

Revenue Legislation Amendment Bill 2024

STATEMENT OF PUBLIC INTEREST of the Parliaments

20/6/2014

Need: Why is the policy needed based on factual evidence and stakeholder input?

Transfers between Special Deposits Accounts and Statutory Special Purpose Funds

Special Deposit Accounts (SDAs) and Statutory Special Purpose Fund (SSPFs) are legislated funds. Their enabling legislation regulates what purpose they can be used for, and in what circumstances monies and assets can be put in and out of those funds.

However, the legislation limits the ability of Government to manage funds in a holistic way, when it would be prudent financially to do so. The amendment to the Government Sector Finance Act (GSF Act) will balance the original purpose of the enabling legislation, to limit use of SDAs and SSPFs for specified purposes, against the need for Government to be able to move funds between SDAs and SSPFs from time to time to manage these funds more prudently, in line with the objects of the GSF Act.

Land tax thresholds

The State's budget position faces the challenge of slow economic growth and ongoing cost-of-living and housing affordability pressures. A slower economy negatively impacts tax revenue. At the same time, expenditure is needed to support the most vulnerable. In addition, the Commonwealth Grants Commission's latest update of the GST relativities, used to allocate GST revenue among States and Territories, decreased NSW's relative distribution of GST revenue. This has made the NSW fiscal position more vulnerable.

Against this backdrop, additional revenues are to be raised through fixing land tax thresholds at their 2024 land tax year values. This raises additional revenues as more landowners will become liable for land tax each year as land values grow; and for those that are already liable for land tax, the amount of land tax due each year will increase.

An increase in revenue from land tax is one of the least economically distortionary ways to raise revenue, imposing lower deadweight on investment and on economic growth. This measure is, therefore, one of the most efficient options at the Government's disposal in the context of the broader budget repair effort.

By increasing the cost of holding investment property, this measure is expected to, over the long run, encourage home ownership and help reverse the ongoing decline in home ownership rates in NSW.

Foreign investor surcharges

In the context of the broader budget repair effort, noted above, the NSW Government will increase taxes on land owned and purchased by foreigners. Additional revenue will contribute to strengthening the State's fiscal position from 2024-25 to 2027-28.

By increasing the costs of foreign ownership of residential property, the changes are expected to make more property available to domestic buyers and therefore encourage home ownership over the long run.

Payroll tax relief to medical practices with contractor general practitioners

Bulk-billing rates in New South Wales have fallen in recent years. According to the Medicare Statistics published by the Australian Government Department of Health and Aged Care, the bulk-billing rate for New South Wales has fallen from a peak of 92.6 per cent in the September 2021 quarter to most recently 81.6 per cent in the March 2024 quarter. Bulk-billing rates are currently at their lowest levels in at least 15 years.

From 2019 onwards, a series of court cases and revenue rulings confirmed that payments made by medical practices to general practitioners (GPs) engaged on a contractual basis are subject to payroll tax. Peak industry groups representing GPs have indicated that many medical practices had not previously been aware of their payroll tax obligations relating to these payments made to GPs, and that medical practices would face unreasonable cost pressures if they needed to pay large retrospective payroll tax debts.

Objectives: What is the policy's objective couched in terms of the public interest?

Transfers between Special Deposits Accounts and Statutory Special Purpose Funds

Enhance fiscal flexibility by giving the Treasurer the ability to transfer money and investments between certain SDA accounts and SSPFs, which directly or indirectly invest in OneFund, where such transfer promotes the objects of the GSF Act, including to promote and support efficient and effective use, appropriate stewardship, and sound financial management of government resources.

Land tax thresholds

The primary objective is to improve the budget position and ensure the NSW Government can fund the initiatives, investments and services NSW relies on. Land tax is one of the State's most efficient revenue sources because land is largely in fixed supply and because land tax is difficult to avoid and tends not to distort or impact on decision making. As a result, land tax has a low welfare deadweight loss compared to raising an equivalent amount of revenue from other tax bases available to NSW. It is in the public interest that revenue is increased from a relatively efficient source so that it reduces the overall negative economic welfare impact of taxation, per dollar raised.

Because the NSW land tax exempts owner-occupied property, freezing both land tax thresholds will increase the relative costs of holding investment properties compared to owner-occupied property. Over the long run, this is expected to encourage home ownership.

Foreign investor surcharges

In the same vein as the land tax threshold change, the primary objective of the increase in foreign investor surcharges is to raise additional revenue from 2024-25 to 2027-28. This will contribute to strengthening NSW's fiscal position and its ability to fund the initiatives, investments and services NSW relies on.

Increases in foreign investor surcharges will increase the cost to foreign residents of purchasing and holding property in NSW. This will disincentivise foreign residents from purchasing residential property and encourage foreign property owners to sell their

residential properties in NSW. As a result, the policy will make more properties available for domestic homeowners, which is considered serve the public interest.

Payroll tax relief to medical centres with contractor general practitioners

The objective of the historical exemption is to provide certainty to medical centres that they would not incur payroll tax liabilities for any payments owed relating to contractor GPs in the past. This alleviates any concerns about financial viability that may otherwise have arisen if medical centres were required to pay large retrospective payroll tax debts, which in turn reduces the likelihood that these centres would have to close or pass on additional costs to patients.

The objective of the ongoing payroll tax rebate from 4 September 2024 is to support NSW's bulk-billing rates by supporting medical centres that bulk-bill significant proportions of GP services. This complements broader reforms by the Australian Government such as the enhanced bulk-billing incentive payments that commenced on 1 November 2024.

Options: What alternative policies and mechanisms were considered in advance of the bill?

Transfers between Special Deposits Accounts and Statutory Special Purpose Funds

The alternative reforms to the GSF Act amendment considered by Government included:

- Legislating a single OneFund SDA for broad general purposes to replace existing multiple SDAs and SSPFs intended to invest in OneFund,
- Legislating a single OneFund SDA for existing purposes to replace existing multiple SDAs and statutory special purpose funds intended to invest in OneFund, and
- Legislatively abolishing all SDAs and statutory special purpose funds intended to invest in OneFund and transfer all funds into the Consolidated Fund.

Land tax thresholds

The Government considered alternative options to raise revenue and structurally improve the budget position. Changes to the existing land tax was considered most appropriate as this tax is among the most efficient available to the State.

Alternative options considered by Government included:

- fixing both thresholds at lower values relative to their current 2024 land tax year values,
- fixing either the land tax threshold or the premium rate threshold,
- temporarily fixing both thresholds for a set number of years, and
- alternative threshold indexation methods (indexing to inflation or a set rate of growth each year rather than land values).

Foreign investor surcharges

The Government considered alternative options to raise revenue and structurally improve the budget position. Changes to foreign investor surcharges were considered appropriate at this time as it would raise additional revenue, discourage foreign ownership of residential property in NSW, freeing-up property for domestic ownership.

Alternative options considered by the Government included:

- only increasing foreign owner land tax surcharge,
- only increasing foreign purchaser duty surcharge, and
- increasing surcharges by a lower amount.

Payroll tax relief to medical centres with contractor general practitioners

Alternative forms of support to medical practices that may face financial distress, if required to pay retrospective payroll tax debts, that did not require a legislated exemption were considered. This included payment plans, ex-gratia payments to businesses that could demonstrate financial distress, and direct grants and subsidies.

Alternative eligibility criteria relating to bulk-billing activity for the legislated payroll tax relief to support bulk-billing rates in New South Wales were considered.

Analysis: What were the pros/cons and benefits/costs of each option considered?

Transfers between Special Deposits Accounts and Statutory Special Purpose Funds

Even though the alternative reforms to simplify the State's investment funds were considered, they were not ideal because:

- they did not improve OneFund liquidity management,
- they required significant legislative change across multiple Acts,
- there was significant potential governance risk given the removal of funds for specific purposes (e.g. regional infrastructure, long service leave) and the creation of a general purpose statutory fund outside the Consolidated Fund, and
- they required significant work to ensure that existing contractual and other obligations for abolished SDAs are addressed properly.

Land tax thresholds

Fixing the land tax thresholds at the 2024 land tax year values (chosen option):

- Pros/benefits: Fixing both thresholds at their current 2024 land tax year values was considered the option that could:
 - 1) best achieve a structural improvement to the budget position,
 - 2) minimised undue policy changes and any associated negative impacts on the property market, and
 - 3) best aligned with the Government's objective to raise revenue and increase home ownership.
- Cons/costs: Fixing the thresholds will increase the number of landowners that must pay land tax, resulting in a tax burden for these people.

Fixing land tax thresholds at lower values than the current 2024 land tax year values:

- Pros/benefits: This option would raise more revenue than the chosen policy and provide a marginally stronger boost to home ownership over the long run.
- Cons/costs: This option was considered not desirable as it would increase the number of land tax payers quicker than the chosen policy.

Fixing either one of the thresholds, a temporary fix or introducing alternative threshold indexation:

- Pros/benefits: Compared to the chosen policy, these options would result in relative smaller increases in tax burdens on land tax payers and (apart from the fixing only the tax-free land tax threshold option) would result in a smaller number of additional landowners liable for land tax.
- Cons/costs: All options would raise less revenue and have smaller impacts on home ownership over the long run.

Foreign investor surcharges

Increase foreign purchaser duty and land tax surcharges by 1 percentage point (chosen option):

- Pros/benefits: The chosen option was considered to best balance the Government's objective to raise revenue over the budget years, between 2024-25 and 2027-28, and discourage foreign ownership of residential property.
- Cons/costs: Foreign persons who buy or own property in NSW will have a larger tax burden.

Only raising the foreign owner land tax surcharge, only raising the foreign purchaser duty surcharge, or increasing surcharges by a lower amount:

- Pros/benefits: Relative to the option chosen, these options would impose a lower tax burden on foreign investors and would not discourage foreign investment into NSW residential property as much.
- Cons/costs: These options would raise less revenue over the budget years, and result in fewer properties becoming available for domestic homeowners.

Payroll tax relief to medical centres with contractor general practitioners

There are benefits to alternative forms of support that do not involve legislated historical exemption, as they can be more targeted at businesses that are in financial distress and therefore incur a lower cost to Government. However, these options do not provide the same level of certainty to primary health care businesses as a legislated historical exemption.

Alternative bulk-billing thresholds for eligibility were considered for the ongoing payroll tax relief to support bulk-billing practices. However, there is limited data on the bulk-billing activity of medical centres across New South Wales to assess the relative merits of alternative thresholds. Broader forms of financial support to medical practices to support bulk-billing are not considered to be as appropriate as the federal government has responsibility for the primary health care system.

Pathway: What are the timetable and steps for the policy's rollout and who will administer it?

Transfers between Special Deposits Accounts and Statutory Special Purpose Funds

The GSF Act amendments will be enacted cognate with the Budget. They will be administered by Treasury in partnership with the NSW Treasury Corporation (TCorp). The transfers between certain SDA accounts and SSPFs would become effective once OneFund is established, which is expected to be by the end of August 2024.

Land tax thresholds

Amendments will be enacted cognate with the Budget and in time for application to the 2025 land tax year, which applies to land ownership as at midnight of 31 December 2024. Land tax is an annual tax that is administered by Revenue NSW. Land values used in land tax are prepared by the NSW Valuer General.

Foreign investor surcharges

The increased foreign purchaser duty surcharges will take effect from 1 January 2025. The increased foreign owner land tax surcharge will take effect upon assent of the Bill, which will be cognate with the Budget, and in time for application to the 2025 land tax year. Foreign investor surcharges will be administered by Revenue NSW, as currently occurs.

Payroll tax relief to medical centres with contractor general practitioners

The historical exemption will take effect once the Bill receives assent. The payroll tax rebate will take effect from 4 September 2024. The eligibility for payroll tax rebates will also commence on 4 September 2024. Revenue NSW administers the payroll tax system in NSW.

Consultation: Were the views of affected stakeholders sought and considered in making the policy?

Transfers between Special Deposits Accounts and Statutory Special Purpose Funds

TCorp, Insurance and Care NSW (icare) and the Long Service Corporation were consulted on OneFund.

Land tax thresholds

Revenue NSW and NSW Valuer General were consulted on implementation and administration costs and feasibility of changing land tax thresholds.

Foreign investor surcharges

Revenue NSW was consulted on implementation and administration costs and feasibility of changing foreign investor surcharge rates.

Payroll tax relief to medical centres with contractor general practitioners

The Australian Medical Association and the Royal College of General Practitioners were consulted in the policy development for payroll tax relief for contractor GP wages. Revenue NSW were consulted on the administrative and legislative aspects of the policy.

