

## **State Taxes Update**

*1 June 2015*

### **Victoria: 2015-16 State Budget**

The State Budget for Victoria for the 2015-16 financial year was delivered on 5 May 2015 yesterday. Key measures announced include:

- introduction of a 3 per cent stamp duty surcharge for foreign buyers of residential property, applicable to dutiable transactions entered into on or after 1 July 2015
- introduction of 0.5 per cent land tax surcharge for landowners who do not ordinarily reside in Australia, from the 2016 land tax year
- an exemption from motor vehicle stamp duty for vehicles classified as mobile plant or plant-based special purpose vehicles from 1 July 2015.

These measures and incentives are further detailed below.

The State Treasurer announced that the Budget is expected to produce an operating surplus of \$1.2 billion, growing to \$1.8 billion in 2018-19, with accumulated surpluses of \$5.8 billion over the Budget and forward estimates period. Net debt is expected to reduce to

4.4 per cent of gross state product (GSP) by June 2019. Victoria is expected to collect \$56 billion in total revenue in 2015-16, with revenue growth averaging 3.4 per cent over the budget and forward estimates.

Victorian economic growth is expected to rise to 2.5 per cent in 2015-16 from 2.25 per cent in 2014-15.

### **Transfer duty surcharge for foreign buyers of residential property**

In addition to any other stamp duty payable, this 3 per cent transfer duty surcharge will apply to any individual who buys residential real estate in Victoria who is not a citizen of Australia or New Zealand, or is not a permanent resident of Australia, including foreign corporations and trusts. Broadly, the concept of a 'foreign corporation' or 'foreign trust' looks not only to whether the entity is a foreign incorporated or resident entity, but also to whether there is a foreign 'controlling interest' directly or indirectly in the corporation or trust.

The surcharge will apply to dutiable transactions entered into on or after 1 July 2015.

### **Land tax surcharge for absentee owners of property**

This 0.5 per cent land tax surcharge will apply to absentee owners of property in Victoria from the 2016 land tax year. An absentee land owner is one who does not ordinarily reside in Australia.

### **Motor vehicle duty exemption on mobile plant registration**

An exemption from motor vehicle duty is proposed to apply to all vehicles classified as mobile plant (under 4.5 tonnes) and plant-based special purpose vehicles (over 4.5 tonnes). The exemption will apply from 1 July 2015. These vehicles include body types such as backhoes, excavators, bulldozers, headers, scrapers, tractors and off road water sprayers.

### **Other tax related announcements**

The Victorian Government announced that it will be focussing on tax reform as a priority for 2015-16.

The Treasurer also announced that the Government will undertake a broader review of current policies affecting housing affordability, including taxation, regulatory settings and

grants and concessions available to different categories of property purchasers.

The review is expected to be completed by the end of 2015.

### **Infrastructure announcements**

Funding was announced in the Budget for the following major infrastructure projects:

- *Removal of level crossings* – The Government has announced that over the next eight years, 50 of the most dangerous and congested level crossings in metropolitan Melbourne will be removed. The 2015-16 Budget commits \$5-\$6 billion to the project.
- *Priority Road Initiatives* – The Government has indicated that it will undertake priority road infrastructure initiatives such as the West Gate Distributor project and Chandler Highway Bridge duplication. Over the next eight years, the Government has allocated \$1 billion for the repair and upgrade of roads in outer suburban areas, and a further \$1 billion for the repair and upgrade of roads and level crossings in regional areas.
- *Melbourne Metro Rail Project* – The 2015-16 Budget commits \$9 – \$11 billion for the planning and design of the Metro Rail Project, with construction planned to commence by 2018.

- Two new Government bodies will also be established to advise on the State's infrastructure programs:
  - *Infrastructure Victoria* – an independent body to advise on long-term infrastructure priorities.
  - *Projects Victoria* – a body to oversee the planning and delivery of infrastructure projects in Victoria.

For further information on the Victoria State Budget contact Ilyas Elahi on (03) 8603 4371.

### **Western Australia: 2015-16 State Budget**

The Western Australia (WA) Budget for the 2015-16 financial year, was delivered on 14 May 2015. Key measures announced include:

- removal of the First Home Owners Grant for established homes
- revised land tax scales applicable from the 2015-16 assessment year
- introduction of an exemption from transfer duty for certain property transfers by incorporated associations
- payroll tax exemption threshold to increase from 1 July 2016.

These measures and incentives are further detailed below.

A general Government sector operating deficit of \$2.7 billion is projected for 2015-16 (first WA Government deficit for 15 years). The general government revenue estimates have been revised down by an

unprecedented \$10.2 billion (excluding revenue policy measures) since the 2014-15 Budget, driven by sharp declines in iron ore and crude oil prices.

At the same time, WA's share of the Commonwealth's Goods and Services Tax (GST) revenue continues to decline (by a further \$328 million in 2015-16), exacerbating the State's revenue volatility. The Commonwealth Government has acknowledged these revenue challenges, with the Prime Minister announcing that the Commonwealth would provide WA with \$499 million in additional funding for roads.

### **Stamp Duty and Land Tax**

- The Government intends to introduce an exemption from transfer duty for certain property transfers by incorporated associations. The exemption will apply to incorporated associations transferring to another piece of legislation (either State or Commonwealth), amalgamating to form one association, winding up or having their registration cancelled.
- From 2015-16, a flat land tax amount of \$300 will be introduced for taxable land with an unimproved value between \$300,000 and \$420,000.
- Further, land tax rates will increase (except the top rate which remains at 2.67 per cent for unimproved land over \$11 million).
- The rate increases are also in conjunction with adjustments to the relevant thresholds of unimproved value of land. In some circumstances this may

significantly increase a land tax liability, for example, at the \$5.5 million threshold the liability has increased by \$8,990 per annum.

### **Payroll Tax**

- The Government announced that it will increase the payroll tax exemption threshold to \$850,000 from 1 July 2016 (previously deferred to 1 July 2017).
- Further, the introduction of a diminishing threshold from 1 July 2015 as announced in the 2014-15 Mid-year Review was confirmed. The diminishing threshold applies to employers with taxable wages between \$800,000 (based on the current threshold) and \$7.5 million. Employers with taxable wages in excess of \$7.5 million will have no entitlement to the tax free threshold.

### **Other measures**

- Removal of the \$3,000 first home owner's grant on established homes (following passage of the required legislative amendments). However there are no changes to the \$10,000 first home owners grant for new homes or the transfer duty exemptions for first home buyers.
- The Government will significantly expand its asset sale program to include the Fremantle Port Authority through a long term lease arrangement.
- Other potential asset sales include (in addition to those announced in 2014-15):

- Forest Products Commission
- A portfolio of Government Regional Officer Housing stock
- The State's vehicle fleet (via sale and leaseback arrangement)
- Various Government-owned buildings (via sale and leaseback arrangement)
- Individual generation assets of Synergy and Horizon Power, and Western Power's non-core assets.

Sale proceeds are expected to be used in already committed infrastructure projects and to reduce debt.

For further information on the WA State Budget contact Matthew Plint on (08) 9238 5193.

### **Northern Territory: 2015-16 Budget**

The Northern Territory (NT) Budget for the 2015-16 financial year was delivered on 28 April 2015. Key measures announced include:

- A retrospective increase in the Senior, Pensioner, and Carer Concession on stamp duty from 28 April 2015.
- The abolition of stamp duty on life insurance policies from 1 July 2015.
- The imposition of a community benefit levy on NT casinos from 1 July 2015.
- The amendment of payroll tax exemptions for charitable entities.

- The removal of the payroll tax exemption for apprentices and trainees.
- Other administrative reforms to enhance efficiency of NT tax laws and the First Home Owners Grant scheme.

These measures and incentives are further detailed below.

The estimated revenue in 2014-15 from taxes and royalties is expected to total \$782.5 million, compared to the forecast total of \$732.7 million from the 2014-15 Budget. This increase of \$49.8 million is predominantly due to the higher payroll tax and conveyance stamp duty revenue, as a result of growth in employment and wages amongst the large employers and price and sales volume growth for residential property.

### **Conveyance Duty**

The NT Budget announced that the Senior, Pensioner, and Carer Concession on stamp duty will be retrospectively increased from 28 April 2015 to \$10,000 (up from \$8,500).

The NT Senior, Pensioner, and Carer Concession is provided to seniors (aged 60 years and over) and Territory Pensioner and Carer Concession cardholders when purchasing a principal place of residence up to the value of \$750,000. For transactions entered into from 28 April 2015, the concession will be \$10,000 (up from \$8,500). The increase in the concession effectively means that home buyers will pay no stamp duty on about the first \$292,300 on their home's value. The estimated cost to the Budget in 2015-16 is around \$200,000. In addition, for transactions entered into on or before 28 April 2015, the first

home owner grant, stamp duty principal place of residence rebate and the Senior, Pensioner and Carer concession will only require one, rather than all, of the applicants to satisfy the occupancy requirements of the home incentive schemes.

Other miscellaneous amendments from 1 July 2015 include:

- clarifying that a certificate of motor vehicle registration issued following the conveyance of a motor vehicle between parent and stepchild, by way of gift, is exempt from duty
- the introduction of an exemption for statutory vestings which create trusts for sale and trusts for partition under the provisions of the *Law Property Act* and a concession for the conveyance of property under a statutory trust for sale back to a beneficial owner
- clarifying the circumstances when an anti-avoidance provision will operate to disregard arrangements that reduce the value of property, to ensure that the arrangement will only be disregarded where there is a tax avoidance purpose
- clarifying the Commissioner's powers in relation to requiring, obtaining or adopting valuation material.

### **Insurance Duty**

Currently, life insurance policies for NT residents are liable to stamp duty at a rate of 10 cents per \$100 of the sum insured. From 1 July 2015, stamp duty

on life insurance will be abolished at a cost to the Budget of \$2 million per annum. The changes will apply to all policies issued on or after 1 July 2015 and to those that become insured under a group policy on or after 1 July 2015.

The NT stamp duty legislation will also be amended to clarify that all life insurance riders (i.e. additional non-life insurance attached to life insurance products), will be taxed as general insurance. This aligns NT with Western Australia and Victoria, which have also abolished life insurance stamp duty.

Other miscellaneous reforms include:

- the amendment of an existing duty exemption for health insurance policies to ensure that such policies held by overseas student and temporary visa holders are exempt from duty; and
- the introduction of an exemption on the issue of residential building insurance policies and fidelity certificates required under the *Building Act*.

### **Payroll Tax**

The NT Budget announced changes to two payroll tax exemptions: the charitable entities exemption and the apprentices and trainees exemption.

From 1 July 2015, the charitable entities exemption will not apply to the following:

- any commercial work, or work performed in competition with the private sector

- bodies that promote trade, industry or commerce, and professional associations.

These changes were driven by recent interstate court decisions which widened the application of the exemption to include investment activities and the operation of commercial, for-profit businesses, which have no direct relation to the purpose of a charity, as well as organisations which have not traditionally been regarded as charitable (e.g. chambers of commerce and professional associations).

According to the Budget statement, safeguards will be built into the changes so that traditional charities (e.g. religious, charitable, benevolent, philanthropic and patriotic charities) are unaffected, and the Commissioner will be given flexibility in administering the changed exemption so that it is appropriately targeted. These changes are expected to increase payroll tax revenue by an estimated \$3 million per annum.

In addition, the apprentices and trainees exemption will be abolished from 1 July 2015. The exemption relies on the employee being in an approved apprenticeship or trainee arrangement, but has no link to actual course attendance, training undertaken or completion, opening it up for perceived misuse by some employers. In order to better target incentives, this will be replaced with a \$4.4 million direct financial incentive to employ apprentices and trainees.

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The NT Budget also announced the following miscellaneous payroll tax reforms:

- the 'insurance sellers' and 'door-to-door salesperson' payroll tax exclusions from the relevant contract provisions will no longer be available from 1 July 2015
- the 'owner-driver' payroll tax exclusion has been amended to clarify that it applies to services solely for or ancillary to the conveyance of goods

- the exclusions from payroll tax for contractors will be amended to ensure they are not available on an apportionment basis.

### ***Gaming Tax***

The NT Budget announced that Territory casinos will be required to pay a community benefit levy of 10 per cent of monthly gaming machine profits from 1 July 2015 (in the same manner as Territory hotels and local pubs currently do). This will increase the

Community Benefit Fund by \$7.8 million per annum. The fund provides for gambling research and amelioration programs, along with grants for community enhancing projects.

For further information on the Northern Territory Budget contact Stefan DeBellis on (07) 3257 8781.

### ***Let's talk***

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

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