

TAX BULLETIN

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FOR OUR CLIENTS

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VICTORIAN BUDGET 2010/11

The Victorian Government has this afternoon handed down its Budget for the 2010/2011 financial year.

The Budget provides modest tax relief in the form of a reduction in the rate of payroll tax and a cut in WorkCover premiums.

However, those announcements are overshadowed somewhat by the Government's move immediately prior to the delivery of the Budget to re-introduce into Parliament the Bill to implement the Growth Areas Infrastructure Contribution. Although we understand that the amended Bill will be much more land owner and developer friendly than the original Bill, it is ironic that, on the same day as the Government delivers a Budget in which it announces tax cuts, it brings back to life the Bill that will impose a new tax on land in Melbourne's growth areas.

Further details on the tax changes announced in the Budget are set out below.

Payroll tax

The rate of payroll tax will drop from 4.95% to 4.90% from 1 July 2010, which will be the lowest rate since 1975. The drop in the rate will provide some relief for businesses although we would encourage much greater cuts to deliver real savings. Indeed, even after taking account of the rate reduction, payroll tax collections are still estimated to rise by 5.9% in 2010/11.

Unfortunately, once again the Government has failed to increase the threshold at which businesses must register for payroll tax. The last time the threshold was increased was back in 2002, to \$550,000. Given that average wages have risen significantly since that time, the end result is that much smaller businesses are now liable for payroll tax.

As it stands, Victoria has the lowest threshold of any State or Territory, with some having thresholds of \$1 million or greater. The Government's claim of having the lowest rate since 1975 needs to be weighed up against this fact.

Interestingly, the recently released Henry Review recommended the eventual abolition of payroll tax due to its complexity and inefficiency. Indeed, by not adjusting the threshold for eight years, the Victorian Government has added to the inefficiencies by bringing much smaller businesses into the net, many of whom are ill equipped to deal with payroll tax's complexities. Neither the Federal nor State Government has made any comment as yet in relation to the Henry Review's recommendation.

Land tax and stamp duty

The Government has announced that it expects revenue from land tax to increase by \$143 million and revenue from stamp duty on land transfers to increase by \$174 million, in 2010/11. The Budget attributes the increase in revenue to the strengthening Victorian property market and increased property values.

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However, the increase in land tax revenue can also be attributed to two other important factors:

- (a) Land tax for the 2011 year will be calculated on revised valuations as at 1 January 2010. The re-valuation occurs every 2 years and the significant increase in land values since 2008 will translate into higher land tax bills next year; and
- (b) The progressiveness of the land tax rates means that as land values increase, the effective underlying rate of tax also increases because there is no corresponding increase in the bands.

Despite the projected increase in revenue as a result of property related taxes, of the \$461 million in cuts to taxes and business costs announced by the Government, only \$28 million of the cuts are in relation to property related taxes.

The only property tax cut is in relation to land tax and is not due to a reduction in land tax rates or a change in land tax thresholds, but instead to an extension of the current land tax exemption that applies to retirement villages and aged care facilities. That exemption will be extended to apply to the construction phase of retirement villages, residential care facilities, supported residential services and residential services for people with disabilities. It is targeted at reducing the costs of developing these facilities with the ultimate aim of improving accessibility and affordability of accommodation.

The Victorian Government has not yet responded to the recommendation in the Henry Review Report that stamp duty on land transfers should be abolished and replaced with a broader based land tax.

WorkCover

Businesses will enjoy a 3.5% cut in WorkCover premiums from 1 July 2010, taking the average premium to 1.34% of remuneration. This will mean that Victoria has the second lowest average premium rate of any Australian State or Territory.

The reductions in premium are a welcome reduction in overall costs for business.

FURTHER INFORMATION

Please ask your regular Pitcher Partners tax contact for further details on the issues raised in this Tax Bulletin.

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