

PAY-ROLL TAX ASSESSMENT AMENDMENT (DEBT AND DEFICIT REMEDIATION) BILL 2017

Committee

The Deputy Chair of Committees (Hon Robin Chapple) in the chair; Hon Stephen Dawson (Minister for Environment) in charge of the bill.

Clauses 1 to 3 put and passed.

New clause 3A —

Hon MARTIN ALDRIDGE: I move —

Page 2, after line 12 — To insert —

3A. Section 8 amended

- (1) Delete section 8(1)(b) and insert:
 - (b) the financial years beginning on 1 July 2016 and 1 July 2017 is \$850,000; and
 - (c) a financial year beginning on or after 1 July 2018 is \$1,000,000.
- (2) Delete section 8(2)(b) and insert:
 - (b) the financial years beginning on 1 July 2016 and 1 July 2017 is \$70,833; and
 - (c) a financial year beginning on or after 1 July 2018 is \$83,333.

In moving this proposed new clause I will make some brief remarks, because I already outlined in my contribution to the second reading debate the position of the National Party on this amendment. I remind members that this amendment will give effect to the raising of the payroll tax exemption threshold in Western Australia from \$850 000 to \$1 million. This will cost the state \$4.2 million in revenue forgone in the context of a payroll tax collection of some \$3.2 billion. It will remove seven per cent of payroll tax-paying businesses from the payroll taxation system and will amount to some 0.13 per cent of total payroll tax revenue collected by the state.

I do not for one minute believe that if the Pay-roll Tax Assessment Amendment (Debt and Deficit Remediation) Bill 2017 passes unamended, its impact will be limited to only large businesses with payrolls exceeding \$100 million or more. The impact will be felt far more widely than that. This amendment is a modest one and one that will, in some part, offset the impact on small to medium-sized enterprises, particularly small businesses, of the government's intention to increase payroll taxation in Western Australia.

I am not comfortable with Western Australia's reputation of being the highest payroll-taxing jurisdiction in Australia. Members have pointed out that some other jurisdictions have a higher rate of payroll taxation, but we must look at the relevant policies that exist in those jurisdictions, because there are varying exemption thresholds. I think it was mentioned during debate that the Australian Capital Territory has a payroll taxation rate of 6.5 per cent, but it has an exemption threshold of \$2 million—the highest in the nation.

I think this amendment has merit. It would in part match the arrangements in Queensland, Tasmania, the ACT and the Northern Territory, which similarly all have an exemption threshold of \$1 million or more. As I said, the ACT has a threshold of \$2 million. It will not cost the budget significantly. As I also said, \$4.2 million equates to 0.13 per cent of total payroll taxation received by the state. The National Party and I believe that this amendment has merit; the Leader of the Opposition, Mike Nahan, believes it has merit and has said so in a media statement. I commend the amendment to the chamber and I seek members' support in making sure that some of our smallest businesses in Western Australia remain competitive with other jurisdictions and are, to some extent, shielded from the impacts of this increase.

Hon AARON STONEHOUSE: I will speak briefly to advise members that I will support this amendment. It is a well-thought-out and practical amendment to what is otherwise a job-destroying tax. I would rather see no increase to payroll tax; I would rather see payroll tax abolished entirely. I completely disagree with the minister and his assertion that it is an effective tax. I think it is a very ineffective tax. Any activity in the market that is taxed is going to be disincentivised, and any activity that is subsidised is going to be encouraged. Some members may scoff at this, but a tax on payrolls is quite literally a tax on jobs.

Raising the threshold is a great idea; Hon Mike Nahan said so himself back in February when he made an election promise to raise the threshold from \$850 000 to \$900 000. What a fantastic idea. I have a lot of respect for Mike Nahan; he is a very smart guy. I wish Liberal members in this place had the same view and maybe the same guts—maybe not guts, since Mike Nahan is not supporting the amendment either—or at least the same economic outlook, and had stood up to this tax like they did with the gold royalty increase proposal. Unfortunately, it seems

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that unless they are lobbied hard enough, they are not willing to throw their support behind something. I guess, in this case, it means that the bill will be passed unamended, but, anyway, I am in full support of this amendment and I hope other members will join me in that support.

Hon COLIN TINCKNELL: Once again, I am in full support of this amendment. Pauline Hanson's One Nation made it quite clear in the second reading debate that if the government was serious about repaying debt, it would not need this payroll tax increase. We do not think the government is serious about repaying debt because its overspending continues and increases on a regular basis. We are 100 per cent in support of this amendment.

Hon STEPHEN DAWSON: I say from the outset that we are not in a position to support this amendment today, Hon Martin Aldridge. A number of members have made a contribution so I had better say, for the record, who I am addressing, first of all. That \$4.2 million is tax paid by employers with wages between \$850 000 and \$1 million. Increasing the threshold will flow through to all taxpayers with wages up to \$7.5 million at a cost of \$139 million over the forward estimates. That is \$45 million in 2018–19, \$46 million the year after, and \$48 million the year after, totalling \$139 million over the three years.

Hon Martin Aldridge: You did not answer it last week because it was cabinet-in-confidence.

Hon STEPHEN DAWSON: This is the advice I am now given. I am also advised that the Treasurer gave this information in the Legislative Assembly. Member, I just want to place that on the record. In terms of the consideration of an increase in the payroll tax exemption threshold, I have said a number of times today but I will also say it again that both the Treasurer and the Premier have indicated that the government will consider increasing the payroll tax threshold in the 2018–19 budget. Increasing the threshold needs careful consideration and the government's view is that it is best considered through the budget process. The cost to revenue would be ongoing; it would not be limited to five years like the revenue raised from this measure. It would therefore, over time, more than offset the revenue that is raised from the measure. If we were to increase the exemption threshold, we would have to borrow money to cover its lost revenue. If we are going to do that, we need to make sure that we deliver the best economic outcome for the state. That may be a threshold increase, or it may be a rebate of some other measure, but if we are going to borrow money to fund a tax cut, we need to ensure that we get the best economic outcome that we can possibly get. Therefore, again, from my and the government's perspective, the best way forward is to allow Treasury the time to consider the threshold increase and do analysis in the lead-up to the budget next year. Then the government will make a decision at that time.

Hon SIMON O'BRIEN: I understand we are addressing the question that the words proposed to be inserted be inserted, which is the amendment substantively from Hon Martin Aldridge. I am just wondering whether the honourable member could briefly explain for the record the two parts of the proposed new section 8(1) and (2) that he wants to insert. The first is self-explanatory: he wants to increase the threshold at which the payroll tax becomes payable from \$850 000 to \$1 million. That is pretty straightforward. But I am just wondering for the record whether the member could explain what the proposed new section 8(2)(b) is trying to achieve?

Hon MARTIN ALDRIDGE: This amendment seeks to amend section 8 of the Pay-roll Tax Assessment Act 2002. I do not expect everyone to have that section of the act or the act itself in front of them, but section 8(1) and (2) breaks down the annual threshold into an amount. At the moment section 8 states —

- (1) The annual threshold amount for —
 - (a) the financial years beginning on 1 July 2014 and 1 July 2015 is \$800 000; and
 - (b) a financial year beginning on or after 1 July 2016 is \$850 000.
- (2) The monthly threshold amount for —
 - (a) the financial years beginning on 1 July 2014 and 1 July 2015 is \$66 667; and
 - (b) a financial year beginning on or after 1 July 2016 is \$70 833.

Basically the two subsections of section 8 of the act reflect both an annual threshold and a monthly threshold and that monthly is simply the annual threshold divided by 12, as I understand it. In amending the annual threshold, we also have to amend the monthly threshold to ensure that both subsections of section 8 of the act reflect each other.

Hon SIMON O'BRIEN: I thank the honourable member for that; it is important to get it on the record. I do not have the principal act immediately to hand, so I thank you for that. I want to comment on both of those things. Firstly, I make a general comment. At the second reading vote, the policy of this bill was decided. I am now moved to contemplate: What does that mean? What is the policy of the bill? It could be argued that the policy of the bill is to impose certain higher rates of payroll tax for two new categories with their own thresholds for a five-year period and to also provide the administrative machinery to make that policy work. Those amounts are obviously in the bill. Is that, short and sweet, the policy of the bill or is it something more sweeping like we just change

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around the payroll tax arrangements? If it is the former, I am not so sure that we are able to contemplate this desire to tweak details, and were I to raise it formally, it might create some real head scratches for people.

The DEPUTY CHAIR: Including the Chair!

Hon SIMON O'BRIEN: I was going to say, sitting not too far away from the Chair, the sort of question that might say, "Jeez, they are worth their money and should not have their wages frozen!" But I digress. I am not raising that except for the sake of debate but it is something that people might like to contemplate. What is the policy of this bill? If the policy is to enable something simpler than that, something less precise and less restrictive, it might be that we are going to amend the Pay-roll Tax Assessment Act. That would then enable people to say, "I reckon it should be \$750 000", "I reckon it should be \$500 000", "I reckon the rate should be tuppence ha'penny", or whatever else people want to say. It is an interesting point is it not? Perhaps I will quickly address both.

The DEPUTY CHAIR: I think you should really be working on addressing a question to the minister.

Hon SIMON O'BRIEN: We already have a question, and the question is that the words proposed to be inserted, be inserted. I am addressing that of course, Mr Deputy Chair, and as you suggest, I will definitely be looking to the minister to respond. In that sense it very much characterises a question. That should keep everyone happy!

The first observation I make on the policy of the bill is that if such an amendment as is being contemplated were to be made, what happens then? The government has already indicated from the committee table that it is not acceptable, but anyway, a suggestion to amend this bill would go down to another place in which we would find, not to our surprise, that the government is not amenable to this amendment. We know that because it has told us so in this place. The government in the Legislative Assembly, virtually by definition and certainly it is the case in this Parliament, has the numbers. The government in February, when the Legislative Assembly will meet again, will very politely say no, and when we come back in March, we would have a message stating, very politely, that the government declines the amendment. Then what happens? Firstly, for months there would be uncertainties for the very broad sector affected by payroll tax. Secondly, without the provisions contained in this statute, the Commissioner of State Revenue would be constrained from putting into place all the machinery that is proposed to be put into place, because there is no lawful basis for doing so. The Commissioner of State Revenue is a pretty cunning character, I believe, and he can get around most things, but if some black letter law relating directly to the government's amended payroll tax policy is denied to him, even he would not be able to overcome that. We would have an unfortunate hiatus for at least three months. Then we would have to consider what we were going to do about it here. If we were to insist on our amendment—I do not know whether we would get up a head of steam to do that—then what happens? It goes down via a message to another place, and we start getting into rarely experienced territory, with conferences of managers and the like. If that is the case, that is something we need to consider as well as the matters that have been put forward by the mover and the other speakers on this amendment. As I said, I am not so sure that it is within the policy of the bill, so I am a bit nervous about that. The other things that need to be addressed are: what would this deliver, and is the government right in its position of rejecting the amendment?

The DEPUTY CHAIR (Hon Robin Chapple): One assumes, member, that that is the nature of the question to the minister.

Hon SIMON O'BRIEN: Among others, but if he wants to respond to what I have said so far, he is welcome to do so. I have a few more things to say, but I will sit down for now if someone else wants to have a go.

Hon STEPHEN DAWSON: I thank the member for his contribution and his question. The explanatory memorandum for the Pay-roll Tax Amendment (Debt and Deficit Remediation) Bill 2017 states —

This Bill seeks to amend the Pay-roll Tax Act 2002 to introduce a temporary progressive payroll tax scale for five years commencing on 1 July 2018 and concluding on 30 June 2023.

It goes on to state another few things—obviously members can read an explanatory memorandum—but it also states that its intent is to give effect to the new progressive payroll tax scale. Further on, it states —

... formulas have been devised which take into account all relevant factors, such as whether the employer operates interstate, operates as part of a group, or operates for only part of a financial year, and which apportion relevant thresholds according to the proportion of Western Australian wages to Australian taxable wages. The rate determined by the formula is then applied to the employer's Western Australian taxable wages.

In relation to the member's question earlier on about the policy of the bill, and what was decided, I would contend that the policy of the bill is to impose a certain higher rate of payroll tax for a five-year period, but it is also to provide the machinery to make that work.

Hon SIMON O'BRIEN: The question is that the words to be inserted be inserted. In considering that, we must consider the policy of the bill. It seems that the minister and the government agree with what I have postulated. That then raises a procedural question about what we can do with it as a house, and I have left that one hanging in the air. I was commenting just now that, if we do contemplate making amendments that have nothing to do with the policy of the bill, then what happens? How fruitful is that action going to be? I could imagine Hon Nick Goiran arguing whether these amendments are within the policy of the bill. He could go on at very great length, but fortunately the chamber will only have to put up with me, in very brief bursts. If there is a bill about payroll tax, and we come up with another amendment about an aspect of it that the government is not contemplating, is not brought forward in his budget and is not brought forward in this machinery bill to give effect to those budget measures, should we entertain it? As a private member, and I think on behalf of the opposition, I would suggest probably not. That is not to say that I am suggesting that this amendment should have been ruled out of order, but there is a case for that to happen. However, we are dealing with it and it has not been ruled out of order. I recognise that the proposition is debatable, so let us at least get on with it and dispose of it one way or the other.

In contemplating this, we have a proposition that the mover has decided that payroll tax is evil, and if we can moderate its application somewhat, that will bring all sorts of benefits to people who would otherwise be hit up for these increased amounts of payroll tax. The minister tells us it is a minor impost on the budget and the total payroll tax take, but at four point something million dollars, that is some minor impost. I can almost imagine what the Treasurer would be saying about this. There would be a wailing and a gnashing of teeth, I would expect. Anyway, what are the impacts, and what benefits would it provide? Let us do a weighing up of costs and benefits. I alluded to this in my brief second reading contribution, and I suggested then that I might have to say a little more during the Committee of the Whole. Let me repeat the observations that I alluded to, so that we understand this amendment, its motivation and its context. With payroll tax, governments have to make sure that they maximise what they can get into the coffers without frightening and upsetting the horses too much. If the government wants to change it around, depending on whether it comes from the left or the right side of centre, it can be characterised in a couple of ways. A slightly left-of-centre government would want to attack the big end of town—the corporations. We all know they are nasty, despite the fact that most of their labour force is heavily unionised, which surprises me a bit. Such a government will up the payroll tax impost for the larger employers. We have seen this before. Hon Nick Griffiths was sitting opposite, on the old benches, but in the same place, as Minister for Finance, going through the same process that we are seeing now, quite unapologetically. That is what they do—hit them up because then they get maximum bang for their buck. Governments also make sure that they appeal to people as sympathetic, so that even though they will continue to charge payroll tax, and try to refine it, they will try to present it in a press release—worthy way.

Hon Martin Aldridge gets it. I hope he will not take offence, but I almost see his amendment as proof that he is indeed a minister in waiting. I hope he does not think I am referring to him as precocious in that sense in any offensive way, but he gets it. If the government is going to increase the threshold and there are good reasons for doing so, it should highlight the fact that thousands and thousands of employers will benefit. Of course they will; they will benefit to the tune of \$5 500 per annum if the threshold is increased by \$100 000—\$100 000 multiplied by 5.5 per cent is \$5 500. What is more, a whole lot of other employers with payrolls between \$750 000 and the proposed new threshold of \$850 000 will not pay anything. The government can put a figure on that; there will be thousands of them: “Look at the benefits we are bringing to small business here in Western Australia.” How much difference will it actually make? Let us say that a small business is hovering around the \$750 000 payroll mark and then it goes over that amount by \$1 000 through bracket creep or a growth in the business. It still has the \$750 000 threshold and then it has to pay payroll tax on the \$1 000 by which it has exceeded the threshold. How much is that? It is \$55. Does our Office of State Revenue, like the commonwealth, just write off relatively small amounts? Not on your nelly! It will collect that \$55. I have to tell members that that is not the sort of bill that will stop anyone who is thinking of employing a new staff member from doing so. It will not require any small business to lay off a staff member it has on its books. It is wrong to suggest that it is somehow a tax that stops jobs being created by small business. It is not a tax on jobs; it is a tax on payroll. I have contemplated a business that is \$1 000 over the current threshold. Of course, a business at the top end with a \$850 000 threshold, which is a reasonable sized business, could save \$5 500 a year. It would be really nice for the owner of that business to take up to \$5 500 of tax and stick it back in their pocket or put it towards their bottom line. However, I wonder whether it will really deliver the benefits that have been suggested.

Hon Colin Holt: Should we have left it at \$700 000?

Hon SIMON O'BRIEN: What I am saying, Hon Colin Holt, is that people have looked at this for a very long time and they have contemplated these things, regardless of whether they are in government or in opposition. Governments will do what governments do now; that is, they will say that they have to do this and they will call it budget repair or something. But oppositions will tend to say that it is all about a tax on jobs, it is evil and all the

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rest of it. At all times, Treasurers or ministers for finance will contemplate this and they will put up their proposals through the cabinet processes based on the sorts of factors that I am outlining: how much will it bring in to help balance our budget, how much of a good news story is it to put out and how much can we afford to give? It comes down to hard dollars and cents. The minister at the table has already indicated that that will be contemplated as the government enters the next budget round. He did not have to tell us that, because it is a factor that is contemplated and comes up every single year.

The DEPUTY CHAIR: Members, we are dealing with the amendment.

Hon SIMON O'BRIEN: I thought that members might benefit from that information to help guide their decision on this amendment.

In summary, it is possibly debatable whether the amendment is within the scope of the bill, but if the government and the processes of the chamber have not picked up on that, perhaps it can be contemplated; and so we are contemplating it. How are we going to dispose of it? The member can make a very compelling case about the benefits of this amendment, but if we look at the problems it will cause, it does not stack up. Nobody wants to put up taxes. Everybody involved in government processes wants to find ways of delivering tax relief, but when someone has to take responsibility for doing it, it is a different matter from simply saying, "Gosh, this would be a very good idea."

I want to make one final observation before I sit down. I have heard all sorts of comments about this bill. I was out of the chamber briefly when the minister concluded the second reading debate, but I have heard a lot of references to how this bill is all about mums and dads and small businesses. The scope of this bill at the moment is about applying new rates of payroll tax to two classes of business: those with payrolls of \$100 million plus per annum and those with payrolls of \$1.5 billion plus per annum. I suggest that that is not mum-and-dad-operation stuff—unless you are Nicola and "Twiggy"! Quite correctly, though, it will affect all sorts of little people, but it is clearly targeted at big concerns. I just wanted to make that point so that we know what the government has proposed. For all the problems that this could potentially cause, and although the opposition would love to see thresholds raised all the time, as Mike Nahan has indicated, on this occasion, for a whole range of reasons, it is not practicable to do so. Regretfully, we will not be able to support the amendment.

Hon MARTIN ALDRIDGE: I think a point of order might have been a quicker way of dealing with some of those issues.

The DEPUTY CHAIR: It is fairly broad.

Hon MARTIN ALDRIDGE: Nevertheless, we are still debating the amendment. I want to address some of the matters that were raised in the contribution by Hon Simon O'Brien. He mentioned a couple of the reasons why he and the Liberal Party oppose this amendment. One reason was that this amendment would benefit from some analysis. If anything, we have found out today that the government's bill seriously lacks any significant analysis of its impact. We learnt that no modelling has been done by Treasury or the government on the impact of this bill. They are relying on the Treasurer's view that the impact of this bill on jobs will be closer to zero than it would be to another number. The analysis that has been done seems to be constrained to businesses with payrolls of \$100 million or more and does not consider modelling of the impact on the broader economy. I remind the member that he is supporting a bill that lacks any serious or proper analysis of the impact of this measure on our business community, jobs and other things.

The other aspect of the member's contribution was about certainty in the other place. I am not sure about other members, but I am not here to deliver the wishes of the other place and I am certainly not here to deliver the wishes of the government on every occasion.

Hon Simon O'Brien interjected.

Hon MARTIN ALDRIDGE: I think the same could be said about a lot of other decisions that are made in this place. In terms of certainty, this bill will not come into effect until 1 July next year, so there is time for the bill to return to and be considered by the lower house. I would have thought that if the chamber agreed to my amendment, the same proposition would weigh on the mind of the government in the other place in that if the will of this place is that we should lift the exemption threshold to \$1 million in part to offset the economic impact of the decision to increase payroll tax in Western Australia, simply shoving a bill back to us that does not have this amendment included and passed by the Legislative Assembly would quite reasonably meet the same fate. It is an interesting argument that we should make our decisions based on the likely outcome in the other place. We are a sovereign place of Parliament in our own right and the impact that this measure passing would have on the other place does not weigh strongly on my mind. That would be a matter quite rightly for the Legislative Assembly.

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I go back to the issues that I raised when I moved the amendment. I thought that the honourable member who spoke before me and his party would be in support of this given that he and his party took the position to increase the exemption threshold to the election. That was announced by the then Treasurer, Mike Nahan, in February at a Chamber of Commerce and Industry of Western Australia event. In announcing the Liberal Party's position to support the government's budget measure of payroll tax increase, Mike Nahan said in the exact same media statement that he supported an increase of \$1 million to the exemption threshold. I find it quite bizarre that we are now in this position in the chamber on the last day of sitting. It is almost like we are grappling at straws to try to justify a position when we are going to vote against the intent of the Leader of the Liberal Party.

Hon AARON STONEHOUSE: I will just take a minute to point out how passionately Liberal members debated aspects of the budget right up to this point and now it has stopped caring. How many hours did we spend on the Salaries and Allowances Amendment (Debt and Deficit Remediation) Bill 2017 in the last two days? Hon Simon O'Brien took only 12 minutes to provide his second reading contribution.

In any case, "No new taxes under this government—period", is the quote that is constantly repeated in this place about Mark McGowan and his pledge to not increase taxes. The same pledge was made by Hon Mike Nahan at the same time in February in the lead-up to the election. The Liberal Party puts so much pressure on the McGowan government because the Premier has broken his promise on no new taxes, but Hon Mike Nahan made the same pledge on payroll tax—not to not increase it but to increase the threshold at the very least, which is what this amendment will do—and now Liberal Party members in the Legislative Council are silent. The only real contribution they gave was mostly full of technical and procedural musings about the policy of the bill and what will happen if we send it back to the other place and so on and so forth. I have not heard anyone properly address the pledges made by Hon Mike Nahan.

Hon Simon O'Brien interjected.

Hon AARON STONEHOUSE: I thank the member, but I am not taking interjections at the moment, honourable member. I just wanted to point that out. I might address it more in my third reading contribution. I reaffirm that I am in support of the amendment and I look forward to the division to see who is willing to be consistent in their views and uphold the principles that they professed during the election when it comes to the grind and it actually matters.

Division

New clause put and a division taken, the Deputy Chair (Hon Robin Chapple) casting his vote with the noes, with the following result —

Ayes (8)

Hon Jacqui Boydell
Hon Colin de Grussa

Hon Colin Holt
Hon Robin Scott

Hon Charles Smith
Hon Aaron Stonehouse

Hon Colin Tincknell
Hon Martin Aldridge (*Teller*)

Noes (22)

Hon Ken Baston
Hon Robin Chapple
Hon Jim Chown
Hon Tim Clifford
Hon Peter Collier
Hon Stephen Dawson

Hon Sue Ellery
Hon Diane Evers
Hon Donna Faragher
Hon Nick Goiran
Hon Laurie Graham
Hon Kyle McGinn

Hon Michael Mischin
Hon Simon O'Brien
Hon Samantha Rowe
Hon Tjorn Sibma
Hon Matthew Swinbourn
Hon Dr Sally Talbot

Hon Darren West
Hon Alison Xamon
Hon Pierre Yang
Hon Martin Pritchard (*Teller*)

New clause thus negatived.

The DEPUTY CHAIR (Hon Robin Chapple): A further amendment stands in the name of Hon Robin Scott. Given the previous position, does Hon Robin Scott want to continue with that amendment?

Hon ROBIN SCOTT: I withdraw my request.

Clauses 4 to 10 put and passed.

Title put and passed.