Western Australian Budget Announcement 2022-23

A review of the Western Australian Budget's major business implications

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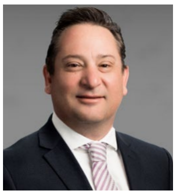
Contents

Executive summary

Trevor Hart

Partner, Office Chairman WA



Matthew Woods

Client Lead Partner,
WA Government

The Western Australian government's extremely healthy financial position can create a platform for investment in growth and also an opportunity for reform.

The 2022-23 WA Budget predicts a sizeable net operating surplus of $5.7 billion for the current financial year – more than double that predicted in the 2021-22 Budget – with further, but smaller, surpluses expected to occur in each year of the forward estimates period to 2026.

State government net debt is projected to reach a modest peak in 2024-25 of just under 10 percent of gross state product (GSP) and to then decline.

At the same time, the Budget notes the economic risks that exist in the form of the evolution of COVID-19 pandemic (particularly in China), the impact of the Ukrainian conflict on global trade and the upward trajectory of global consumer prices and interest rates.

With these risks in mind, the WA government has allocated more than $1.3 billion to economic diversification projects for the tourism, education, agriculture and business services sectors, among others.

Proposed additional spending on WA's health system, COVID-19 response measures and the $400 per household electricity credit will support those at greatest risk from the trailing consequences of the pandemic.

In terms of revenue measures, the introduction of a distance-based road user charge from 1 July 2027 for zero or low emission vehicles and a rebate on the cost of certain electric and hydrogen vehicles strike a reasonable balance in adapting to these new technologies. We also welcome the reduction in the general rate of transfer duty from 1 July 2022 and the reduction in land tax for build-to-rent developments from 1 July 2023.

It is at times when a government's finances are relatively healthy that the opportunity for productivity enhancing reform can perhaps most easily be grasped. We look forward to the prospect of this topic becoming a focus for public debate over the coming months.

Trever Hart
Partner,
Office Chairman WA

Matthew Woods
Client Lead Partner,
WA Government

Economic analysis

Brendan Rynne

Chief Economist

The Western Australian economy is powering ahead, helping strengthen the government financial position, which is already the envy of eastern Australian states.

Western Australia is forecast to achieve economic growth of 3.75 percent this financial year, moderating down to 2.00 percent next year due to a combination of factors, including softer household consumption, flat dwelling investment and a contraction in net exports.

The net export position is being driven by several factors, including a strong lift in the import of business equipment combined with a very conservative assumption about the price of iron ore.

From a State Government budget perspective iron ore prices have been assumed to be, on average, US$77.50 CFR per tonne for 2022-23, which compares to an average price estimate of US$139.50 CFR per tonne for 2021-22. KPMG notes that China (Platts) futures quotes for today show an average price of US$133.40 for Iron ore 62 percent fe, CFR. If today's average futures price for iron ore is achieved for 2022-23 rather than the price assumed in the Budget, then royalty income would be about $4 billion higher for that year.

The Budget shows total GST-related grant revenues will increase by about $400 million between 2021-22 and 2022-23 due to a larger national GST pool. Another element to the 2022-23 WA GST story is that the 2018 GST Distribution reforms have now become effective. This has resulted in the GST relativity for WA increasing to the within-system floor value of 70 percent of the population share of the GST pool.

The single largest new spending item in the Budget is the $400 Household Electricity Credit initiative which is forecast to cost the budget $445 million in 2022-23, recognising that most of this subsidy will be captured by the State-Government owned electricity companies.

General government employee expenses are expected to grow by 4.6 percent over the next 12 months and will represent nearly 45.6 percent of total government expenditure – which is a similar level to that incurred by the Queensland Government.

General Government net debt is projected to rise by around $900 million over 2022-23 to $20.6 billion, and then increasing by another 15 percent over the next three outyears to $23.8 billion, which represents about 5.2 percent of forecast GSP for 2025-26. In comparison, the recently released Victorian Government budget forecasts equivalent net debt in 2025-26 to be around 26.5 percent of GSP.

The mining industry generated 45 percent of total industry gross value added in Western Australia in 2020-21. While the natural competitive advantages are such that mining will always play a disproportionately large role in the fortunes of the Western Australian economy, the investment initiatives contained within the Budget associated with diversifying the local economy are welcomed.

Key Insights

- The Western Australian economy is powering along, in part helped by the strength of the mining sector and in part helped by fewer COVID-related business disruptions.
- Net exports are expected to detract from GSP growth in the coming years due a combination of increased imports associated with new business investment and anticipated decline in the price of iron ore.
- It seems the 2022-23 budget is particularly conservative regarding iron ore royalty revenue, which has been estimated using a forecast price of US$77.50 CFR per tonne, which compares to today's average future price for 2022-23 of US$133.40 CFR per tonne. Applying the higher average futures price to forecast production for next year would result in an additional $4 billion in iron ore royalties to the Western Australian government for FY23.

Property tax

The WA Budget's announced stamp duty and land tax changes support the WA Government's goal of boosting housing supply.

Robert Nguyen

Partner, Deals Tax & Legal

Mark Latham

Director, Indirect Tax

The Budget includes state tax measures to support housing for lower-income individuals and households.

Firstly, a 50 percent land tax concession will commence on 1 July 2023 and apply to new eligible Build-to-Rent developments. This mirrors similar concessions which New South Wales, Victoria and South Australia have announced or introduced.

Secondly, from 1 June 2022 the existing off-the-plan transfer duty rebate will be amended. Eligible purchasers will receive a full transfer duty rebate for a dwelling valued at less than $500,000 and a rebate of between 50 percent and 100 percent for a dwelling valued between $500,000 and $600,000. The existing 50 percent rebate will continue to apply to dwellings valued above $600,000. The eligibility period for this rebate will end on 24 October 2023 and the maximum rebate is capped at $50,000.

The Budget confirmed some other stamp duty changes. These include that from 1 July 2022 the general rate of transfer duty will reduce to the equivalent rate of duty for residential property transactions. From the same date, the residential or business property concession will change to provide a benefit on all eligible transactions up to a value of $200,000. This measure is expected to reduce revenue by $32 million over the forward estimates period.

From 1 July 2022 the duty on prospecting licences and derivative mining rights in relation to prospecting licences will only apply where the licences or rights are transferred with other dutiable property.

Finally, the WA Government announced that from 1 July 2022 it would remove the 2 percent surcharge that currently applies to land tax paid in instalments.

Key Insights

- The 50 percent land tax concession for Build-to-Rent developments is a welcome support for the sector and aligns with similar concessions in other states that would be seeking to attract investment from developers.

Payroll tax

Andrew Larmour

Director, Employment Tax Advisory

The WA Government saw payroll tax revenues increase by 16.2 percent in 2021-22 supported by the robustness of the resources sector which is the largest contributor to payroll tax revenue.

The Treasurer commented in his Budget speech that Eastern States treasurers will be "green with envy" and part of the reason for this suggestion might be that the unemployment rate in Western Australia was 3.4 percent in March 2022, both the lowest in Australia and the lowest level in WA for 13 years. Correspondingly high rates of employment are flowing through to strong payroll tax collections.

Treasury estimates that an additional 28,900 people will gain employment in 2022-23 and payroll tax collections are forecast to increase by 5.4 percent during that year. Any material changes in activity in the resources sector due to, say, COVID-related disruptions either domestically or in key trading partners such as China, could materially impact payroll tax revenue however.

Notwithstanding the possibility of such negative impacts, the progressive payroll tax scale introduced in the 2017-18 Budget is set to end in June 2023 as planned. Subject to any changes announced in next year's Budget, this will see a return to a flat rate of payroll tax of 5.5 percent from 1 July 2023. This will benefit employers with Australia-wide payrolls exceeding $100 million and $1.5 billion with current marginal rates of 6 percent and 6.5 percent respectively.

From 1 July 2022, the quarterly payroll tax return lodgement threshold will increase from $100,000 to $150,000. This means that employers with an annual liability of up to $150,000 will have the option to choose to pay quarterly (rather than monthly). This is designed to provide cashflow benefits and reduce administrative processes and may benefit employers with annual payroll tax wages between $2.6 million and $3.3 million that are currently required to lodge monthly returns.

Payroll tax concessions

No new payroll tax concessions were announced in the Budget, but Hospitality businesses with annual wages between $4 million and $20 million may be eligible for a three-month payroll tax waiver. This was announced as part of the Level 2 Business Assistance Package in March 2022 and is designed to support businesses impacted by public health and social measures. Eligible hospitality businesses must have experienced at least a 40 percent drop in turnover for any four-week period between 1 January 2022 and 30 April 2022, relative to a comparable period in 2021.

Compliance activity

RevenueWA is working on the rollout of the Lodgement and Payment Compliance Project that applies business intelligence and advanced analytics to identify taxpayers suspected of non-compliance in relation to various obligations, including payroll tax.

Key Insights

- Revenues from payroll tax have increased significantly in the current year and further growth is expected next year. Based on this, the temporary progressive rates of payroll tax introduced in 2017 can be expected to end on 30 June 2023 as planned.
- No new concessions have been introduced in the Budget with a waiver for certain employers in the hospitality business having been introduced in March 2022

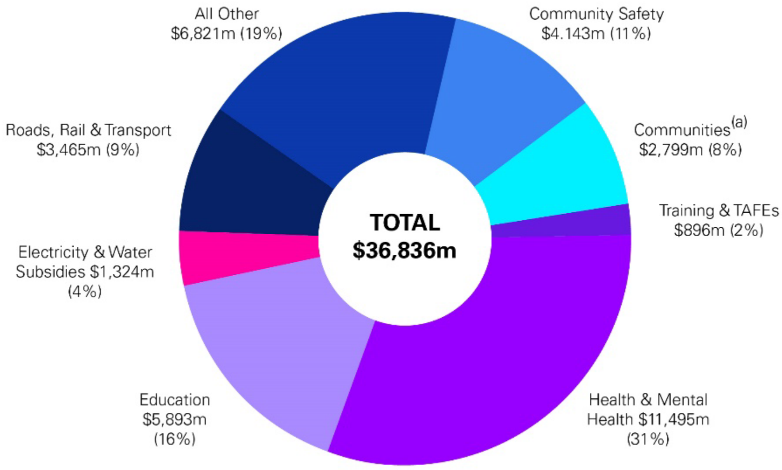
Summary of key expenditure / revenue raising items

The table below shows the value of major expenditure changes since the 2021-22 mid-year review which have been announced in the Budget. These figures cover the financial years ending 2022-26.

Key expenditure / revenue raising items	**$millions**
Health response to COVID-19	900
Road upgrades, maintenance and public transport	700
Hospital services including mental health	600
$400 Household Electricity Credit	400
National pre-school reform agreement	200
Economic diversification - Investment Attraction Fund, native forest transition, international education	200
Provision for Digital Capability Fund	200

Key revenue items	**$millions**
Transfer duty reduction	(32)
Note: Taxation revenue is expected to decline by $366 million or 3.2 percent in 2022-23 and is forecast to grow by an average of 1.9 percent per annum over the three years to 2025-26. According to the budget papers, payroll tax collections are forecast to increase by 5.4 percent or $234 million in 2022-23. Royalty income is projected to decline by $4.4 billion or 38.3 percent in 2022-23 due to falling iron ore prices.	

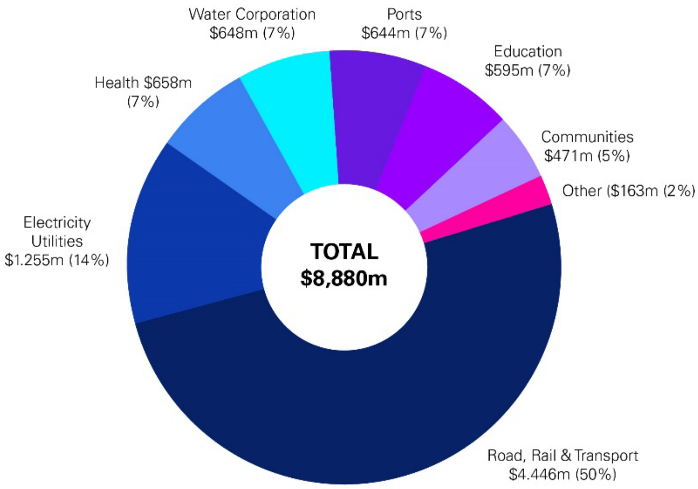
General Government Expenses 2022-23



(a) The total cost of services disclosed in Budget Paper No.2: Budget Statements for the Department of Communities is $3.3 billion in 2022-23. The $2.8 billion in this chart represents the general government portion of the Department's recurrent spending (with some expenditure from the former Housing Authority remaining within the public non-financial corporations sector for the purpose of whole-of-government reporting).

Recurrent spending by the general government sector is budgeted to increase by $621 million in 2022-23, to a total of $36.8 billion. As shown in Figure 1, health and mental health, education and training, and community safety account for $22.4 billion of total spending.

Asset Investment Program 2022-23



The Budget includes a record $33.9 billion Asset Investment Program over the forward estimates, with a focus on transport, health and education, and community infrastructure. As shown in Figure 2, the Program for 2022-23 totals $8.9 billion, with $4.4 billion of this in road, rail and transport infrastructure, $1.9 billion in electricity and water infrastructure, $1.3 billion in education and health infrastructure, and $644 million in works at the State's ports.

KPMG

Contact us

KPMG Leadership

Chief Executive Officer
Andrew Yates
+61 2 9335 7545
ajyates@kpmg.com.au

National Chair
Alison Kitchen
+61 3 9288 5345
akitchen@kpmg.com.au

Office Chairman, WA
Trevor Hart
+61 8 9263 7110
thart@kpmg.com.au

Deals, Tax & Legal
David Heathcote
+61 2 9335 7193
dheathcote@kpmg.com.au

Audit, Assurance & Risk Consulting
Eileen Hoggett
+61 2 9335 7413
ehoggett@kpmg.com.au

Enterprise
Paul Howes
+61 2 9346 6073
paulhowes@kpmg.com.au

Management Consulting
Christa Gordon
+61 2 6248 1210
cgordon@kpmg.com.au

Deals, Tax and Legal Leadership

Capital Solutions
James Stewart
+61 3 8667 5728
jhstewart@kpmg.com.au

Specialist Tax & Reward
Ben Travers
+61 3 9288 5279
btravers1@kpmg.com.au

Technology, Innovation, Solutions & Ventures
Matt Herring
+61 3 9288 6845
mherring@kpmg.com.au

Strategy & Transactions
Karina Collins
+61 7 3225 6827
kacollins@kpmg.com.au

Corporate, Deals & International Tax
Justin Davis
+61 2 9335 8854
jcdavis@kpmg.com.au

Legal
Kate Marshall
+61 3 9288 5767
katemarshall@kpmg.com.au

Clients & Markets
Angus Wilson
+61 2 9335 8288
arwilson@kpmg.com.au

Economics & Tax Centre
Alia Lum
+61 2 9335 8332
alum@kpmg.com.au

Economics & Tax Centre
Brendan Rynne
+61 3 9288 5780
bjrynne@kpmg.com.au

Enterprise
Brett Mitchell
+61 2 9335 7398
bmitchell@kpmg.com.au

Enterprise
Clive Bird
+61 3 9288 6480
clivebird@kpmg.com.au

Economics & Tax Centre
Sarah Hunter
+61 2 9245 4754
sarahhunter@kpmg.com.au

Industry Leadership

Corporates
Trent Duvall
+61 2 9335 8871
tduvall@kpmg.com.au

Energy & Natural Resources
Cassandra Hogan
+61 2 9455 9642
cjhogan@kpmg.com.au

Financial Services
Daniel Knoll
+61 2 9455 9148
danielknoll@kpmg.com.au

Infrastructure, Government & Health
Paul Low
+61 7 3233 9771
plow@kpmg.com.au

Infrastructure, Assets & Places
Stan Stavros
+61 3 9288 6186
sstavros@kpmg.com.au

KPMG.com.au