State Taxes Update

1 July 2014

New South Wales: 2014-15 financial year Budget

On 17 June 2014, the New South Wales (NSW) Treasurer handed down the NSW Budget for the 2014-15 financial year. The revenue-related measures have been introduced into the NSW Parliament through the State *Revenue and Other Legislation Amendment (Budget Measures) Bill 2014*.

Exceeding previous forecasts, the Budget surplus for 2013-14 is approximately $1 billion, with a further $4.5 billion forecasted across the forward estimates. A Budget deficit of $283 million is forecasted for 2014-15 with a return to surplus expected in 2015-16.

Net debt has lowered to $8.6 billion (less than half the net debt previously forecast), with funds received from the lease of the Port of Newcastle and other asset recycling strategies improving the State's net debt position.

Revenue has increased to $65.4 billion in 2013-14, exceeding original estimates. This is due to greater than expected collection of State taxes alongside a strong housing market; increased goods and services tax (GST) due to higher consumption; and Commonwealth grants for major infrastructure projects. Only modest revenue growth is anticipated in 2014-15 and across the forward estimates.

Tax measures in the Budget include:

Stamp duty

As part of its wider push for tax reform, the Government will abolish stamp duty on selected dutiable property. Historically, abolition of these duties has been promised before and postponed. Beginning 1 July 2016, duty will not be imposed on the transfer of:

1. Marketable securities.
2. Non-real business assets.
3. Business mortgages.
4. Statutory licences/permissions or gaming machine entitlements.
5. Commercial fishery shares.

Previous statements suggested that the Government would only abolish the above duties once it had reached an agreement with the Commonwealth regarding lowering the GST import threshold. The Government has recognised that an agreement has not been reached. It is nonetheless abolishing the above duties but still pushing discussions regarding access to GST revenue and other Commonwealth tax bases, the need for tax reform, and State/Federal collaboration in relation to tax arrangements.

Housing

From 1 July 2014:

a. The First Home Owners Grant will be available to homebuyers of new homes valued at up to $750,000 (previously $650,000).

b. The New Home Owners Grant will only be available to Australian citizens and permanent residents.

Further supporting new housing development, $60 million will be provided to local governments for essential infrastructure.

Revenue compliance

$19 million will be spent expanding tax compliance programs and reducing outstanding fines debt. This expansion will include greater analysis, investigation and audit of complex business and trust structures and their compliance with stamp duty, payroll tax, land tax and mineral royalties.

This compliance activity is expected to increase revenue by $248 million.

Payroll tax

Changes to payroll tax include the introduction of a $1,000 payroll tax rebate (in addition to the existing $5,000 rebate) available to businesses that employ workers who have recently been made redundant through large scale redundancies

Health insurance levy

The Government has chosen not to increase the Health Insurance Levy, contrary to statements in the 2013-14 Budget that an increase would be announced in the 2014-15 Budget.

In 2014-15, taxation will continue to be the largest source of state own-source revenue (accounting for 38 per cent of total revenue), with payroll tax (30 per cent), transfer duty (24 per cent) and land tax (10 per cent) accounting for 64 per cent of tax revenue.

Other highlights announced in the 2014-15 Budget include:

- Reduction of 5 per cent to the WorkCover premium.
- Large investment in infrastructure, with $61.5 billion to be spent over four years for projects such as the North West Rail Link, CBD South East Light Rail and WestConnex motorway, and $400 million towards the Parramatta Light Rail.
- •Investment in roads, including $1.2 billion to improve the Pacific Highway and $1.1 billion over 10 years to improve the Princes Highway.
- Investment in health, including the rebuilding of Westmead Hospital and $300 million for increased emergency department attendances, general hospital patients and elective surgeries.
- Investment in schools, including $400 million to fund school infrastructure.
- $500 million to be spent over four years to improve child protection services.

Taking the above announcements into account, the Government estimates an average 3.4 per cent nominal growth in expenditure over the next four years.

For further information contact Costa Koutsis on (02) 8266 3981.

Queensland: 2014-15 financial year Budget

The Queensland Budget for the 2014-15 financial year was delivered on 3 June 2014 by the Queensland (Qld) Treasurer. Coinciding with the Budget, the Government also released a paper titled *Strongest and Smartest Choice: Queensland's plan for secure finances and a strong economy* (Strongest and Smartest Choice Paper). The Budget forecasts a fiscal deficit of $2.271 billion (or 4.5 per cent of General Government revenue) for the 2014-15 financial year.

Total revenue from taxation is expected to grow by 5.3 per cent in 2014-15. This increase in total revenue includes the following increases relative to the 2013-14 financial year:

- Goods and services tax (GST) revenue is expected to grow by 8.4 per cent
- Payroll tax collections are expected to grow by 3.2 per cent
- revenue from transfer duty is expected to grow by 9.6 per cent following strong growth of 28.2 per cent in 2013-14 that was supported by a number of large commercial transactions;
- revenue from vehicle registration duty is expected to grow by 5.0 per cent;
- revenue from insurance duty is expected to grow by 9.4 per cent;
- land tax is estimated to grow by 1.5 per cent to $995 million;
- motor vehicle registration fees are expected to grow by 3.0 per cent;
- gambling tax and levy collections are estimated to grow by 3.5 per cent; and
- revenue from The Emergency Management, Fire and Rescue Levy is expected to grow by 11.9 per cent.

A few tax related measures and Budget incentives were announced. The changes include

- Payroll tax exemption for government departments; (note: the Government has reiterated it is committed to increasing the payroll tax threshold to $1.6 million by 1 July 2019);
- Transitional home land tax exemption; and
- Primary production business transfer duty concession.

Payroll tax exemption for government departments

From 1 July 2014, General Government Sector departments (excluding commercialised business units) and Queensland hospital and health services will no longer be required to pay payroll tax. This change is intended to reduce the administrative burden associated with the internal circulation of money through Government.

Due to the variations in how statutory bodies are funded and their differing degrees of independence from Government, statutory bodies (other than hospital and health services) will continue to be liable for payroll tax, especially when they compete with the private sector.

The Budget anticipates that this amendment is expected to be revenue neutral.

Land tax : Transitional home exemption

From the 2014-15 land tax year onwards, the Land Tax Act 2010 (Qld) will be amended to provide a new exemption from land tax for land that does not receive a home exemption because the owner is in the process of selling their old home and moving into a new home. This concession is subject to meeting a number of conditions.

The home exemption currently can only apply to one parcel of land at a land tax liability date. However, this limitation can result in a liability where a person is selling their previous home and moving into a new home at the land tax liability date of 30 June.

The new exemption will mean that an earlier home in the process of being sold, or a new home in the process of being moved into is also exempted, provided that by the next land tax liability date the taxpayer is entitled to the home exemption for the new home, and the taxpayer no longer owns the earlier home. The Budget anticipates this amendment is not expected to result in material changes in revenue.

Primary production business transfer duty concession

A transfer duty concession under the *Duties Act 2001 (Qld)* applies to transfers of land used for a family primary production business or personal property used to conduct the business on the land, where certain conditions are met. The transfer must be by way of gift, and currently must be between lineal descendants such as parent to child or grandparent to grandchild. In addition, the concession is available for certain indirect acquisitions involving family partnerships, family trusts and family unit trusts, again by way of 'gift'.

To provide greater flexibility in succession planning decisions in these businesses, amendments will allow the concession to apply across a wider range of family relationships, such as nephews and nieces. However, the transactions will still be required to be by way of 'gift'. The word 'gift' is currently defined to mean there is no consideration for the transaction or the unencumbered value of the dutiable property is greater than the consideration for the transaction.

The amendment will take effect from Assent. The Budget anticipates that this change is not expected to result in material reductions in revenue.

For further information contact Stefan DeBellis on (07) 3257 8781.

Australian Capital Territory: 2014-15 financial year Budget

The Australian Capital Territory (ACT) Budget for the 2014-15 financial year was delivered on 3 June 2014 by the ACT Treasurer.

The Treasurer has forecast a budget deficit of $332.8 million for 2014-15 and has forecast a return to surplus in 2017-18. The 2014-15 financial year Budget builds on the tax reform introduced in the 2012-13 Budget and has also introduced a few new tax reform measures. Total revenue from taxation is expected to increase by 6.1 per cent in 2014-15.

A summary of the significant tax reform measures is provided below.

Abolition of duty on insurance over 5 years (commenced from 1 October 2012)

Continuing with the scheduled abolition of duty on insurance over 5 years, the Treasurer has confirmed that from 1 July 2014, duty on insurance policies will be reduced as follows:

- General insurance: 6 per cent rate reduced to 4 per cent; and
- Life insurance: 3 per cent rate reduced to 2 per cent.

Revenue raised on duties for both general insurance and life insurance is expected to decrease by 30 per cent.

Phasing out of conveyance duty over 20 years (commenced 6 June 2012)

Continuing with the scheduled phasing out of conveyance duty over 20 years, the Treasurer has announced the reduced rates and announced a further reduction for properties valued over $1.455 million.

The relevant rates commencing from 4 June 2014, for property with a value of:

- Up to $200,000, the rate will reduce from 2.2 per cent to 2.0 per cent;
- $200,001 to $300,000, the rate will reduce from 3.7 per cent to 3.5 per cent;
- $300,001 to $500,000, the rate will reduce from 4.5 per cent to 4.15 per cent;
- $500,001 to $750,000, the rate will remain the same at 5 per cent;
- $750,001 to $1,000,000, the rate will remain the same at 6.5 per cent;
- $1,000,001 to $1,454,999, the rate will remain the same at 7 per cent; and
- $1,455,000 and above, the rate will be imposed at a flat rate of 5.25 per cent (down from 5.5 per cent).

Revenue raised on duties on conveyances is expected to decrease by 4 per cent.

Changes to the general rates system for the commercial and residential sectors

To fund the various tax reforms, changes to the general rates system (akin to council/municipal rates) were introduced in the 2012-13 Budget. In the 2014-15 Budget, there have been changes announced to the ratings factors and the fixed charges that will commence 1 July 2014.

These changes include:

- An increase of around 10 per cent on all the marginal rates for residential and commercial properties (and a decrease on rural properties); and
- An increase on the fixed charge for residential properties from $626 to $675, for rural properties from $139 to $145, and for commercial properties from $1,749 to $1,915.

General rates revenue is expected to increase by 13 per cent.

Introduction of new rating structure for residential land tax commencing 1 July 2014

The Treasurer has announced a new rating structure for land tax which is levied on residential property when held for investment purposes. The new structure will comprise a fixed charge component of $900 and a decreased marginal rating factor.

Land tax revenue is expected to increase by 18 per cent.

Payroll tax changes

The two changes to payroll tax that have been announced are as follows:

- An increase to the payroll tax threshold from $1.75 million to $1.85 million (note that the rate of payroll tax remains the same at 6.85 per cent); and
- Removal of the “genuine employer” exemption which exists in the calculation of payroll tax for employment agents to “bring the ACT in line with other jurisdictions”.

Payroll tax revenue is expected to grow by 8 per cent.

Changes to concessions

The Treasured has also announced changes to various concessions:

- Extension of current *Pensioner Duty Concession Scheme* to also apply to all people over the age of 60 years. The new *Over 60s Home Bonus* commences on 4 June 2014 and will run for two years.
- Eligibility for water and sewerage rebate (which provides a maximum rate of 68 per cent of the service charge per quarter) has been extended to those on the *Low Income Health Care Card*.
- A cap of $200 (every 2 years) has been introduced for the *Spectacles Subsidy Scheme*.
- The *Taxi Subsidy Scheme* will increase from $22.50 to $24 for ordinary taxis and from $34.50 to $37 for wheelchair accessible taxis.
- The *MyWay* off peak single concession fare will be realigned over a three year period to 50 per cent of the standard fare.

Motor vehicle registration

In 2014-15, motor vehicle registration will increase by 6 per cent, however a 2 per cent discount is offered if annual payment is made. Further, the administration fee will be reduced from $25 to $15 (on quarterly and half yearly payments).

Other significant revenue initiatives

The Treasurer has announced an increase in the fire and emergency services levy (FESL). The new FESL in 2014-15 will include:

- A fixed charge of $130 for residential and rural properties (an increase of $10);
- A pensioner rebate and discounts for early payment; and
- A valuation-based charge for commercial properties (which reflects an average increase of $1,030).

For further information contact Costa Koutsis on (02) 8266 3981.

South Australia: 2014-15 financial year Budget

The South Australian Budget for the 2014-15 financial year was delivered on 19 June 2014 by the South Australia (SA) Treasurer.

The Treasurer announced that the South Australian economy is expected to grow by 2.25 per cent in 2014-15, and that the forecast deficit is $479 million. Taxation revenues have been revised down by $313 million due to lower payroll tax, conveyance duty and gambling tax revenue forecasts, however, this is offset by increases in goods and services tax (GST) receipts of $355 million across the forward estimates.

The 2014–15 Budget has made relatively few changes to traditional areas of revenue raising, however, notable policy decisions include:

- Changes to the Emergency Services Levy resulting in an estimated increase of $150 in 2014–15 for a median-valued residential property in Adelaide and an $8 increase for certain passenger vehicles;
- Continuation of the payroll tax small business concession and an off-the-plan apartments stamp duty concession for the inner metropolitan region;
- Opening up the provision of Compulsory Third Party (CTP) insurance to the private sector in South Australia from 1 July 2016; and
- Introduction of a seniors housing grant for new homes of up to $8,500.

The following is a summary of the new taxation measures announced:

Transport development levy

A new levy will be introduced on particular car park spaces in the Adelaide central business district from 1 July 2014. The levy will start at $750 per car park space per annum and will be indexed annually.

Seniors housing grant

A new $8,500 Seniors Housing Grant (SHG) for new homes where contracts are entered into between 1 July 2014 and 30 June 2016 inclusive. At least one applicant for the SHG is required to be 60 years or over and occupy the new home as their principal place of residence for a continuous period of at least six months commencing within 12 months after completion of the eligible transaction. For eligible transactions, the SHG is $8,500 in relation to new homes where the market value does not exceed $400,000. The SHG phases out for new homes with a market value between $400,000 and $450,000.

Emergency services levy (ESL) – fixed property remission

The government will remove general remissions provided on the fixed property ESL from 1 July 2014. For a median-valued residential property in Adelaide, the estimated increase in the ESL liability in 2014–15 will be around $150. However, the ESL for eligible pensioners and self-funded retirees who hold a Commonwealth Seniors Health Card will effectively not change on their principal place of residence as the government will continue to provide a remission on the fixed property ESL on those properties.

Emergency services levy – moving property remission

The government will also remove remissions provided on ESL rates for cars, larger motor cycles and historic vehicles from 1 August 2014. The ESL for passenger vehicles will increase by $8 in 2014–15. This change will result in increases to mobile property ESL liabilities for over 1 million vehicles.

Insurance

The government has decided to allow the provision of Compulsory Third Party (CTP) insurance to the private sector in South Australia from 1 July 2016. Revenue from stamp duty on CTP insurance premiums is expected to fall by $4 million in 2014–15, however, a new Lifetime Support Scheme (LSS) levy will commence in 2014–15, which will be subject to stamp duty.

Payroll tax

The government will continue to provide relief to small-to-medium businesses in 2014–15 through the continuation of its small business payroll tax concession. The concession provides relief to eligible employers of up to $9,800.

Stamp duty

The government will continue to provide a stamp duty concession on eligible off-the-plan apartments in the inner metropolitan region.

Conveyance duty

Due to a lower than expected number of non-residential property transfers, revenue has been revised down by $48 million in 2013–14, and by smaller amounts across the forward estimates. Revenue from large conveyance duty transactions has also been lower than expected since the first few months of the year.

Share duty

Receipts in 2012–13 are much higher than receipts expected from 2013–14 reflecting revenue received from a large transaction in that year. Share duty receipts are expected to remain relatively flat over the forward estimates.

A focus of the 2014–15 budget is infrastructure projects, with an estimated $10 billion to be spent over 4 years. Major initiatives include:

- $160 million to be spent over the next three years to extend the O-Bahn guided busway including a tunnel below Hackney Road from near Plane Tree Drive under North Terrace emerging near East Terrace;
- $100 million to be spent for the Flinders Medical Centre redevelopment works;
- $152.5 million to be spent to electrify the Gawler rail line from the city to Salisbury;
- $85 million to be spent to construct a second high school in the city on the existing Royal Adelaide Hospital site with the capacity for 1,000 students, to become operational in January 2019;
- $35.5 million to be spent over the next four years for the continuation of rural road safety measures including improved signage and delineation, minor junction improvements and removal, modification and shielding of roadside hazards and median centreline treatments; and
- $17.5 million to be spent over the next three years to redevelop and expand the neonatal unit at the Flinders Medical Centre, consolidating all of the hospital's neonatal intensive care, special care and isolation requirements to be provided in one location.

Major national partnership initiatives include:

- $620 million to be spent for the joint Commonwealth Government and state funded North–South Corridor Darlington upgrade, of which the Commonwealth Government is contributing $446 million; and
- $27 million to be spent over the next two years for the joint Commonwealth Government, state and local council funded initiative to construct a second South Eastern freeway interchange at Bald Hills Road to cater for population growth at Mount Barker, of which the Commonwealth Government is funding $16 million.

Or further information contact Barry Diamond, on (03) 8603 1118.

Let’s talk

For a deeper discussion of how these issues might affect your business, please contact:

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