



UDIA MEMBER ALERT: STATE BUDGET KEY FACTS

UDIA attended the State Budget Lockdown this morning to gain insight into the 2017-18 Budget.

This has been a much anticipated release given it is the first budget for the McGowan Government in the context of challenging economic conditions.

The Treasurer Ben Wyatt made a direct assurance to the property sector that it would not be hit as a revenue raising target in this budget, instead focusing on public sector reform and savings in that area.

The Treasurer claimed that the key messages in the budget included:

- Budget repair and return to general government surplus
- Public sector reform and savings
- Implementing election commitments

KEY ECONOMIC FIGURES:

- General government revenue outlook has deteriorated substantially since the Pre-election Financial Statements (PFPS), resulting in larger deficits over the period 2017/18 to 2019/20
- General government revenue estimates revised down a total of \$5B over the period 2016-17 to 2019-20
- Economic growth was down to 0.25% in 2016/17
- WA economy forecast to grow by 3% in 2017/18
- Employment growth is also forecast to recover, with nearly 20,000 jobs expected to be created in 2017/18
- Expense growth limited to 1.9% per annum
- Treasurer projected budget to reach surplus by 2020/21
- 'Budget repair measures' introduced that are aimed at reducing net debt by \$3.5B
- \$3.7B in 'election commitments' have been contained to \$603 million due to offsetting savings and reprioritisation of existing spending

FOREIGN OWNER DUTY SURCHARGE

The primary direct impact on the property market is the introduction of the **Foreign Owner Duty Surcharge (FODS)**. From 1 January 2019, a 4% FODS will apply in WA on purchases of residential property by foreigners, including individuals, corporations and trusts.

The government has restricted the surcharge to residential property, but it excludes residential developments of ten or more properties, commercial residential property such as hotels, student accommodation and retirement villages, and mixed use properties that are used primarily for commercial purposes.

While UDIA is pleased that the surcharge will not apply to large projects, we remain concerned that it will have a negative impact on demand for property in WA.

TAXES ON PROPERTY

Other than the introduction of the FODS, taxes on property remain unchanged.

Transfer Duty

The budget papers recognise that transfer duty is the second largest tax after payroll tax in Western Australia.

Total transfer duty is expected to decline by 0.7% (or \$10M) in 2017/18. And is forecast to contract by a further 1.9% (or \$28M) in 2018/19, the third consecutive year it will have fallen.

Total transfer duty is expected to gradually recover in 2019/20 and beyond as residential transaction volumes are expected to pick up in line with improvements in labour market conditions and income, and a recovery in population growth.

Land Tax and MRIT

Land tax collections are projected to decline by \$29M (or 3.3%) in 2017/18, to \$846M, reflecting a fall in taxable land values across Western Australia.

In 2019/20 and 2020/21, land tax collections are expected to increase by around 2.5% per annum.

MRIT is projected to contract by 1.4% to \$95M in 2017/18, in line with a fall in the value of taxable land in the metropolitan area.

Investment in METRONET and a number of major road projects should have a positive impact on future urban growth.

PAYROLL TAX INCREASES

Temporary progressive Payroll Tax Scale for large employers

The budget introduces a progressive payroll tax scale for a finite period of five years from 1 July 2018, expected to impact on 1300 employers in WA.

From 1 July 2018 to 30 June 2023, WA employers with an Australia-wide annual taxable payroll exceeding \$100M will face a marginal tax rate of 6% (up from the current 5.5%) on the part of their payroll above \$100M but less than or equal to \$1.5B, and a marginal tax rate of 6.5% on the part of their payroll exceeding \$1.5B.

Table: Payroll Tax Scale

Annual Australia Wide Payroll	Annual Tax Payable (Current)	Annual Tax Payable (New)
\$0 - \$850,000	-	-
\$850,001 - \$7.5m	5.5% x (WA Wages adjusted threshold)	5.5% x (WA Wages adjusted threshold)
\$7.5m - \$100m	5.5% x WA Wages	5.5% x WA Wages
\$100m - \$1.5b	5.5% x WA Wages	\$5.5m + (6% x (WA Wages - \$100m))
\$1.5b +	5.5% x WA Wages	\$89.5m + (6.5% x (WA Wages - \$1.5b))

METRONET

The budget includes an investment of \$1.3B over the period 2017/18 to 2020/21 for METRONET Stage 1 projects, with a further \$469.3 million beyond the forward estimates period.

Over the forward estimates period, METRONET will be funded through the reallocation of Perth Freight Link funding (\$1.2B) and **\$104.8 million from value capture and land sales revenue***.

Funding includes:

- Forrestfield-Airport Link, including three new stations: Belmont, Airport Central and Forrestfield stations
- Thornlie Line extension
- Yanchep Rail Extension
- Removal of Denny Ave level crossing
- Existing station upgrades
- Procurement of an additional 102 rail cars

Planning funding of \$22.1M has also been allocated for the Morley-Ellenbrook line and extension of the Armadale line to Byford. With construction costs to be included in future Budgets.

***A note on value capture**

UDIA has noted that \$34.9M has been allocated into the funding budget for METRONET in 2019/20 from 'Land sales and value capture' and \$69.9M in 2020/21. UDIA will be seeking clarification from the state government as to how these figures have been estimated and what kind of value capture model will be implemented in order to secure this funding.

ROAD INFRASTRUCTURE FUNDING

- \$237M for construction of the Armadale Road Bridge
- \$50M for new traffic interchange at Wanneroo Road and Joondalup Dve
- \$49M for the widening of Kwinana Fwy northbound between Russel Rd and Roe Hwy



- \$40M to begin works on widening the Mitchell Fwy southbound between Cedric and Vincent streets
- \$39M on Local Projects Local Jobs grants program to deliver 750 projects across the State
- \$17M in New Industries Fund to support new and emerging businesses

FIRST HOME OWNERS GRANT

Arrangements for the First Home Owners Grant remain at \$10,000 for new homes.

HOUSING AFFORDABILITY

While the budget papers acknowledge that affordable housing is still out of reach for many West Australians, measures noted in the budget papers primarily rely on Commonwealth strategies rather than implementing state level initiatives to address this critical issue.

The papers outline Commonwealth proposals to replace both the National Affordable Housing Agreement and NPA on Homelessness with a new National Housing and Homelessness Agreement.

The Commonwealth's proposed National Housing Finance and Investment Corporation, which looks to increase private sector investment in social and affordable rental housing has potential to alleviate some of the demand pressures, but again a federal initiative.

GST DISTRIBUTION

The unfair distribution of GST has borne a large part of the blame for the State's Budget deficit.

According to the Treasurer, our 2017/18 GST grant still partly reflects peak iron ore royalties in 2013/14. The government estimates an effective loss of \$4.4 billion in GST revenue to other States and Territories in 2017/18 alone.

Recent revision of WA's population by the ABS following the 2016 Census has also resulted in a further reduction to our GST grants totalling \$2 billion over the forward estimates period.

The Treasurer has committed to a continued dialogue with the Commonwealth regarding GST reform and UDIA will continue to lobby the federal government to initiate reform.