

REVENUE LAWS AMENDMENT (TAXATION) BILL 2009

Second Reading

Resumed from 20 May.

MR B.S. WYATT (Victoria Park) [1.01 pm]: I rise to speak to the Revenue Laws Amendment (Taxation) Bill 2009. I am the lead speaker on behalf of the opposition, and I will begin by saying that the opposition will be supporting this legislation. I do not propose to spend 60 minutes talking to this bill, but I will spend a little time reflecting on tax generally, as well as on the contents of this bill.

As the explanatory memorandum states, the bill seeks to amend three pieces of legislation, primarily the Land Tax Assessment Act 2002, to implement a number of land tax measures announced as part of the 2009-10 budget. The measures include a system of capping growth in individual land cap values by a prescribed percentage, which is intended to be 50 per cent for the 2009-10 assessment year, and also the reintroduction of a concession for land developers which allows land tax to be calculated on the en globo value of land holdings rather than the full subdivided value of lots for one year after the creation of the lots. Consequentially, some amendments must be made to the Land Tax Act 2002 and the Metropolitan Region Improvement Tax Act 1959 to facilitate those capping arrangements. The bill before us today is somewhat technical in nature and amends those three pieces of legislation to deliver upon budget initiatives primarily in respect of capping growth in valuations for the purposes of land tax.

I will refer to an advertisement printed in *The West Australian* on 26 November 2008 that I referred to last time there was a revenue laws amendment act dealing with land tax. The advertisement was placed by Mr Joe Pintaudi of City Beach. The advertisement states —

THE LAND TAX OFFICE IS A DISGRACE

Can the Land Tax Office or our Government tell me how my land tax on my commercial properties from Sep '07 to Nov '08 went up from \$50,546.50 to \$118,085.75 — That is a \$67,539.25 increase in 12 months and the land value went up from \$4,674,651 last year to \$9,517,236 this year — That is ridiculous.

I have given very little rent increases to my tenants in the past 5 years, I charge my tenants \$80 per square metre for factories in Balcatta, now I will have to put the rent up to \$100 per square metre or more. That will probably send some of my tenants bankrupt.

I am wondering if you people are for real?

Looks like you really want to send the State into a Full-Blown Recession.

Joe Pintaudi

City Beach.

Land tax has caused consternation for governments across this country for many years. The advertisement placed by Mr Pintaudi details a scenario that the government is attempting to address by way of this cap, the implementation of which is supported by the opposition.

By way of background, it is worth noting the recent Western Australian government submission to the review of Australia's future tax system, dated May 2009—otherwise known as the Henry review—commissioned by the commonwealth government shortly after Kevin Rudd became prime minister and formed government. Dr Ken Henry, secretary of the federal Treasury, is heading that review into Australia's tax system, which is well past due. Hopefully, the results of that review will enable a reform of our taxation system that better reflects the demands placed on the state and territory governments in service delivery and better reflects the reality of the limited revenue base that state and territory governments have.

The submission is well-written and outlines the limitations of state and territory governments. Page 2 details the composition of state and territory revenue for 2007-08, and notes that whilst Western Australia has a higher composition of royalties, we are fortunate that we have a royalty revenue base higher than any other state or territory, and the graph indicates that our own taxation probably sits somewhere in the middle of most of the states and territories. Turning to page 3, the composition of the source of taxation is detailed. As has been mentioned a number of times by members of Parliament, Western Australia has three primary direct taxation sources beyond royalties; namely, land tax, payroll tax and conveyancing duty. Page 3 of the submission to the Henry review details the make-up of that collection, and land tax is a not insignificant part of Western Australia's taxation revenue source.

I will quote from page 2 of the submission that relates to goods and services tax returns, although it is not directly relevant to the bill. Page 2 states —

Western Australia is also very important to the overall fiscal health of the Australian economy and the individual States. For 2007-08, it is estimated that Western Australia contributed \$8.2 billion to the Federation in net terms. This is an estimate of the difference between revenue the Commonwealth derives from Western Australia (\$37.3 billion) and Commonwealth expenditure relating to the State (\$29.1 billion). Western Australia's contribution is much greater than New South Wales' and Victoria's, the only other States that are net contributors ...

I will finish reading that quote, but I want to make the point that I noted with interest the comments of the New South Wales' Treasurer in *The Australian Financial Review* at the weekend. He was interviewed prior to the release of his government's budget yesterday, and he said that he was, effectively, sick of New South Wales subsidising other states and territories, in particular resource-rich states. Whilst he did not name Western Australia, I assume he was referring to our state in that comment. His comments do not reflect the reality of what has been happening regarding which state is subsidising which.

I will continue the quote from page 2 of the submission to the Henry review —

Western Australia's contribution is also reflected in the distribution of the Goods and Services Tax (GST) revenue by the Commonwealth. The horizontal fiscal equalisation (HFE) process applied by the Commonwealth Grants Commission will leave Western Australia with only 8 per cent of GST revenue in 2009-10, even though its population comprises over 10 per cent of Australia's total population. Western Australia's share of GST revenue is forecast to decline further to about 6 per cent in 2011-12.

No doubt every member of Parliament is aware of our declining GST returns and the fact that the horizontal fiscal equalisation process penalises Western Australia. The submission that the state government submitted to the Henry review makes that point very well. I hope that Ken Henry and his committee take that into consideration when they make their recommendations about a future tax system for Australia. I know that the Treasurer is very interested in meaningful tax reform as he spent many hours sitting on this side of the house talking about meaningful tax reform. However, now that he is the Treasurer, he gets to see the finances that the former Treasurer, now Leader of the Opposition, had the pleasure of seeing. Not many members of Parliament get that information, but meaningful tax reform at the state level cannot take place without the commonwealth also being involved.

Mr T.R. Buswell: The numbers that the former Treasurer used to see are a distant memory compared with the numbers that I normally see now.

Mr B.S. WYATT: I have no doubt that the numbers that the Treasurer is seeing are somewhat different. I daresay in four years, when I assume the member for Vasse will still be Treasurer, the numbers will be different again. The fact is that state governments—all state governments are in a similar position, having to deliver core services—are limited by their revenue source and by what they can do by way of meaningful reform. Whilst sitting on this side of the chamber, the Treasurer made a number of suggestions on land tax reform. I have read his speeches and I have met with the various lobby groups that are interested in this area. However, the only way we can have meaningful reform, whether it is land tax or payroll tax, is to either reform the fiscal relationship we have with the commonwealth government or decide that there is an area in which state governments no longer involve themselves.

Mr T.R. Buswell: And attempt to slow down the rate of growth of recurrent spending as a third of —

Mr B.S. WYATT: I agree, but we need to look at the states generally over the past two decades, regardless of what party has been in power. I think the government is attempting a significant pullback on that growth of recurrent spending, in terms of both percentage and real dollars. To get the sorts of tax reductions that the government would like to get, we probably have to remove government from a particular area. I am not saying that this side of the house will support that but with the limited capacity that it has, even if it wrings every cent out of every dollar, the demand for recurrent spending of state governments will always be higher year in, year out.

Mr T.R. Buswell: I will give an example of the challenge in health services, which is 25 per cent of our general government recurrent spending.

Mr B.S. WYATT: And going up.

Mr T.R. Buswell: Health recurrent spending is currently growing at about 10 per cent. The health demand is growing at about half that. There are all sorts of challenges in and around those areas.

Mr B.S. WYATT: I am assuming that the demand increase is not necessarily linked to the cost of providing it. It depends on what is being put on.

Mr T.R. Buswell: You would have to wonder, therefore, why the per unit cost of health service delivery is going up at such a rate.

Mr B.S. WYATT: That may be because of a particular investment in health—short-term higher spending—or it may be a long-term problem that the Treasurer is now grappling with to try to get those two figures closer together.

The point that I am trying to make and the point that the government's submission to the Henry tax review makes is that Western Australia is a net contributor to the Australian federation. That point needs to be made clear. I make that point because I was somewhat surprised by the comments of the New South Wales Treasurer.

Mr T.R. Buswell: Have you met him?

Mr B.S. WYATT: No, I do not get those sorts of pleasures of meeting high and important people; I am merely a member of the Western Australian opposition.

Mr T.R. Buswell: He's all right.

Mr B.S. WYATT: I agree; he seems to be a very competent man but I think he got his points wrong in Saturday's newspaper. I would like to quote from the first page of the submission to the Henry review, which sets up the value that Western Australia has for the Australian commonwealth. It states —

Western Australia's gross state product (GSP) for 2007-08 was \$146.4 billion or 13.5 per cent of Australia's total gross domestic product (GDP) for that year. It's GSP per capita for 2007-08 was \$68,837, the highest of all States.

Western Australia is a state that certainly cannot be ignored because it is a net contributor. I dare say that the Prime Minister is relying on Western Australia's relationships with its trading partners to ensure that it remains a net contributor to the federation.

This legislation, as I have already briefly outlined, primarily deals with two matters. It will cap growth in individual land values at 50 per cent for the 2009-10 year. The example given by Mr Joe Pintaudi in the advertisement that he took out on 26 November 2008 highlighted a number of complaints that I, as shadow Treasurer, received at my office. The member for Balcatta outlined those very eloquently last year when we were debating the previous piece of legislation that dealt with land tax adjustments. It is interesting to note that the complaints about the last round of land tax assessments that went out dealt primarily with commercial property, particularly in areas such as Balcatta and Osborne Park. I have part of Welshpool in my electorate. Welshpool is a commercial area but I did not receive any complaints about Welshpool.

Mr T.R. Buswell: There are also some in the Midland area.

Mr B.S. WYATT: That may be true but the complaints that I received, which would have been a small percentage of the complaints received by the Treasurer or Landgate, were primarily about two or three areas of commercial property. I wrote to the Valuer-General outlining some of the queries that I had about how valuations were arrived at. For a number of years a constituent of the member for Balcatta had received valuations that he considered to be 10 to 15 per cent below market value. He assumed that that was the process taken by the state government to eliminate complaints. By taking a conservative estimate by the landowner's value, we will eliminate or at least reduce complaints. In the last assessment he got, the valuation was correct. It had a double impact. Instead of having the 10 to 15 per cent reduction in market value, the impact that that had on his land tax assessment was quite phenomenal. I had an example of that but I will find that later.

My point is that there was a massive growth in land tax bills primarily for commercial property. I wrote to the Valuer-General about that constituent. He considered the valuation transparent enough for him to at least estimate what his land tax liability would be in any particular year. As has been discussed at length in this place, land tax is not necessarily linked to one's capacity to pay; it is simply linked to the value of one's property. He was making a point. As Mr Pintaudi said in the advertisement in *The West Australian*, he had to pass that on to the tenants in his property. In the past five years the flow-on from that has not caused as many complaints simply because the economic conditions allowed those businesses subletting commercial property to absorb those rises because their revenue streams tended to be going well. However, because of the lag that land tax assessment has, the most recent land tax assessment had a large increase at a time when the economy slowed dramatically. That is exacerbating the impact, as landowners tend to pass on, as they would, those land tax rises. A letter I received from Mr Garry Fenner, Valuer-General, Landgate, states —

There is a period of 12-15 months between the date of valuation and the issue of land tax assessment notices (the period of time to revalue the whole state typically 10 to 12 months with the remaining

period used to model tax scales and issue rate notices). During booming market conditions this resulted in values being significantly below the market value of a property at the time the notice is received and gives the impression of conservative values being applied. In less buoyant conditions such as we have more recently experienced this is not the case.

I also asked a question about the total number of objections that Landgate had received, which is also a question I intend to put to the Treasurer during consideration in detail. The total number of objections to unimproved value assessments lodged since 1 July 2008 is 1 199, plus 902 informal queries. Osborne Park recorded 34 objections and 35 queries, and Balcatta recorded 30 objections and 35 queries. These numbers are high above historical levels and are a reflection of the interplay between the unusually high increases in market values, land tax assessments and the current recession. As a general rule the level of objection to values in Western Australia is well below the level in all other states. We have since received, through questions in the other place, some up-to-date information on those objections.

I received no complaints involving residential property owners. All the complaints that I have received involved commercial property owners. I think that by and large that is due to the tax relief measures that pertained in the 2008-09 budget. As outlined at page 60 of the 2008-09 *Economic and Fiscal Outlook*, the increases in thresholds and cuts in rates of land tax and the metropolitan and regional improvement tax totalled over \$558 million and had an impact in 2008-09 of \$120 million; in 2009-10 an impact of \$132 million; in 2010-11 an impact of \$145 million; and in 2011-12 an impact of \$161 million. On page 63 of the 2008-09 *Economic and Fiscal Outlook* it states —

The new 2008-09 land tax and MRIT scales will, on average, offset the impact of ‘bracket creep’ through a combination of an average 13% in all thresholds (ranging from 20% for minimum thresholds for 10% for the two highest thresholds for land tax), 33% reductions in the two lowest marginal land tax rates (applying to properties valued up to \$2.2 million under the new scale) and reducing the MRIT rate by 17% (from 0.8% to 0.5%). As a result, the increase in total land tax and MRIT revenue in 2008-09 will be around 29%, broadly the same as the average increase in land values. The increase in the minimum threshold to \$300,000 (for both land tax and MRIT) also reduces the number of taxpayers by about 26,600 compared to if the threshold remained unchanged at \$250,000.

From the lack of complaints that I received involving residential property owners it seems that those initiatives contained in the 2008-09 budget are largely, not eliminating complaints, but I guess reducing the number of complaints from residential property owners.

The first budget that this government has brought down contains this capping initiative. I note that during debate in this place back on 12 June 2007 between the former Treasurer, now Leader of the Opposition, and the current Treasurer regarding reforms, the Treasurer suggested the idea of a cap based on the consumer price index. Discussions that I have had with the Real Estate Institute of Western Australia have suggested the idea of rolling three or five year averages. However, the end of those three or five years would obviously see a spike in land tax bills. REIWA is certainly of the view that that spike would not be as dramatic as the most recent spike in commercial properties’ land tax valuations. The Treasurer’s budget has included the relief, or cap, and the in globo reintroduction of the development concession, as well as outlining a new instalment option extension of time to pay, which I think will be helpful for those commercial property owners seeking to recoup the increased land tax from their tenants.

The cost of land tax and the 50 per cent cap on unimproved valuation growth in both land tax and MRIT is estimated at \$6.9 million for 2009-10; no impact for 2010-11, which I assume means that 2010-11 will have a reduction in property values, which the budget certainly indicates; \$2.3 million in 2011-12; and \$2.3 million in 2012-13, being a total cost to the state’s finances of \$11.5 million. The reintroduction of the developers’ in globo concession for the 2009-10 budget will be \$2.3 million, and there are similar figures all the way through to 2012-13, being a total cost of \$9.2 million. That \$11.5 million is not a huge amount of money. However, it will certainly be well received by those who have been otherwise subject to this large growth in land values. The Valuer-General at page 54 of the 2009-10 budget has provided preliminary land valuations indicating that unimproved land values for 2009-10 land tax assessments will decline by an average of two per cent, hence the lack of impact on the budget in 2010-11. I think the Treasurer said that it would impact on 2 600 land taxpayers.

Mr T.R. Buswell: It is on page 55. My recollection is that something like 20 per cent of taxpayers will have a higher valuation on their property. Of that 20 per cent, around 2 600 will have a valuation of about 50 per cent. There are therefore about 2 600 people to whom, in the current environment, the 50 per cent cap will apply.

Mr B.S. WYATT: Around 80 per cent of a total of 106 000 will face no increase or a lower land tax bill than in 2008-09, which makes sense. However, around 20 per cent of taxpayers will incur a higher land tax bill, profits and strong growth having continued for some commercial industrial properties. Again, as the Treasurer points

out in the budget, and a point I have already made, it partly reflects the valuation lag, whereby land tax is based on valuations conducted around August of the previous year.

The budget, as well as the explanatory memorandum, sets out examples of how the capping system will work. It is interesting to note the breakdown of the value distribution of taxpayers and the contribution to the land tax revenue that the Treasurer provided me with last time this issue came before the house. I assume the 2 600 taxpayers would be at the top end, probably among those commercial property owners with property valuations of \$5 million plus, which is where I would have thought it would have its greatest impact. In any event, what is interesting to note from these figures—this is from the 2008-09 budget scale—is that 192 taxpayers paid 42.9 per cent of the land tax revenue.

That means that 0.2 per cent of taxpayers paid nearly half of the total land tax revenue source. It also shows the impact on the bottom end; that is, about 60 000 taxpayers representing 54 per cent of total taxpayers are paying only 1.2 per cent of the land tax bill that the state sends out. Land tax is distorted by those large property owners, who tend to own commercial property.

One other thing that I would like to refer to, which I have referred to previously, is Western Australia's position in respect of land tax compared with the other states. A publication of the Institute of Public Affairs in December 2008 titled "Business bearing the burden. The size and Impact of State Government Business taxes" noted that Western Australia is a low taxing state compared with its competitors. According to the results of the IPA state tax calculator, Western Australia's land taxes were 75 per cent less than the state average, and its vehicle registration rates contributed to WA's status as Australia's lowest taxing jurisdiction. When gauging Western Australia's competitiveness with other states, Western Australia is very well placed regarding the state tax liability.

Page 9 of the IPA document lists Western Australia's state tax liability: land tax is \$4 525, which is by far the lowest; the second lowest is Victoria at \$7 302; and the highest is South Australia at \$29 099, closely followed by Tasmania at \$28 033, New South Wales at \$18 001; and the state average is \$17 930. Members would appreciate that the Institute of Public Affairs is not necessarily an organisation that sits comfortably with the Labor Party, but it makes the point that Western Australia has a relatively light-handed position on land taxes. That has been brought about due to the \$558 million worth of tax relief that was included in the 2008-09 budget. However, as I have indicated previously, the state opposition supports this legislation. This legislation will have an impact on the recent rise in land tax bills, primarily for commercial property, by capping the growth in land tax valuations and how that applies in respect of land tax.

I want to wind up, but while I am waiting for the member for Cannington to return to the chamber, I will say a few words. In light of the fact that I have been given a little more time, I will raise one other point. I am not necessarily seeking a comment from the Treasurer, but I refer to the submission by the Western Australian government to the Henry review. I will quote from page 20 —

Land tax could be converted from an unimproved value basis to gross rental value basis and amalgamated with local government rates. In so doing, the land tax base could be broadened to align with the rating base (facilitating reduced tax rates), and progressive land tax scales replaced by proportional rates (albeit potentially differentiated by property type according to local government practice).

This could substantially improve the equity, efficiency and simplicity of land tax. Savings in administration costs may also be possible as a result of unimproved values no longer being needed, and State Revenue Offices working with local governments on collection mechanisms.

I note that was not one of the recommendations of the Henry review, but it was part of the submission to the Henry review. That would mean that all property in Western Australia would be liable to a land tax, albeit at a reduced rate. It would then, effectively, be applied by the local governments, which would then pass that revenue on—I assume, to the state government. I appreciate that there are still some details to be worked out. It is also interesting that Peter Kenyon from Curtin University of Technology makes the point time and again that a similar argument could be made about payroll tax, that is, broadening the base and applying it to everyone. Peter Kenyon has made the argument that eliminating the threshold, reducing the rate and broadening the base has a less distortional impact on the market.

I commenced my contribution by referring to the state government's submission to the Henry review. Land tax is a significant part of the state of Western Australia's revenue source—30 per cent of its direct taxation revenue source. This attempt by the Treasurer to ease the impact of unexpected rises in land tax following rises in land tax assessments is welcome and supported by the opposition. However, the point must be made—the Treasurer would know this by now—that significant taxation reform is very difficult without significant reforms to the fiscal relationship between the commonwealth and the state government. Until that happens or the government

makes a decision to remove itself from a part of public policy that can then free up savings through significant reform—that generally means tax reductions—that will not go ahead. I look forward to the Henry review and the recommendations contained in that report, and to seeing the appetite of the federal government in implementing the suggested reforms from Ken Henry.

As I said at the beginning of my contribution, the opposition supports the Revenue Laws Amendment (Taxation) Bill 2009. This legislation brings in a very good reform that will ease the burden of increasing land tax liabilities on a small but significant number of Western Australians.

MR W.J. JOHNSTON (Cannington) [1.37 pm]: I am pleased to rise and make a few short remarks on this bill. Clearly, this is a very small measure. The Treasurer's second reading speech made clear that it is only about \$11.5 million over four years for the cap, being forgone revenue, and the other measure being the in globo developer arrangements of \$2.3 million. The Treasurer is not in the chamber at the moment, but I am sure he would confirm that is a minute fraction of the total revenue that will be collected over the next four years. The budget papers refer to \$26 billion in taxation. Indeed, the government is counting these very, very small administrative measures as part of its tax cuts for the \$250 million of tax cuts it promised during the election campaign.

This bill relates to a very small part of that \$250 million tax cut that was promised. Of course, members know that the government has now reversed that and taken it out of the budget papers. The government has effectively cancelled, in round figures, \$150 million of that \$250 million tax cut. I invite the Treasurer to comment on its current commitment to that \$250 million tax cut. I note, too, that the Treasurer said in his second reading speech that the cap arrangements will affect around 2 600 landowners in 2009-10. Based on information the Treasurer provided to me on the previous bill, I calculate that that is 2.9 per cent of land taxpayers. Again, a very, very small number of land taxpayers will benefit from this amendment.

It is interesting that we could in fact eliminate 29 000 land taxpayers from the system entirely for less than the \$11.5 million that is being used in this small technical amendment. Although they might be welcome relief measures to individuals who will benefit from these land tax changes, they are not —

Mr T.R. Buswell: Member, when the market turns around, the number of people it impacts will be significantly higher.

Mr W.J. JOHNSTON: That would depend, Treasurer. It is a good interjection because it is true. If the market was booming, as it was for a previous number of years, that would be very true. The point that the Treasurer made when in opposition was that the reason that land values accelerated so quickly was in fact not the market, but market distortions. When in opposition, the Treasurer's argument was that the former Labor government was failing to bring land on to the market at an adequate rate to match supply. I am happy to take the interjection because this is one of the things I keep reminding the Treasurer—that his actions in government have to be measured, not against his good intentions but, rather, against his rhetoric in opposition. As the member for Victoria Park commented, these are actually very complicated matters. In opposition, it was very easy to stand in this chamber and make very bold statements about what the former government should or should not have done, but in fact it is very complicated. We all expect a return to growth—in fact, it could be argued that is the budget strategy because the easiest way to fill in the \$750 million, in round figures, hole for the third and fourth years of the out years is to have above estimated growth.

Mr T.R. Buswell: We hope.

Mr W.J. JOHNSTON: We all hope. If that is the Treasurer's budget strategy, we on this side of the chamber hope for him as well.

Dr M.D. Nahan interjected.

Mr W.J. JOHNSTON: The member for Riverton interjected about New South Wales. One of the problems in that state is that it actually passed a law that required it to eliminate state debt. That was one of the things that chained that state. As it was so fixated on repaying debt, it stopped worrying about building infrastructure. Many of the problems that it is now trying to overcome —

Dr M.D. Nahan interjected.

Mr R.F. JOHNSON: That is one of the most important issues—NSW underinvested because it was fixated on debt. It was in response to the political environment.

These are welcome small adjustments to land tax arrangements. They build on the previous government's reforms in the land tax area. When the Treasurer introduced his previous land tax adjustments, he cut the rates to take into account the incorrect estimates of the inflationary effect on land tax rates. State governments have only a limited number of revenue options in the taxation area—land tax, payroll tax and stamp duty. I again make the

point that land tax is probably the least attractive form of taxation because we can have land that attracts a taxation obligation but is not producing a holding income. It is probably the area to concentrate on. The Chamber of Commerce and Industry of Western Australia and other organisations will constantly refer to the need to reform payroll tax but actually —

Mr T.R. Buswell: Can I make a point? I attended a general council meeting of the Chamber of Commerce and Industry. I was probably there for a couple of hours. I had the member's view on payroll tax when I attended the meeting. The biggest issue raised with me at that meeting was land tax. A lot of businesses have leases. Admittedly, land tax is an outgoing; it is a tax deduction. However, businesses still have to find the money. We only have three taxes that impact significantly. I think it depends on the time of the year we go down there. Payroll tax is always there; the interest in land tax goes up and down.

Mr W.J. JOHNSTON: I think, too, that there is a dichotomy between the membership of the Chamber of Commerce and Industry and its leadership, which was actually the point I was about to make. It is obviously a very broad organisation with many, many small businesses and small investors as members, whereas its leadership is dominated—I am not being disrespectful to anybody in the chamber—by more orthodox economic views of the world. Although the orthodox economic view might be to cut payroll tax as a first preference, the actual individuals who belong to the chamber will see land tax as being the sleeper, as they are paying it when they are not getting an income from whatever it is that they are investing in.

In my former role, I spoke to lots of different people. A businessman told me that he had bought a house in Dalkeith or Nedlands—one of those suburbs. It took two years for him to buy the house, knock it down and build his new house. He lived in his former home for two years while his new home was being built. Obviously, he was a rich person. He was building a major house, as one can imagine if it takes two years to build —

Mr T.R. Buswell: I hope the member was not seeing him as a donor in his capacity to his former organisation.

Mr W.J. JOHNSTON: I had a range of duties, Treasurer, in my former capacity.

Mr T.R. Buswell: Where was he—Dalkeith?

Mr W.J. JOHNSTON: One of those suburbs.

Mr T.R. Buswell: Better get the member for Nedlands on to him!

Mr W.J. JOHNSTON: I am sure he gives to both sides! The point I am making is that he had to pay land tax on his land while he was doing that work. When he was telling me how the state government could improve, on the top of his list was land tax. That is no surprise. With payroll tax, the payroll has to be paid before payroll tax is payable; with stamp duty, a transaction has to be completed before the transaction costs are paid.

Mr T.R. Buswell: Payroll tax is paid on a periodic basis; a land tax bill is payable in one clump.

Mr W.J. JOHNSTON: Certainly. However, the point I am making is that with payroll tax there has to be something happening in the business; whereas with land tax, if a person is holding property that he or she is not actually using, he or she will have to pay land tax. My view is that land tax is actually the one that the state should concentrate on. Payroll tax is in fact just taxing the value added by labour to a production process. It operates in much the same way as the goods and services tax, which is also taxing the labour content in added value.

I was also very interested to read the state government's intention regarding the Henry tax review. I read the commentary on pages 19, 20 and 21 about tax base sharing. I particularly draw attention to the comment at the bottom of page 19 of the state government's submission to the Henry tax review —

Payroll tax could be amalgamated with the Commonwealth's Pay as You Go (PAYG) income tax system (administered nationally by the Australian Taxation Office), reflecting that both taxes apply to 'wages' and are collected 'at source' by the employer. As has been noted by other commentators, this would be a natural extension of the current payroll tax harmonisation process.

That is an interesting comment from the state government about its intentions.

Mr T.R. Buswell: Sorry, which page was that?

Mr W.J. JOHNSTON: The bottom of page 19. The way I read it—I am happy to take an interjection if my reading of it is wrong—the state government is asking the commonwealth to eliminate payroll tax, which is a tax on business, and apply it as a tax on individuals' wages, because the PAYG is of course collected by the employers but paid by the employees. Given that the government is already slugging families in the suburbs by \$350, the Treasurer is proposing —

Mr T.R. Buswell: I asked Treasury about that, and the advice it gave was that that would not necessarily be the case. I raised exactly the same question. I didn't ask for the detail, but that will wash out in due course. You can

only assume that what the businesses save in payroll tax will somehow transfer through that mechanism to the commonwealth, because there is no way you will increase tax on take-home pay. There would have to be some transference mechanism.

Mr W.J. JOHNSTON: Absolutely. The point I was getting to —

Mr T.R. Buswell: I agree with you.

Mr W.J. JOHNSTON: The problem I have is that it is about transferring the tax burden from businesses to individuals. I understand that that is the philosophical position of some people, but it is not mine.

Mr T.R. Buswell: One of the other approaches was to apply a company tax surcharge, which is probably more in line with what you are talking about. I was happy to sign off on this because it is important to start the debate. One thing I have learned about WA Treasury is that it is not backward in coming forward when raising issues for public debate.

Mr W.J. JOHNSTON: Indeed. It was not backward in coming forward during the time of the previous government either. I am sure that if I examined the Treasurer's use of the same sorts of ideas that were floating around during the time of the previous government, I would find some colourful language.

Mr T.R. Buswell: To be truthful, the only significant body of work on tax that the former government did was the state tax review. The state review was limited to state taxes and it did not really go into these issues, which are far more broad ranging.

Mr W.J. JOHNSTON: The outcome of the budget is that it will increase the costs that individual families must pay. The Treasurer can argue that that is not his intention, but regardless of whether or not it is his intention, that will be the result. The point I am getting to is that most of the residents in Cannington do not pay land tax. The Treasurer might say that they effectively pay the costs because they deal with businesses and pay for the cost of services.

Mr W.R. Marmion interjected.

Mr W.J. JOHNSTON: Absolutely. I have made the point before, and I will make it again directly to the member, that we should make sure that the total cost on families is always the most important thing to think about. If we are to reform state taxes, the tax to reform is land tax, not payroll tax, because land tax has the biggest negative effect. The member for Victoria Park mentioned the proposal to transfer land tax into the rates base and pass it on to individual families. I would not accept that either, because the purpose of land tax is for investors to pay a higher contribution to the community than do other members of society. I have no trouble with that. I am not saying that land tax should be eliminated; I am saying that reform should be focused on land tax. Although the Revenue Laws Amendment (Taxation) Bill 2009 and the previous bill introduced by the Treasurer regarding the indexation of land tax rates were both welcome, they make only minor adjustments. If the government is committed to providing \$150 million of additional taxation relief to meet the \$250 million promise it made during the election campaign, it should probably focus on this area rather than other areas, because the most benefit could be gained by concentrating on this area.

I am pleased that the Treasurer said that the state's submission to the Henry review is a submission on behalf of the department and not necessarily —

Mr T.R. Buswell: No. I signed off on it. I am not hiding behind the department's involvement. I have had my share of political bruises, and I am up for a few more.

Mr W.J. JOHNSTON: I will not speak beyond 2.00 pm. The question of interstate comparisons is quite interesting. I note the graph on page 3 of the Henry review. The state misses out on collecting revenue from gambling taxes. Western Australia is very lucky that it does not have many poker machines. Therefore, those machines are not taxing the working people, such as those who live in Cannington, who would most likely use those devices. I am sure that the Treasurer has already been visited by lobby groups who talk about the additional revenue that the state could gain by making minor adjustments to the gambling arrangements. I am not a puritan and I am not opposed to gambling. I am not saying that people cannot choose to be involved with gambling. It is a pastime and I can understand why people are attracted to it as a form of simple entertainment, but not in such a way that it destroys their lives. Perhaps it is a large entertainment for the member for South Perth!

Mr J.E. McGrath: Australia rides on the horse's back.

Mr W.J. JOHNSTON: It is something that the state should resist.

Several members interjected.

Mr W.J. JOHNSTON: He has many horses. It is not just the horse, but the mail that counts. Is that not right, member? All I am saying is that a dependence on gambling revenue is to be resisted. The former Liberal-National Court government and the former Labor government, particularly under Geoff Gallop, who was very opposed to it, as was the member for Willagee, resisted that temptation. I encourage the Treasurer to also resist the temptation. It is wrong for the Commonwealth Grants Commission to not take proper account of the fact that Western Australia has resisted that urge. We are being penalised for that because we do not have substantial gambling tax revenues. That situation is not right. The federal grants formula should take account of that and not penalise us for it.

[Member's time extended.]

Mr W.J. JOHNSTON: The past three Premiers of Western Australia are to be congratulated for having resisted the temptation to go down the gambling tax track. Western Australia should not be penalised by the commonwealth government for doing that. The Productivity Commission's review of gambling taxes recommends that we should be rewarded for our strong stand on that matter. I urge the new government to follow through on the former government's and the Court government's position on gambling taxes. With those few words, and on those important topics —

Several members interjected.

Mr W.J. JOHNSTON: I am doing my best here!

The SPEAKER: Order, members! I have given the call to the member for Cannington and am interested in hearing him.

Mr W.J. JOHNSTON: Apparently, today the Speaker is not alone in wanting to hear me speak! There are many members coming into the chamber; they are flooding in.

Mr E.S. Ripper: It is the power of your oratory.

Mr W.J. JOHNSTON: Obviously, Leader of the Opposition. When the Treasurer encourages me to seek an extension of time, I know that things are at an interesting stage.

Mr T.R. Buswell interjected.

Mr W.J. JOHNSTON: I did not hear Joe's comments on the radio, Treasurer.

Mr T.R. Buswell: I will read them to the member.

Mr W.J. JOHNSTON: I am sure that the Treasurer will.

This is a modest but welcome adjustment to land tax. Some \$11.5 million will be saved over four years, which will affect about 2.8 per cent or 2.9 per cent of land tax payers. Other revenue measures of smaller amounts will assist a small number of developers and ensure the smoothing out of the supply of land. That revenue measure will save only \$2.3 million.

Debate interrupted, pursuant to standing orders.

[Continued on page 5193.]