to improve that, but it gives us the opportunity to highlight the need to do more in this space and be a bit more innovative in trying to deliver more affordable housing.

We discussed what will happen in the real estate market over the next 12 to 18 months. It is not all doomsday, member for Swan Hills, but we have to be realistic about what is happening. The Australian Bureau of Statistics' figures show that state final demand fell in the March-to-March year. As I recall, that was the first time that state final demand went into negative territory since 2000–01. The government's own budget has state final demand forecast at zero per cent. Given that it has already started to fall, its figures will not be that bad because the hit has been taken in this financial year. However, it raises some significant questions about the future of the WA economy in the shorter term and, of course, the impact on the real estate market because population growth has driven some of the prices through demand. I do not think that automatically addresses the affordability issue. People cannot say that if the real estate market comes off the boil, everything will become more affordable, because a number of factors drive affordability. It is about not only people's position and people's ability to afford purchasing or renting a home, but also the mix of availability in the market. A number of weeks ago a commentator said that the prominence of four-by-two houses affects housing affordability. Western Australians are in this sort of conundrum whereby people want to buy a four-by-two house because they want to be able to sell it, as there is always a demand for a four-by-two house. However, having so many four-by-two houses decreases the range in availability for the market, which is far more diversified than it used to be. I think 26 per cent of households are single-person households nowadays. Another issue that we need to focus on more is having the right dwelling mix to allow affordable houses. I do not think the flattening of the real estate market is the answer to affordable housing. It is about not only ensuring people have the ability to purchase or get into accommodation, but also having the right product mix to suit the market.

I refer to land tax. As we said, this is the second year of land tax increases and we on this side all believe that there will be a third year of land tax increases. To have an operating surplus of $175 million and then an operating surplus of $5 million next year is not sustainable. The volatility of the state budget has been increased and we are now far more vulnerable to royalties changing on a monthly basis. As I recall, about 25 to 29 per cent of the state's revenue base is royalties, including 20 per cent from iron ore; other royalties represent the remaining component. Basically, that creates far more vulnerability in our budget and will cause these sorts of panic taxation decisions to happen again and again.

We have heard that the reason this bill has been brought in is to try to create an operating surplus. Again, it goes back to the fundamental issue that members on this side of the house have with how this government manages the finances; that is, it has a short-term approach. From day one, the Premier has not believed in the forward estimates. He has never budgeted for four years; he has simply budgeted for one year. That has meant that net debt has got out of control. If the government looks at just the one-year impact of everything, it is all manageable; it can manage the one-year impact of something. But when it has to manage for a longer term of four or five years, it has to start making smarter decisions. The short-term approach by this government has resulted in land tax increases this year, as well as the land tax increases last year. Net debt in the total public sector will climb from $3.6 billion to $24 billion by the end of the next financial year. When we sit back and think about it—I know that many members opposite do not—we have to wonder why the government has crippled the state for the next 10 to 20 years. As I have said, every government for the next 20 years will have to deal with this issue. It has also necessitated the introduction of this sort of taxation bill.

As I recall, the net interest component for the general government sector next financial year will be over $400 million. That is $400 million that the government will have to find before it can pay teachers and nurses. That is $400 million that the government has to tax for. This sort of taxation bill is a direct response to the significant increase in net debt and the short-term approach of this government. The government looks at projects in isolation. I know that the government likes to spruik Elizabeth Quay. I would like a Porsche, but would that mean that I could not live in my house or my kids could not go to school or I could not feed them in the longer term? It is always about comparisons. This government, and particularly the Premier, has never looked at the opportunity cost or the fact that, in isolation, any project is beautiful. A $1.5 billion stadium will be very pretty, but, gee, we will have to pay about $3 billion for it for the next 25 years, and that means that the north Ellenbrook high school will not be built on time, the Reid Highway–Malaga Drive overpass will not be built on time, and police stations will be closed to create the hub concept because the government cannot afford to run them. In isolation, anything looks good. It would be great if I could buy a Porsche, but if I could not afford to clothe my kids, of course I would not choose the Porsche. The idea that government is an endless pot of money is not right, and that is how it has approached the finances: it is a government, so it can just keep borrowing. However, it is not the approach that helps us in the longer term.

Dr A.D. Buti: But, member, it's the Premier, because there are some other people who do not agree with him, as you well know.

Ms R. SAFFIOTI: I have heard that argument but, seriously, if people sign up to the Liberal Party and to cabinet, they are responsible. They are all responsible; that is my view. Increasing net debt from $3.6 billion to $24 billion is a disgrace. There have been no public transport improvements. I could not believe that the government lauded the train network yesterday morning. This government has done nothing but increase congestion everywhere, yet it is trying to take credit for the train network. Give me a break!

As I have said, this land tax increase is a direct result of the government's inability to manage the finances. Of course, the people who will pay stamp duty are those who do not currently have a home. First home buyers who are entering the housing market will pay $334 million because of the wrong priorities and the fiscal mismanagement of this government.

MR B.S. WYATT (Victoria Park) [10.34 am]: I, too, rise to speak to the third reading of the Revenue Laws Amendment Bill 2014. I want to spend some time picking up the discussion that we had late last night.

Mr D.C. Nalder: It was a philosophical one.

Mr B.S. WYATT: It was a philosophical one. The minister was reluctant to have a philosophical discussion about these areas of taxation when we debated the amendments to the taxation laws, but I think it is worthy to have the discussion now. I think I am just continuing and probably agreeing furiously with the comments of the member for West Swan on this issue. The legislation will pass, of course. The opposition has asked a number of questions about what the legislation will do, and I expressed at the second reading stage the curious situation of one bill providing for two tax increases and one effective tax cut in raising the threshold of the payroll tax exemption. The effect of this legislation is that first home buyers and land tax payers will pay for the payroll tax cut, but, of course, although there is a tax cut, the net impact is a tax increase of about half a billion dollars on the people of Western Australia more broadly. That is fine; governments do these things. Whether or not they are announced before the election, governments tend to do these things. However, it raises for me the curious question of what we are doing with the broader structure of the state's finances. I really wish that the member for Vasse had been sitting in that chair last night to have this discussion with, because I had found, over the previous 12 months up until the member for Vasse resigned as Treasurer, that he was becoming more frank and more willing to discuss these issues in an open way than the government currently is. We talk about the structure of government and the structure of the finances. We hear the Treasurer say that he would not do the stadium at all and that we are now reliant on a very risky revenue base—that is, royalties and, therefore, commodity prices, which are volatile and risky. We talk about the narrowing of our revenue base as a result of decisions of government about iron ore royalty rates, the terms of trade boom and the investment boom—the price and volume—now that we have moved into the production phase of the China boom. That has had the impact of narrowing our revenue base on royalties to 22 per cent and losing more and more GST through the operation of the Commonwealth Grants Commission and, effectively, the equalisation of that process.

As I said the other day, government decisions have exacerbated that. The Premier made decisions to increase the iron ore fines royalty rates and, as the Treasury has outlined in budget after budget, that will result in more revenue being distributed outside Western Australia, thereby narrowing our revenue rates to royalties. That is the inevitable result. The member for West Swan is quite correct in her comments that if the government makes those decisions, it has to have a longer term view of the finances. The Premier has made the point on a number of occasions that the forward estimates are irrelevant; he looks only at the budget year. If the government is going to cobble together budget after budget for just one year, it will end up where we are now. We lost the AAA credit rating, because there was never a forward financial plan surrounding the finances. Debt is where it is now. There is no credible plan to restore the AAA credit rating. I asked the Minister for Finance whether the rhetoric of the Treasurer is correct—that is, that the return of the AAA credit rating is a priority of government—and the Minister for Finance said that that is correct and is indeed the case. But the government needs a four-year plan at least—probably longer—to return the state to a AAA rating. This is an important conversation that Parliament needs to have. When Standard and Poor's downgraded our credit rating to AA+, it made the point—this is where most of the media attention went—that the state government had limited political will to make tough decisions on finance. Since that time the Treasurer and the Premier—the Treasurer, particularly, because he has a better understanding of this—have said that the main reason is that our revenue base has narrowed and is more reliant on a volatile source. I will quote parts of the credit rating agency's discussion about its decision to downgrade. It states —

> We consider WA's exposure to the mining sector—which represented 35% of GSP in fiscal 2012—as a somewhat moderating factor in our view of its high GSP, given that sector's cyclicality and potential volatility.
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> … expenditure has been pressured by population growth and our view of the state government's unwillingness to address long-term structural issues—in our opinion leading to deteriorating budgetary performance.

> We consider WA's revenue base as being volatile, with more than 10% of consolidated revenues being sourced from mining royalties—predominantly iron ore—and so exposed to both price and foreign-exchange risk.

As a result, Standard and Poor's said —

> We hold the view that WA has modest budgetary flexibility.
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> …
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> In our view, WA has the potential for further budgetary flexibility through either expenditure or review measures, or through asset sales.

Standard and Poor's outlined its view, which no-one in this place should be surprised about, that there has been a narrowing of the base and that there is more reliance on volatility and moderate budgetary flexibility. There are avenues to correct this, but the Revenue Laws Amendment Bill 2014 will not do that. Rather, it will narrow our revenue base further and make us more reliant on inefficient volatile revenue sources; that is, the government is putting in a tax cut in the payroll tax component, which narrows the base, but it is increasing our reliability on stamp duty, which is more volatile and more inefficient, and on land tax, which is generally viewed as an efficient tax, although perhaps not so much in Western Australia because our base is not as broad, but certainly in Canberra and Tasmania. That is the effect of the bill. I asked the Minister for Finance whether he thought the bill would add to or detract from the possibility of Western Australia returning to a AAA rating. He did not answer the question. I guess I should not be surprised that he did not want to deal with it. He did acknowledge that it was a fair point. What is the long-term plan? I do not think we will get a long-term plan under this government. I have previously referred to a document released by Treasury entitled "The Structure of the Western Australian Economy", which was released last month. It is worth having a look at what has happened in Western Australia over the past 10 years. It confirms the points that I have just made about the narrowing of our revenue sources as a government, primarily through the significant boom led by China and its demand for mining and petroleum exports from Western Australia. That point is highlighted most starkly in our revenue base. In 2002–03, mining and petroleum accounted for nine per cent of the state government's revenue; in 2012-13, that figure increased to 22 per cent. I have previously made this point about state final demand: that is, although there was significant employment growth in the mining and petroleum industry from 3.6 per cent to 8.7 per cent during the past 10 years, the mining and petroleum industry is much more significant for the state government's revenue than it is as an employer. We have now moved into the production or export phase, which means that our gross state product will continue to grow off the back of increasing volumes of iron ore exports. The budget assumes a 30 per cent increase in those volumes over four years—I am sure that is correct because Treasury does its own analysis—but it also assumes zero per cent in state final demand growth for 2014-15. Indeed, it is very weak across the forward estimates. It is built mainly on an assumption of strong dwelling investment. We are relying on dwelling investment to hopefully pick up some of the employment that is never going to be lost out of the transition from investment to export in the mining sector.

Coming back to the Treasury document, it is very useful because it takes us through all the statistics and the journey that the state's finance and economy have travelled over the past 10 years. It highlights, as we are all aware, that it is very dependent on China, with the share of merchandise to China having risen from 12.6 per cent in 2002-03 to 47 per cent in 2012-13. It refers, interestingly, to our reliance on developing nations; again, no member who has been observing or participating in this debate over the past few years would be surprised about that. Treasury notes that our exports to Organisation for Economic Cooperation and Development countries declined from 61.6 per cent in 2002-03 to 33.7 per cent in 2012-13. That reflects what we have seen around the globe—namely, a shift in growth in the Asian region, particularly in China, India and Indonesia. There has been significant growth outside the OECD region. As Treasury concludes in its publication —

> As mining expanded, the relative contribution of a number of industries declined, including services and manufacturing. Whilst the shares of these industries decreased, most industries also experienced relatively strong rates of growth over the period, notably the construction and service industries. The agriculture, forestry and fishing industry was the only industry to decrease in size over the decade.
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> In terms of State finances, the rapid and sustained expansion of the mining and petroleum industry, and flow-on effects such as increased demand for labour, led to higher royalty and tax collections over the decade (although this coincided with a decline in Western Australia's GST relativity).

It sets out, through the heavy use of figures and statistics, what happened in Western Australia over the past 10 years. This bill suggests that there is no thinking in government about the structural challenges we will face over the next 10 to 15 years. It suggests that a return to a AAA rating is not, indeed, a priority of the government, despite what the Minister for Finance said, because it has year-on-year thinking, not a longer-term plan for the state's finances, which is what is required for us to return to a AAA rating. This bill will narrow the revenue base of the state even further and will make us more reliant on inefficient and volatile revenue sources.

Members may be aware of the inquiry into microeconomic reform in WA—that is, the draft report released on 11 April this year by the economic regulator. It is an excellent report; I encourage members to read it. I am not saying that everyone will agree with everything in the report—I certainly do not—but the discussion that the Economic Regulation Authority has undertaken is one that should be held in this place, but I just worry that it will not be.

One of the areas the ERA looked at is state taxes. It reviewed state taxes. Its review starts at page 187 of its report. The ERA is a great organisation. It is like the state productivity commission, it is independent, it says what it thinks, and it is not constrained by the difficulties of political reality. I want to make a couple of points. Page 188 of the ERA report states —

> Australia's Federal system has limited Western Australia's opportunities to pursue genuine reform of State taxes.

It goes on to state —

> The consequence of this is that the State Governments are left with comparatively narrow and inefficient tax bases, rather than broad bases, which are more efficient for tax collection purposes. This in turn has some important practical implications for the State Government, businesses and individuals.
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> State tax collections can be quite volatile and unpredictable, contributing to difficulties experienced by State Government's in formulating budgets. The narrow taxes that the States can access limit the ability of the State Governments to raise sufficient revenue to meet their expenditure responsibilities. However, successive Western Australian Governments have compounded this problem by eroding the tax base through concessions and exemptions during times of prosperity.
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> The consequence is that State Governments are highly reliant on the Federal Government for funding.

To emphasise that point—regardless of what the Premier says about Western Australia now having nothing in common whatsoever with the federal government and, indeed, that we are now more a part of Singapore than the federal government—we are still reliant, as the ERA points out, on significant commonwealth grants. The Treasury document entitled "The Structure of the Western Australian Economy" makes that clear. Page 46 states —

> ... as a share of Western Australia's total general government sector revenues, Commonwealth grants declined from 48% in 2002–03 to 35% in 2012–13.

They have declined, yes, but comprise 35 per cent of total general government sector revenues. That does not make the commonwealth government irrelevant to Western Australia by any stretch of the imagination. As the ERA points out —

> ... successive Western Australian Governments have compounded this problem by eroding the tax base through concessions and exemptions during times of prosperity.

It is my view that if Mr Hockey and Mr Abbott were serious about what they intend to do post-2017, the debate must be broader than just about the GST. I see the politics of this—that is, Hockey wanting the states to come to the commonwealth with an agreed position around broadening the base of the goods and services tax, and possibly increasing the rate. That would increase the pool and therefore the return to WA, but, of course, unless we fix the nature of the distribution, it inevitably would also mean more state revenues would flow to the other states. But Mr Hockey has to also understand, as we do, that if the federal government will be getting out of spending areas, it needs to look at its own revenue areas, because "The Structure of the Western Australian Economy" document produced by Treasury also notes that in 2011–12, the commonwealth government raised an 81 per cent share of total government taxes while accounting for only 55 per cent of government spending in Australia. What worries me here is that if Mr Hockey and Mr Abbott, firstly, are re-elected in 2016, and then stick to their forecast plans post-2017, the federal government will want to remove itself from areas of significant spending and keep all revenue-raising capacity to deliver tax cuts. This will further exacerbate the problem we have as a nation around the structure of our finances because it will not deal with the key delivery of services by the states. The inevitable consequence is that in this room over the next 10 to 15 years—hopefully, sooner than that—we will have to talk about our revenue base beyond the GST. The ERA makes the point in its draft report into microeconomic reform that its recommendations are based around a couple of principles—that is, revenue neutrality et cetera—but, importantly, it looked at decisions that were able to be implemented unilaterally by the WA government. The ERA understands that if we are to rely on some form of Council of

Australian Governments result, it is never going to happen, and we will never have a serious discussion around our own finances.

The Premier has made budget after budget on the assumption, I think in his own mind, that at some point something will happen that will give us a better revenue somehow—and he has focused on the GST. I know that that has been the approach and I know that the government has never worried about what happens after the budget year, not just because the Premier says, "Forward estimates don't matter", but also, as I quoted yesterday, because of the position of the former Treasurer, the member for Vasse. This became apparent during debate on the accounting trick that is the Western Australian Future Fund. There was a very useful discussion between the former state Treasurer Mr Eric Ripper and the then Treasurer, the member for Vasse. Eric Ripper would argue that the Barnett government is participating in jam-jar economics. That is exactly what is going on. The government is looking at individual sources of revenue sitting in their jam jars without taking a step back to look at the entire revenue source and how each one impacts on the other. It is exactly as the member for West Swan pointed out a minute ago: she would love to buy her Porsche because a Porsche is a lovely car and she would love to drive it, but would then be ignoring the clothes and education she provides to her children. No-one in this place, I hope, manages finances like that! Eric Ripper put to the member for Vasse the issue around jam-jar economics. He pointed to the scenario of 25 per cent of royalties going to royalties for regions. It was 25 per cent at the time. The then Treasurer said that 70 per cent of those royalties were being redistributed, bringing it to 95 per cent, leaving five per cent for metropolitan Perth to deal with, and one per cent of that went into the Western Australian Future Fund.

The ACTING SPEAKER (Mr N.W. Morton): Member for Victoria Park, I have given you a lot of latitude, but try to refrain your comments and apply them to the bill that we are debating at the third reading stage. That would be greatly appreciated.

Mr B.S. WYATT: As I pointed out, that 70 per cent is now 90 per cent redistributed—some 90 per cent is redistributed. Some 25 per cent is going into royalties for regions, so we are now at 115 per cent of royalties being dealt with. When that question was put to the member for Vasse, he gave a response—and it is clearly relevant given we are dealing with the Revenue Laws Amendment Bill 2014. I am talking about the revenue of the state. On 26 September 2012, the member for Vasse said —

> As the member for Belmont knows, the impact on the GST share is dealt with in a future budget at a future time. We may well complain about it, and it may have an impact on, in particular, some of the longer term capital programs over the forward estimates, but if we get $1 billion this year, that is $1 billion that is available to spend. The discount applies in future years, and we generally defer dealing with that until that time …

This is the problem. The former Treasurer said, "I am focusing on that $1 billion in royalty revenue; I'm not interested in the impact it's having on GST; nor am I interested in where that $1 billion may be redistributed in a number of years." This is why we are in a position of net debt.

The ACTING SPEAKER (Mr N.W. Morton): Member for Victoria Park, just picking up on my previous comment, can you inform me to which part of the bill you are referring in this third reading speech?

Mr B.S. WYATT: Which is why now —

The ACTING SPEAKER: Member!

Mr B.S. WYATT: Which is why now, with the increase in the payroll tax threshold, we are exacerbating this problem. We must be frank about this discussion. The Economic Regulation Authority talks about it and has come up with a number of different suggestions, some of which may be politically possible and some of which may not. However, this bill exacerbates a problem that has been identified by Standard and Poor's and the Treasurer, Mike Nahan, and exacerbated by the former Treasurer, the member for Vasse. Saul Eslake has had some commentary in this place over the past couple of days, and Ross Garnaut has addressed the matter, particularly in his book *Dog Days—Australia After the Boom*, which is a good read. Even the Treasury has said every year that this is what is happening through government policy decisions. This legislation will pass, we will increase our land tax rate and our take of stamp duty, and we will decrease our payroll tax revenue—the impact of this bill—but we are not having a conversation about the finances, the revenue or the long-term impact and what we need to do if we are serious about returning to a AAA credit rating status. Interestingly, I was looking at the ERA's website and its draft report and the submissions that have flown into that draft report. Minister, does the final version of the ERA report go to government on 30 June?

Mr D.C. Nalder: I believe so.

Mr B.S. WYATT: There were lots of submissions that were all very good, but not one submission came from a university in Western Australia, which surprised me. To be fair, there is a submission from one of

Murdoch University's agricultural studies specifically based around the Potato Marketing Corporation of Western Australia, but this is the problem in Western Australia. To assist in this debate, I look to the Grattan Institute, the Centre for Independent Studies and a range of organisations or other universities not based in Western Australia. The ERA, which is a government-funded organisation, is leading this debate. I am very disappointed that not one university in Western Australia thought it fit to put in a submission on one of the more significant reports put out by a government body in quite some time that will have, if we take it seriously, a significant impact across the next few years, or even the next 10 to 20 years, if we act on some of these recommendations.

Members, this bill deals with a net tax increase of about half a billion dollars. Does it have a huge impact across a spend of nearly $30 billion? Perhaps not, but this is exacerbating the very problem that economists, Treasury, we in this place and the Treasurer talk about. We are becoming more reliant on that volatile source, all based on a hope, I think, from the Premier that at some point we will all be rescued by an increase in our goods and services tax return. We and the community need to discuss issues such as taxation, because we cannot keep doing this. We cannot continue to introduce the odd tax cut, raise the odd threshold, or consider everything in that jam-jar economic style of ignoring the entire suite of revenue and how each one impacts the other, because they all do. That is the key point of discussion out of this bill.

Minister for Finance, I enjoyed that conversation last night. It was late and when we have conversations in three-minute bites, it is not easy, but generally I think we are in agreement on this problem. The member for Vasse used to talk about the structural deficit in the finances, and I think this is what he was talking about. This bill exacerbates the problem, and until we have a conversation with the community about what it wants from government and how it will be funded through decisions made in this place—not reliant upon the federal government—we will continue to have this problem.

MR P. PAPALIA (Warnbro) [11.06 am]: The member for Victoria Park and the member for West Swan have made very considered contributions to this third reading debate on the Revenue Laws Amendment Bill 2014, and are far more knowledgeable and more focused on financial matters and the economic management of this state than I, as is the member for Cannington, who will speak shortly. Nevertheless, I share the concern highlighted last night and continued in today's discussions about the urgency and need to focus on the state's finances, where the revenue is coming from and how we will address our growing debt. As suggested by the member for West Swan and then by the member for Victoria Park, the Premier's approach to budgeting has only ever focused on one year, the immediate year, and his response to any questions regarding the forward estimates is that they do not exist. That is one thing, but the suggestion has also been put forward, without any detail ever being provided, by not only the Premier, but also the Treasurer that we will deal with it through some gift in the future through some possible change to GST revenue distribution or through royalties. I am not sure whether either of those will come about, but it illustrates that we have a serious problem because it is another three years until the next election. If the only solution to addressing the debt problem is to change the government and have us confront that challenge, it is of real concern for Western Australians because in the next three years a significant amount of damage will be done if all we do is continue to spend and have an incoherent and inconsistent response to the challenge of net state debt and revenue on offer to the state. If that is all we do, things will get far worse and the challenge will be far greater, which is not good for any of us. I would prefer to see the minister's government confront this issue and not be afraid to talk about it.

The discussion became controversial last night when, as the member for Victoria Park indicated, there was quite an interesting exchange between the minister, the member for Victoria Park and others about the nature of the impact of increasing tax on one hand and justifying it through the intent to defend the surplus and, at the same time, providing a tax cut, which is counterintuitive if the motivation is to address defending a surplus and, I hope, at some stage to tackle the net state debt issue. It was an interesting discussion, yet we saw concern by some members of Parliament that the discussion was going on for too long, that it was getting a little too esoteric, and perhaps there would be a better location in which to conduct such a discussion. I wonder what better location and time there would be to discuss the serious nature of the state's economic challenges and the apparent incoherence of the state government's response to those challenges than during the consideration in detail stage of the Revenue Laws Amendment Bill 2014 wherein there are two major tax increases and one tax cut. That is unheard of by anyone in the chamber, including the minister's advisers. Where else would we raise it? Were government members suggesting that we should have some sort of seventeenth century London coffeehouse economics exchange and it would be more appropriate to sit in a coffee shop in St Georges Terrace to talk about this? Was that the suggestion? That is concerning on a number of levels. It indicates that beyond this minister and a few other ministers in the cabinet, perhaps not enough thought is given to the state's budget and its vulnerability to mining royalties, which are a significant component of our revenue stream at 22 per cent, or to the consequence of losing our AAA credit rating, or that net state debt is significantly more than it was when the Liberal–National government came to office and that it is projected to grow. The government has no apparent plans to address those issues and to arrest that growth in state debt. The only response the opposition gets when it asks about the government's intent in addressing that debt is to ask whether we like hospitals, stadiums or big hotels on Elizabeth Quay. They are not the questions that should be asked by government members, or anyone in this place. Members opposite should ask what can be done to address this short-term focus of the government, instead of saying that we should not worry because projects such as the stadium and Elizabeth Quay—members can fill in the blanks—will be really nice when they are finished. The government should not be saying to the opposition that we should not worry about mismanagement of contracts that result in millions, tens of millions or hundreds of millions of dollars being paid for no result. It was tens of millions in the case of stadium management and millions in the case of a Chinese restaurant. Those sorts of questions are relevant if the government would expand its view to the overall budget. If the government analysed the impact that each project would have on the activities and operations of each department and expanded it to a more holistic and wide-ranging analysis, it would start asking questions such as those the opposition asked last night on the net annual impact of the three components in this bill. I was surprised that the minister was not able to provide the opposition with an answer. I am sure he will now, and that is great. Hopefully, it was illuminating for the minister to realise how little in the way of analysis had been done, for instance, on the potential impact on the first home buyer market of increasing taxes on first home buyers. At least 36 per cent of first home buyers will be impacted by the tax, and I would have thought that more analysis would have been conducted on whether that would skew the market and to what degree, and what the projections were. What I garnered from the minister's response last night was that it was more a flatline projection. The minister told us how many first home buyers would have been impacted had this tax been in place in 2012–13 and, therefore, in 2014–15 there will be this many and into the future there will be that many. The minister is assuming that nothing will change once this tax is imposed. I hoped that more modelling would have been done on a more expansive basis of the impact not just on that market and what was going on prior to the impact of the tax and after the tax, but also on what else is happening in the state's economy.

A whole lot of modelling and projections are going on all the time across government departments and agencies. However, there appears to be very little coordinated response and, most importantly, which is the concern both the member for West Swan and the member for Victoria Park have referred to, there does not appear to be a coordinated plan to address growing state debt and the vulnerability of our revenue streams and our tax base, and what the government will do to bring things into more order. It is a serious matter for the state that is above politics. It is important that the government does not give a base political response to the opposition, which is easy to do. It is easy for the Premier to stand up and ask, "Don't you like stadiums or football or having a coffee on the future foreshore of Elizabeth Quay? Don't you like the Ritz-Carlton?" They are easy responses and cheap shots, but they do not address the matter. The government's response in this case suggests that the Premier does not have a long-term view and he will not confront the challenge in the future. The Premier is suggesting that in the three years to the next election he has the capacity to divert attention from those problems by talking about how we need to get a fairer share of the GST and announcing baubles such as building different stages of the stadium or a new hospital. When the opposition asks about a serious matter concerning the state's economy, the Premier will ask the opposition, "Don't you like hospitals? Don't you like Perth becoming more dynamic? Is that your problem?" That response is not beneficial to anyone in Western Australia. As the member for West Swan clearly articulated, of course, we would all like a Porsche, but if our children could not go to school or we could not afford to clothe or feed them, we would not buy that Porsche. The same applies with decisions regarding significant amounts of taxpayer money and whether or not the government will address this debt challenge and try to rein in debt while interest is $400 million a year in the general government sector before it becomes a billion dollars. I do not know at what time that will occur, but I would be interested to know whether anyone in the government is thinking about it. Once we are talking about those sorts of numbers, it will start driving everything else and at that time it will be very challenging.

I anticipate that we will be the next government, and I hope that before then, this government will have done something to address this problem. It is this government's challenge right now. It is not a challenge to occupy the benches and enjoy the benefits of government; the challenge for this government is to steer the ship of state on behalf of all taxpayers and the Western Australian public. That means that this government cannot wait three years before it makes a pronouncement about what it will do; it must do that now. This is a much more immediate challenge than the next election. This is far too important and serious to be put off until the lead-up to the next election when the government gets some clever marketing company to run a six-week advertising campaign in which it will try to convey a message that makes it look as though it is doing something.

Mr F.A. Alban: We are!

Mr P. PAPALIA: I welcome the interjection from the member for Swan Hills. Last night the member for Belmont interjected on the member for Victoria Park and said that he was waffling and repeating himself.

Mr F.A. Alban: And he was.

Mr P. PAPALIA: The member for Swan Hills was not concentrating on the subject matter. He suggested there was some other place for this discussion. I ask the member right now: where is that? If we are not able to talk in this place about the massive state debt that has been accumulated under this government, which has escalated from $3.6 billion when it took office to approximately $24 billion by the end of the next financial year, where can we? This government has projected that state debt is going north, but it has no plan to address it. If that does not concern the government and if that is not an issue we should talk about in a Revenue Laws Amendment Bill, I do not know what is. Paradoxically, this bill increases two taxes at the same time as it cuts another one. The justification for the tax increases is to defend the surplus, and the justification for the tax cut is to somehow promote growth to stimulate the economy. Those two things do not actually align. The argument is inconsistent and incoherent. That is the problem with the government's response to the debt challenge. It is the problem with the government's response to managing the state economy, and has been since 2008 when it took office.

Government members might not want to participate in the discussion. It might not be an issue for them; they might not care, but part of the reason the member for Swan Hills did not get a train line to Ellenbrook and that Ellenbrook is not getting a high school and swimming pool—all these things the member should have been fighting for and representing his community for—is the way that this government has managed the state economy. Part of the reason is the growing state debt. The government cannot keep handing things out. It cannot keep spending money if it does not have a revenue stream to sustain it. If debt continues to escalate and the interest rate on the debt continues to escalate at a stratospheric rate, ultimately the hens come home to roost and the Premier turns around and says to the member for Swan Hills, "Sorry, I'm going to hang you out to dry. You're not going to get the things we promised during the election." That is part of the debate. I am surprised that the member for Swan Hills does not see that as significant to him or his constituents.

Mr F.A. Alban: Member, it is about priorities. You mentioned one of the —

The ACTING SPEAKER (Mr I.M. Britza): Member for Swan Hills, I want the debate to come back. I think the member for Warnbro has answered the interjection fairly.

Mr P. PAPALIA: I encourage the member for Swan Hills to get up and speak about this during the third reading debate. It would be a positive sign if government backbenchers participated in the thought process around the state budget and about something that is so paradoxically challenging and never before seen in living memory—one bill with two amendments that increase tax and another amendment that cuts tax, with the net effect being something like a $430 million tax increase.

I will get very specific; I appreciate the latitude provided by Mr Acting Speaker. I will get down to the nuts and bolts of the tax cut. We got to it last night, minister. Again, this highlights the lack of analysis. Hopefully, it was of interest to the Minister for Finance. There has been a lack of analysis about the number of small businesses that will be impacted when land tax increases are passed and flow through to land tax payers—landlords—and on to commercial tenants. I have been one of those so I know that tenants always cop any increase; landlords never do. All the power lies with the landlord. My wife and I have owned small businesses. We were completely at the whim of landlords. The costs the government is imposing with that 10 per cent increase this year—it was 12.5 per cent last year—will flow through to commercial leaseholders. They are the people who will not have any increase in their revenue stream. They did not get a 10 per cent increase in the number of people coming in the door last year. They did not get a 10 per cent increase in the demand for their product or service. They are bumbling along doing their best, working really hard. Members know that a small business person does not have the flexibility to somehow increase their revenue by 10 per cent.

Mr W.J. Johnston: It is not like they have the market power of a major bank.

Mr P. PAPALIA: No. They are very vulnerable. I thought that an appropriate response by a government introducing a component of the 10 per cent increase as an increase in costs to small businesses would be to determine, for instance, whether the payroll tax cuts being provided are completely absorbed and overwhelmed by the likelihood of a component of land tax increases flowing through to small business. By virtue of the scale of the two tax increases, is it not likely that the average small business person in Western Australia will see nothing of this payroll tax reduction? By the time they get through paying for the costs associated with the land tax increase, they will not see anything.

Mr W.J. Johnston: They might not even have it because they are probably below the threshold.

Mr P. PAPALIA: How many of them are below the threshold anyway? It is easy for the government to say that it is helping small businesses, but there are small businesses and there are small businesses. A lot may not even have that. All they will get is the bad side—the tax increase. A family business operating a little shop of some description, selling anything in a shopping centre, will not get any benefit from the payroll tax cut. The government is actually not providing a universal small business benefit. I am looking forward to the member for Swan Hills' contribution. When he tells the small business community in Western Australia that this government is looking after it because it is cutting the payroll tax, he should think about all the small businesses that do not benefit at all. What the government has actually done this year is increase their tax burden. It has increased their cost burden. It is fortunate for the government that this has not been reported avidly in the media. Small business owners will not actually be aware that the reason for part of the added increase in the lease costs this year, or outgoings or whatever costs this year through their lease, was that the state government put up land tax. They may not actually be aware of that.

If the government's only response is to take advantage of the fact that there is not much media interest in that particular side of the story and puts out a spin doctor–generated message that it is cutting tax to small business, it is pretty irresponsible. I have heard maiden speeches by members that suggest that they advocate for small business, but the truth is if members remain silent within their party room and there is no plan within government to address the matter of revenue streams and debt burdens, and if there is no coherent, consistent, long-term plan, they are contributing to the problem for all those small businesses. They might not know about it right now. They may not be aware of the fact that in all likelihood most small businesses, particularly the smaller ones across the state, did not get anything from the state government this year except additional cost. That is aside from electricity and water and all those things that go up that they always cop anyway. They may not know about it, but in their hearts, government members know it. It is disturbing if the only response from government members is, "I'm okay because I've got the means through government and through a well-funded political party to perform a wonderful snow job on the public of Western Australia. I'll be all right politically." If that is their only response, that is really disappointing. There are three years until the next election. In that time this government is the custodian of the welfare of Western Australians. It has all the means at its disposal within its party room to demand that the Premier and the Treasurer extend their view beyond this current financial year.

Mr J.H.D. Day: What would you do about all the expenditure pressures on government?

Mr P. PAPALIA: That is exactly it. He should not make a cheap political stunt. It is a stunt to respond by saying, "What would you do?" The Leader of the House and his government are in charge for the next three years. I know he is going to retire.

Mr J.H.D. Day: Who said that? What makes you think that?

Mr P. PAPALIA: I thought the Leader of the House was going to retire. Sorry. I hope he does not retire; I hope he stays here because I would like to see him over this side so that we can discuss with him what the government did to the state. We attempt to draw his attention to the urgency of the economic challenge confronted by Western Australia, the fact that our revenue stream is so significantly tied to a very volatile source in the form of mining royalties, way more than it was when the government came to office, and the fact that our state debt is really significant now. The government has taken it from a very low level to a very significant level where it is starting to play, as it should be, on the government's mind all the time. I expect more from the Leader of the House. He is just being silly. He is the responsible one. We see him as the steady hand on the till. I fear that if he is engaging in this cheap political response by saying, "What would you do?", there is no hope that his government will take any action in the next three years.

Mr C.D. Hatton interjected.

Mr P. PAPALIA: Has the member been listening?

The ACTING SPEAKER (Mr I.M. Britza): Member, just stay with me on this.

Mr P. PAPALIA: I am sorry, Mr Acting Speaker. I am frustrated.

The whole focus of just about everyone on this side of the house during this debate has been on responsibility. We have been questioning the detail and questioning whether there is a strategy because there is no visible strategy in this bill. The minister conceded that it is counterintuitive, incoherent and inconsistent to put in the one bill two tax increases for the purpose of defending the state surplus and at the same time give a tax cut. I have been trying to drill down into that and point out that it is not a tax cut. The vast majority of small businesses will cop the tax increase; they will not be eligible for the tax cut. The minister could not tell us the breakdown of the tax cut. I thank the minister for indicating that he has the information. I look forward to reading the information that he was not able to provide us last night. Did it not concern the minister that he came into the house last night with specialist advisers who could not provide that information at hand? The people who participated in drafting this legislation were not able to provide the minister with the sort of information that we were asking for. We were not asking outrageous questions. We were asking for an indication that there had been a bit of an analysis of the potential impact of the bill—the combined effect, the net effect, which ultimately is for a revenue increase of $430 million, projected on pretty flimsy modelling. What if it is not? The consequences are just as bad. That is the problem. We are not being irresponsible and silly in raising these matters; we are asking the minister as a responsible state opposition: what is the plan? He should not turn around and ask us what we would do because we are not in a position to enforce or implement a plan, if we had one, to help him. We are pointing out where the inconsistencies are. We are pointing out the extent of the challenge and the sheer danger involved in not doing anything. We are exposing the fallacy that has been the Premier's response at all times to suggest that there are no forward estimates. That is what we have been doing. We are trying to be responsible. We are not trying to be political. The minister should not turn around and respond by saying, "What would you do?" That is childish; that is six-year-old stuff.

Mr J.H.D. Day: You are the alternative government.

Mr P. PAPALIA: We are the alternative government in 2017. In the six weeks before the election, the minister can ask us that question and we will tell him. But right now, he has a responsibility on behalf of the Western Australian public to fix things. He has to create and articulate a plan to address the net state debt. It comes down to the minister; it is not the opposition's problem.

MR W.J. JOHNSTON (Cannington) [11.35 am]: I was assuming that the member for Swan Hills was going to jump up. I thought he would take the opportunity to let us know what he wanted. Apart from interjections, we cannot find his name in *Hansard*. He does not seem to want to put his opinions on the record of Parliament.

Mr F.A. Alban interjected.

Mr W.J. JOHNSTON: It is lucky that the member interjects on me, otherwise he would be absent from *Hansard*. That is not an insult.

Mr F.A. Alban: Just because you have your name in *Hansard* does not mean that you are talking about anything of consequence.

Mr W.J. JOHNSTON: I look forward to hearing something of consequence from the member for Swan Hills. If he does not take the opportunity now to tell us something of consequence, we look forward to the next debate or the next debate or the debate after that. As I said, the only time he gets his name in *Hansard* is by interjecting on me and other Labor members of Parliament. He should thank us for coming into the chamber, otherwise he would say nothing at all and he would never get his name in *Hansard*.

The ACTING SPEAKER: Come back to the third reading, member.

Mr W.J. JOHNSTON: I was very sadly absent last night because I was paired out for a community event so I was not able to participate in the debate but I was very pleased that the member for West Swan took up an issue that I raised in the second reading debate; that is, the question of the flowthrough from the increase in land tax to small business. I do not remember the exact figure but I think 16 000 small businesses will benefit from the payroll tax adjustments. I wish I had the figure in front of me. On occasions, the previous Treasurer, the member for Vasse, provided information to us about the impact of these changes—the various rebates et cetera. It is quite interesting that, like land tax, most of the revenue from payroll tax comes from a small number of large businesses. There are hundreds of thousands of businesses in Western Australia. I have been told that one in 11 houses in Western Australia have a home-based business in their house, which is quite a remarkable number. I am advised that that advice comes from Carol Hanlon, the executive officer of the Belmont Business Enterprise Centre. She tells me that within four or five years, one in nine homes will have a home-based business. None of those businesses pay payroll tax because they do not have any employees.

I draw members' attention to a particular business that I am a customer of in Westfield Carousel. As you are aware, Mr Acting Speaker, my electorate office is immediately over the road from the Carousel shopping centre so naturally, not only is it the regional centre that I use for my family anyway but it is also right next to my electorate office. There is a newsagent and Lotto kiosk in there which is run by two hardworking migrants—a husband and wife. They have no employees. Cutting payroll tax does not benefit them but increasing land tax on the Westfield shopping centre will impact on them. They pay rent based on the size of their business and outgoings. I know that the minister, with his commercial background, is very familiar with these types of leases. Some people have gross leases. When I was secretary of the Labor Party, I was very lucky that I negotiated a fixed price gross lease for our accommodation just as the office market in the CBD went boom. I completely protected the Labor Party from all that. Nonetheless, most people pay net rental plus outgoings. The outgoings are all of the direct costs of the landlord for operating the premises that the business is renting. As I say, that newsagent and lotto kiosk is an example of that. All members would have many similar businesses in shopping centres in their electorates and the same issue arises everywhere around the world; large shopping centres are drawing in all the business activity from small regional shopping centres. In fact, laws are being introduced in some parts of the United States to make large shopping centres illegal, but that is not our practice here. These large shopping centres are not only a major part of the small business landscape, but also becoming a bigger part of the small business landscape. More small businesses operate in these big centres now than they did in the past, and that will increase in 10 years' time. Mr Acting Speaker (Hon I.M. Britza), the Morley Galleria Shopping Centre in your electorate is a classic example of that. In the 1990s three shopping centres were amalgamated into one super centre. I am very familiar with that shopping centre because I was the organiser for the Shop, Distributive and Allied Employees Association of WA at Morley just after the opening of the Galleria Shopping Centre and I used to service the workers in that centre. These changes will have an increasing impact on small business, and under this measure, land tax is going to be passed through to those small business operators. Those who advocate on behalf of small business have to understand that even though the invoice for land tax goes to Westfield, the payment comes from the small business tenants of that shopping centre. In the future, there will be more small businesses in those shopping centres, not fewer, and a higher percentage of small retail business will be conducted from those centres in the future as they get bigger and bigger, and there will be fewer small retail businesses operating in the smaller centres where there is a lower rate of land tax, because, of course, the land tax rate increases with the size of the property portfolio of the taxpayer.

The most probable outcome of this bill is to significantly increase the amount of tax small businesses pay to the state government. Although I cannot quote from last night's *Hansard*, I was interested to see that there does not appear to have been any attempt to model this impact. That was actually a bit of a surprise, particularly because the Department of Finance has the role of regulatory gatekeeper. I have seen the minister's answer that said that budget matters are not subject to the regulatory gatekeeping process. What is the point of having a regulatory gatekeeper if we do not gate-keep regulations? What is the point of having the appearance of a gatekeeping process, but the gatekeeping process does nothing to assist people? The minister should think about that.

I note that the regulatory gatekeeping role also exempts election promises. I will be interested in the government's comments on the draft report on microeconomic reform of the Economic Regulation Authority, which specifically states that election commitments should be subject to the procedures of government. If governments are to operate by including virtually all the big decisions in the budget, that means all the big decisions are being excluded from the gatekeeping process. If election commitments and budget decisions are excluded from the gatekeeping process, virtually nothing is included in the gatekeeping process. I think the member for Swan Hills' gate is way open on the impact this will have on small business. I am surprised that the government does not appear to have contemplated the impact this tax increase will have on small business, and that goes to the heart of our critique of the government.

I do not want to go off into the weeds and get into the debate that the very wonderful Minister for Planning and the member for Warnbro were having, but I make the point that the Labor Party put a fully developed, fully explained set of policies to the people at the last election and it was defeated. The Liberal Party put a fully funded, fully costed plan to the people and it won. That is how the Liberal Party came to be on that side of the chamber and we came to be on this side of the chamber. That is why the opposition cannot understand that the fully costed, fully funded commitments were neither fully costed nor fully funded. It would appear that the Liberal Party was not telling the truth. We always examine whether something is a lie or just incompetence, because the situation in Western Australia is not similar to the famous commonwealth government budget black holes when each side of politics, upon coming to government, says, "Oh no! The last government didn't show what was really happening with the books", and we have to increase land tax by $332 million. In fact, it is an increase of $750 million in land tax when we count last year's, which also was not talked about in the election campaign. The government could not do that because it was the government; it knew what the books were and it knew everything about this. The fact that the government has had to have a nearly one-quarter increase in the rates of land tax cannot be blamed on economic circumstance, unexpected outcomes of government or a new recession, because none of those things have happened. As I pointed out in the second reading debate, the minister justified the additional $332 million land tax increase on the basis that revenue was not forthcoming. I have been through every conceivable document that the government has produced since 2008 and looked at that matter and found that the budget estimates for 2014–15 are now higher than ever in the state's history. Not only that, but also the revenue estimates in the 2014–15 budget are higher than the revenue that was estimated for that year and every year leading up to this year. As I pointed out in the second reading debate, if we go back to the 2011–12 budget, which was the first one that included a forward estimate for 2014–15, the forward estimate was about $600 million higher than in the budget this year—I cannot remember the exact figure—so there was no revenue shortfall. Yes, there has been an outrageous decline in our share of the GST, but that has not impacted on the total amount of revenue received by the state, because other revenue has gone up faster than expected. In addition, according to the Premier in the estimates hearings, the GST is declining more slowly than we originally thought it would. Members should read the questions asked of the Treasurer during the estimates hearings. Michael Barnes, the Under Treasurer, was very good at answering questions about the way the Treasury estimates the GST revenue. He explained that this year the state budget came out before the federal budget. Normally, the state budget comes out after the federal budget and the state simply puts into the state budget the federal government's projections. However, because the state budget was brought down before the federal budget, the state's Treasury did not have access to the federal government's projections. Treasury knew what the GST figure was for 2014–15, because the commonwealth told Treasury that as part of the budget process, but for the estimates for the out years, Treasury had to estimate on an estimate. Treasury took last year's estimate and adjusted it through a process for the midyear review. Normally that figure would not be used for the state budget because Treasury would use the commonwealth's figures. However, because Treasury did not have the commonwealth's figures, Treasury had to take the midyear review figure and make another estimate based on that estimate to provide the figures for the state budget. When the commonwealth budget came out, we knew what the figures were and therefore could change Treasury's estimated estimate to estimate from the commonwealth estimate, which is very confusing! According to the Premier, changing those parameters delivers $400 million extra revenue to the state. That is $67 million more than the land tax provision will bring to the state.

Unfortunately, I was not able to develop this argument last night during consideration in detail but we can see from part 3 of this Revenue Laws Amendment Bill that it is not justified in a political sense because the government is breaking an election commitment. In addition, it is not needed in an economic sense because the small businesses in Western Australia are principally going to pay the resulting land tax, often when they have no capacity to recover the money from their customers, and that means it will be taken out of their earnings or their wages, if you like. As small business people, their earnings are equivalent to wages because they are not employees. Not only is it not justified politically and not needed economically, but it is not needed for the budget bottom line. It is unusual for a Liberal government to proceed with a tax increase in any case, especially given that that $332 million tax grab is justified by none of those measures.

It is pretty clear that it does not matter what is in the final Economic Regulation Authority's report that goes to government; the government has rejected the ERA's draft recommendations on tax. It has completely rejected them because the provisions in this bill for both land tax and payroll tax are completely contrary to the ERA's draft recommendations. I am not saying I specifically endorse the ERA's draft recommendations; I am saying that the government has rejected them. That is exactly what the government has said it is doing with this bill. Otherwise, subsequent to 1 July, it will have to come back with a bill that undoes everything in this bill. It does not make any sense. Lyndon Rowe is a great Western Australian who has had a distinguished career. I do not always agree with him; sometimes I have vehemently disagreed with him, particularly when he was running the Western Australian Chamber of Commerce and Industry and I was a union official. One thing I will say about Lyndon Rowe is that he is a person who speaks his mind. When he ran the Chamber of Commerce and Industry it was a formidable political organisation. When it was run by John Langoulant it was a formidable force. Sadly, in the last few years it has slipped and it is no longer a force. Deidre Wilmott, whom I cannot call a friend because it is not that sort of relationship, is a person I have dealt with over a long period. I know her because she is a friend of Dean Smith and, famously, Dean Smith and I have been friends for a while. Like the Minister for Mines, I meet people through various relationships and Deidre is a person I met through Dean Smith. I have known her for a while. I once told her that I looked forward to her being in the chamber because I wanted someone further to the right on economics than me. Sadly, it does not look like there is anyone to the right of me on economics in this chamber! Every time I come in here I am the one attacking the government from the right. It is a bizarre world.

One can be so dry on economics one feels very comfortable belonging to the Labor Party but, on economics, one is on the right of every Liberal minister—it is amazing—even people who used to run one of the big four banks and a person who used to run the Institute of Public Affairs. It is just bizarre. It is Colin's world!

Several members interjected.

Mr W.J. JOHNSTON: I will not say that.

The ACTING SPEAKER (**Mr I.M. Britza**): Thank you, member.

Mr W.J. JOHNSTON: My apologies. I will make an observation about that another day.

The ACTING SPEAKER: Come back to the third reading.

Mr W.J. JOHNSTON: Yes, I will come back to the bill.

We can see that there is no justification for this tax increase. The silence from the back bench of the Liberal Party is extraordinary. I was not here for the minister's reply, but I had a bit of a dig at him about the difference between the remarks he made in his inaugural speech and the provisions in the bill. In his inaugural speech he said —

> Our vision for this state must not come at the expense of our fundamental philosophies of lower tax, of leaving businesses with more of their own money and of not burdening future generations with debt to fund expedient policies today.

That is our criticism of this government. The words the minister used in his inaugural speech reflect the opposition's criticism of this bill. There is no plan to get debt under control. No minister can stand in the chamber and tell us the date on which debt will peak. The only thing the government says is that it will sell some assets, but that is transferring one type of debt to another type of debt. That is not fixing the problem. In the

1990s the Court government sold a number of assets to bring down debt. Guess what happened? The Court government ran up debt; the Gallop and Carpenter governments paid it down and the Barnett government has brought it up again. When we sell assets, we do not change the underlying asset balance of the state; we just swap debt for equity, if you like. If we then waste that equity in the same way we incurred debt, we leave the state no better off. As the minister said in his inaugural speech, it leaves businesses with more of their own money. The government is taking money out of the pockets of my friends who run the Lotto kiosk. They cannot pass on the costs to their customers because, effectively, they are price takers, not price setters. They have to charge whatever for newspapers and whatever for Lotto. They cannot decide what price those things are; they are price takers. We are taking money out of their pockets to put into the government's pockets. What are we doing with the revenue? We are wasting it. The Minister for Planning is here; good luck to him.

Another time we can explain why the decision to go ahead with projects such as Elizabeth Quay was so badly thought through. There is $330 million for the expansion of Ord stage 2. People have asked, "Don't you support Ord stage 2?" I support Ord stage 2 only if it makes sense. What was the decision? The government gave the land away. It spent $330 million of taxpayers' money on Ord stage 2, and what was the financial return to the government? Zero. It provided a 99-year lease for a peppercorn rental. Come on! If a Labor government had done that, the member for Alfred Cove would be on this side demanding a royal commission. The WA Inc losses amounted to $450 million.

Mr P. Papalia: There is no business case.

Mr W.J. JOHNSTON: Yes. The amount of $330 million was spent on a project that will return zero. Where was the business case? It did not exist. The amount of $330 million was spent on Muja AB. That too was a complete and utter scandal. It was done for the benefit, not of the community, but of Verve's management at the time, who were trying to improperly get around the cap, yet the taxpayers are on the hook for the money. That is the sort of thing that has happened here. John Langoulant did a report on the new football stadium, and concluded that Burswood was not the best site for it. He said that although it was suitable, it was not the best site. He concluded that the best site in the state for a stadium was at Kitchener Park. Members opposite can disagree with him and the Premier says that he makes decisions. The Labor government got the best minds in the state—John Langoulant and his team—to look at the question and come up with a solution, and the solution was Kitchener Park, not Burswood. He said the problem with Burswood was transport connections. He also said, "Make sure you have one stadium for all sports." We will end up with three stadiums again, the WA Cricket Association ground, Burswood, and nib Stadium, directly against the recommendations in the Langoulant report. Why is that important? Why do I raise it here? It means that whoever is in government after 2017, a Minister for Finance will bring more land tax bills into this chamber because the decision-making processes of government are inadequate. The decisions do not address the fundamental problems of decision-making processes and we will end up with a shambles, and the only thing we will be able to do is hit one of the ugly sisters—payroll tax, land tax and stamp duty. I will just reference that ugly sisters comment: that is what the former Treasurer Eric Ripper used to describe them as in public, both in the chamber and elsewhere.

Mrs G.J. Godfrey: It should be the three ugly brothers.

Mr W.J. JOHNSTON: What another great interjection from the member for Belmont! We always accept her interjections because they are always so well considered. She is right; they should be the three ugly brothers or the three ugly siblings. If we were speaking Indonesian, it would be gender neutral. They are three sources of revenue that we have and if something is not done about planning, if the government says, "Don't plan, make a decision. Don't have a business case, make a decision. Don't have forward estimates, make a decision", that is what we end up with. Members of the Liberal Party backbench should understand what they are doing. It is not just that they are agreeing to a 25 per cent increase in land tax; remember, in its current form land tax is the most capricious tax of all, because it taxes people who have vacant land with no holding income. At least with stamp duty there is a transaction and people have to have the money to make a transaction, but people can have land tax bills of hundreds of thousands of dollars. I have had people come to see me about it and I know people would have gone to see members from the other side of the chamber about it. They are getting tens of thousands of dollars or hundreds of thousands of dollars of land tax bills with no holding income. The problem in the development space of trying to provide affordable housing et cetera all impacts on it, and the problem is that we will be back here again. Last year the now Treasurer ran through the house the bill that had been given to him by the former Treasurer, and this year the new finance minister is running through the house the bill that was given to him by the new Treasurer. In a year's time or two years' time, there will be another finance minister bringing in another Treasurer's bill to increase land tax again because there is no planning, there is no process and there is nothing behind this. That is why it is called tax and spend. It is not in the interests of Western Australia to follow that path. There has to be a plan and there has to be an idea of where we are going, because as they say, if we do not know where we are going, we will never get there.

MR D.C. NALDER (Alfred Cove — Minister for Finance) [12.03 pm] — in reply: I would just like to acknowledge the contributions from members opposite over the last couple of days to the debate on the Revenue Laws Amendment Bill 2014. I have found it fascinating, and although at times I think we went to issues a lot wider than what this bill was attempting to cover, I enjoyed some of the discussions last night, and I will come back to that in a minute. I want to respond to some of the queries that were raised this morning, as well as a couple that I was not able to provide responses to accurately last night.

Firstly, on the house and land package, typically, when the contract is established properly, land is treated as vacant land in that situation, so a house is not dutiable when the contract is established correctly. Therefore, in a typical situation it is just treated as vacant land against those thresholds.

There were further questions raised last night. The member for Warnbro asked for some detail regarding the revenue systems consolidation enhancement program. I was about to touch on the fact that it was to do with the IT systems, but I thought I had better get a more accurate response. The revenue systems consolidation enhancement program will enable upgrades and improvements to the computer systems that support the collection of around $7.7 billion in state taxes. It will ensure that the state's revenue collection systems remain reliable and robust, so that is one of the challenges for it. The program is intended to deliver consolidation of the revenue systems, enhancement of capabilities in customer service, red tape reduction, and enhancement in taxation administration, including enhanced business intelligence capability, and delivery of the revenue system enhancements necessary for the street address improvement whole-of-government initiative.

The member for Warnbro also asked for the impact year by year of the three budget measures. We had two of them on the table last night, but he asked for the other one to be considered, broken down year by year. I will quickly read those out, although I know the member for Warnbro is not here. For 2014–15, duties were $53.9 million, land tax $72 million and payroll tax $27.3 million; for 2015–16, duties $55.3 million, land tax $79 million and payroll tax $30 million—they are obviously negatives for the payroll tax; in 2016–17, duties $56 million, land tax $87 million and payroll tax $63.8 million; and 2017–18, duties and land tax only of $56.6 million and $96 million.

The member for West Swan asked how many taxpayers there were for payroll tax for the last five years. The figures are: 30 June 2009, 30 238; 30 June 2010, 14 326; June 2011, 15 593; June 2012, 16 379; and June 2013, 17 612. They were the questions we had not responded to last night and I now provide greater clarity.

I will move on to some of the broader philosophical discussions. I found them interesting, albeit I did not really see it as the role of the debate on this bill to get too far into those. Something fascinated me and provided me with a bit of insight, which is a positive. I heard quotes from certain books and references made to certain economists around Australia inferring that first home owner grants do not actually provide benefits to first home owners; they ultimately flow through to the seller, whether they are removed or applied. I was somewhat surprised and encouraged by this sort of conversation, because it is interesting. I could only take from it that the opposition was encouraging further discussion around this issue and possibly advocating for a future removal of first home owner grants, which is one of the conclusions I drew. If we look at what Saul Eslake was saying and the quotes that the member for Victoria Park was drawing from, that topic was mentioned, and that is why I clarified for the member that when a benefit is removed, it flows through to the seller, and at the same time, when it is applied for, it increases demand and flows through to the seller of the home as well.

Ms R. Saffioti: It also depends on the market, whether it is a buyers' or sellers' market, which is a peak part of that, essentially. You cannot just take half of what he said.

Mr D.C. NALDER: I am not taking half of what he said, but I will not spend time on this. I was just saying that I was actually encouraged by the sort of conversation that explores that.

Several members interjected.

The ACTING SPEAKER (Mr I.M. Britza): Members, he is not taking responses.

Several members interjected.

The ACTING SPEAKER: Members, if the minister wants to —

Several members interjected.

The ACTING SPEAKER: Member for Warnbro, member for West Swan and member for Wanneroo, the minister is not taking questions.

Mr D.C. NALDER: Mr Acting Speaker —

Ms R. Saffioti interjected.

The ACTING SPEAKER: Member for West Swan, do not test the Chair.

Mr D.C. NALDER: I now look forward to concluding on this bill. There were broader issues raised around what the government is doing and, again, I did not see this bill as a basis upon which we would debate those things, but we have, twice in the last couple of weeks. I was encouraged by the member for Victoria Park raising what he did last night. We are not necessarily that far apart philosophically. I witnessed the member a couple of weeks ago advocating for the sale of Western Power, which again surprised me coming from him as a member of the opposition. That poses interesting questions and we have said that we are looking at a divestment program. Again, it is not the time for us to engage in that debate, but I was interested in the member for Victoria Park's comments on the television recently regarding that matter. That finalises discussion around this bill and I commend the bill to the house.

Question put and passed.

Bill read a third time and transmitted to the Council.