

PAY-ROLL TAX AMENDMENT (SUPPORTING JOBS AND SMALL BUSINESS) BILL

Second Reading

Ms PETA SEATON (Southern Highlands) [10.13 a.m.]: I move:

That this bill be now read a second time.

In introducing the Pay-roll Tax Amendment (Supporting Jobs and Small Business) Bill 2005, I join with all my Liberal-Nationals Coalition colleagues in challenging each and every Labor Party member to join us in reducing payroll tax on hardworking businesses in our State. The object of this bill is to amend the Pay-roll Tax Act 1971 to increase the tax-free threshold for payroll tax from \$600,000 to \$850,000, with the increase to take effect on 1 July 2007. The legislation offers the chance to support legislation that will exempt 4,500 businesses from having to pay payroll tax at all, and a reduction of up to \$15,000 for each of the 22,000 businesses that are liable for payroll tax. This bill will create jobs, improve our State's competitiveness, and support small businesses, which are the backbone of our economy.

The New South Wales economy should be the strongest, the fastest growing and the most competitive in Australia. Making New South Wales again No. 1 will take hard work, good policy, and discipline with government spending—by a new Liberal-Nationals Coalition government. It is the responsibility of a New South Wales government to create the environment for businesses and families to work hard, prosper, and secure the future for themselves and their children. The people of New South Wales should be free to make their own choices and create their own opportunities. I believe government should be as small, efficient and effective as possible, with its role limited only to functions that cannot be performed better, or more appropriately, by business or the community.

Government should respect the fact that every dollar of tax it spends is not its own money. It is money that is spent on behalf of the hardworking businesses and citizens of our State, which is where it comes from. Governments should be constantly looking at opportunities to drive down taxes and return money to businesses, individuals and families to use at their discretion. A dollar in the hands of a citizen is better spent than a dollar in the hands of government—certainly this New South Wales Government—and government should impose on itself the highest level of rigour and performance testing to ensure that government waste and duplication is eradicated and savings are put back into essential front-line services that are expected by citizens and the needy, and into tax relief in order to promote more jobs and economic activity.

Under Labor, New South Wales is the highest taxing State and relies heavily on payroll tax—a tax on jobs—to produce revenue to pay for bloated, non-productive bureaucracy, which in many cases creates obstacles for decent hardworking business owners. This is not an easy tax to tackle. Forecast revenues in the 2005-06 budget are \$5.11 billion—around 31 per cent of New South Wales tax revenues. In future years, Labor forecasts revenue on the current system of \$5.4 billion in 2006-07 and \$5.8 billion in 2007-08. This represents an increase of approximately \$700 million in two years. The Coalition is determined to tackle and reduce payroll tax, despite Labor's refusal to do so. The Liberal-Nationals Coalition will rebuild the New South Wales economy by increasing the payroll tax threshold from \$600,000 to \$850,000, matching that of Queensland, which will improve New South Wales's interstate and international competitiveness.

The Coalition has listened carefully to the advocacy of key business groups in New South Wales and has responded to their call to cut payroll tax. Australian Business Limited [ABL], in its publication "New South Wales Mid Term Report 2005", set out an action plan that it wants government to tackle to promote business growth in this State, which included cutting the growth in government expenditure. Growth in expenditure is putting additional taxation pressure on New South Wales businesses and making them uncompetitive against Queensland and Victoria. ABL also called for the commencement of a four-year program to cut payroll tax, further investment in infrastructure, and negotiations with the Federal Government to develop a simplified and a unified workplace relations system. I am proud to say that the Liberal-Nationals Coalition has agreed to do that and has already announced its policy.

ABL also asks government to return the benefits of workers compensation scheme surpluses to businesses in the form of lower premiums. The performance of the scheme has improved in recent years and the benefits should be passed on to businesses. The Liberal-Nationals Coalition agrees and has announced a policy that will result in a 10% reduction in workers compensation premiums. ABL asks government to engage constructively with business on labour force and skills issues and suggests that government should establish and implement a coherent strategy to address the current skills crisis and future skills needs. Again, the Liberal-Nationals Coalition has agreed and has taken the first important step of appointing a shadow Minister who is responsible for skills.

As a matter of urgency ABL says that the Government should review the Occupational Health and Safety Act 2000, with particular focus on reforming the duty of care. The current application of duty of care is having significant unforeseen consequences, including many smaller businesses giving up on occupational health and safety because compliance is too difficult. ABL also asks the Government to amend the draft workplace fatalities legislation by adopting the Australian Business Limited five-point plan. I am pleased to say the Liberal-Nationals Coalition opposed the Government's appalling workplace fatalities legislation, which would have seen impossible penalties applied to many business owners who genuinely want to see safety improvements in their workplaces, but the Government simply was not prepared to strike a fair balance in that legislation. Payroll tax deduction was a key plank for ABL's recipe for the health of the New South Wales economy. The Coalition has listened and has acted.

In ABL's mid-term report card they continued the push for the Government and Opposition to tackle payroll tax. This measure has been called for consistently by the Illawarra Business Chamber [IBC], which does a great job advocating for business policy in both the Illawarra and the Southern Highlands. With ABL, the IBC has been highlighting the competitive disadvantage New South Wales businesses suffer against rival States, and have undertaken studies on business cost relativities. The former IBC Chief Executive, Tim Lewis, noted in a press release of January 2005 that:

For every \$100 of payroll tax collected per person in NSW in 2004, only \$83 was collected in Victoria and \$55 was collected in Queensland.

I compliment the incoming IBC Chief Executive, Mark Grimson, for continuing the campaign on behalf of Illawarra and Southern Highlands businesses, along with Terry Oakes-Ash and other members of the Southern Highlands business chambers, in continuing the campaign to reduce payroll tax. An analysis of statistics from the Australian Bureau of Statistics by Australian Business Limited on 1 August 2005 also revealed that New South

Wales Government taxes and charges cost New South Wales businesses \$2,627 for every person they employ. According to ABL's research, on average, New South Wales employers are paying \$1,100 more per employee in payroll tax and workers compensation premiums than Queensland. New South Wales businesses paid, on average, \$2,627 in payroll tax and workers compensation charges per employee—71 per cent higher than Queensland's \$1,533 and 19 per cent higher than Victoria's \$2,202.

Labor has left the door open for Queensland and Victoria to raid New South Wales jobs and investment. The only persons happy with the high tax regime and uncompetitiveness in New South Wales is the New South Wales Premier and the Premiers of Queensland and Victoria. It is interesting to note at this point the comments made on 26 August by the Minister for Small Business, who is also the Minister for the Illawarra. The ABC Illawarra reported the Minister as saying that the New South Wales Opposition's promises to cut payroll tax if it wins power would do little to help the State's businesses. He made the nonsensical assertion that the cuts would only put pressure on other infrastructure. He further insulted businesses and payroll taxpayers by saying:

Less than 10 per cent of businesses in New South Wales pay payroll tax, so the overwhelming majority of businesses in New South Wales pay no payroll tax at the moment, and make no mistake, every dollar of income that the Government does not receive means less hospitals, less schools, expenditure in the Budget.

That may be the way it is under Labor, because it could not manage a chook raffle, let alone a \$40.6 billion budget. The Premier cannot even tell us what Labor's deficit is. The Government gets money, spends it and wastes it—then puts its hands back in the pockets of businesses and families to grab more. It is an insult that the Minister for Small Business and the Minister for the Illawarra in this place can so dismiss in this way businesses that pay payroll tax. He simply does not understand the impact that payroll tax is having on the very group of people for whom he is meant to be advocating.

Sound economic management and responsible spending, combined with the Coalition's approach which includes performance benchmarking of the activities of government—and which any business would recognise as a sensible way to measure performance and outcomes—means waste and duplication can be cut, front-line services beefed up and tax reduced. While the Labor Minister rejects the Liberal's payroll tax policy, the Illawarra Business Chamber has welcomed the scheme, saying it will take the pressure off local business and generate more jobs and economic growth for the region, according to the ABC radio report. Other business groups have welcomed the Liberal-Nationals Coalition policy initiative, including the New South Wales Chamber of Commerce. The Chief Executive Officer of the chamber, Margy Osmond, said of the policy:

Our latest survey of business across NSW in July showed that more and more small businesses are getting caught in the payroll tax net as their wage bill grows in line with inflation. The changes proposed by the Opposition would protect many of these businesses and provide an incentive for them.

The Coalition also received support for the plan from ABL, the Hunter Chamber of Commerce and the Real Estate Institute of NSW, because they know it will give their members relief from the State's tax burden. There is no doubt we need to reduce tax in New South Wales. In the past decade New South Wales has slipped backwards. New South Wales is the highest taxed State, with the slowest economic growth and the slowest rate of job growth of any State, and New South Wales has been described as a "significant drag on the

national economy".

[Interruption]

Are the Government members going to back this bill or not? New South Wales competitive advantages have been taken for granted by a lazy and incompetent Labor Government that has squandered a decade of boom times. Despite record revenues and more than \$8 billion of windfall tax income over the past 10 years, Labor has increased taxes, introduced new taxes and plunged New South Wales into deep deficit. Instead of being the economic powerhouse of Australia, after 10 years of Labor the economic growth rate in New South Wales has fallen from 4.8 per cent in 1995 to 2 per cent in 2004-05. This economic growth rate instilled New South Wales as the worst performing State in Australia for 2004-05, even behind South Australia at 2.5 per cent and Tasmania at 3.2 per cent. This trend is set to continue, with economic growth in New South Wales forecasted to be 2.75 per cent for 2005-06, making New South Wales the second-worst economic performing State, just ahead of South Australia at 2.5 per cent.

The Labor Government's mismanagement has delivered New South Wales the lowest employment growth of any State. In the quarter for year-ended June 2005, employment growth in New South Wales was 1.7 per cent, compared with Queensland at 5.6 per cent, Western Australia at 5.3 per cent, Victoria at 3.6 per cent, South Australia at 3.1 per cent and Tasmania at 2.8 per cent. We are doing worse than Tasmania. That is appalling. New South Wales employment growth of 1.7 per cent is half that of the national rate of 3.4 per cent. Last year, more than 80 per cent of new full-time jobs in Australia were created outside New South Wales. The unemployment rate increased from 4.8 per cent in July to 5 per cent in August, with 9,000 more unemployed in New South Wales. More people became unemployed than were added to the employment ranks in New South Wales in that period.

The trend estimate for total dwelling units approved in New South Wales also shows a lacklustre economy falling for the past six months, whereas in Queensland the trend estimate shows rises for the past six months. New South Wales has been embarrassed by Victoria and Queensland in new dwelling commencement figures, a continuing legacy of Labor's crippling high taxes, which have created investor uncertainty in the New South Wales building and property sector. Yet the Premier continues to refuse to rule out new taxes or tax increases. New South Wales has now experienced five quarters of decline in dwelling unit commencements in New South Wales and that decline can be traced back to Labor's vendor tax in 2004. But the long overdue abolition of the vendor tax will not fix the building downturn unless Labor also cuts other State taxes to make New South Wales more competitive.

That is why we want to reduce payroll tax. New South Wales dwelling commencements have dropped from 11,995 in the March quarter 2004, to a low in the June quarter of 8,475. Victoria, with its 10,318 commencements, and Queensland with its 9,342 commencements, each outstripped New South Wales, which had a paltry 9,076 in numbers of new dwelling commencements in the June quarter. The drop in New South Wales is double the drop in other eastern States, with New South Wales dwelling commencements declining by 3,520 since the March quarter 2004, while Queensland dropped 1,493 and Victoria dropped 1,078 in absolute numbers. Smaller States are outstripping the performance of New South Wales on raw numbers, and this is directly related to the very poor tax relativities between New South Wales and its competitors. Yet, at a time when New South Wales ought to be cutting business and other taxes by reining in wasteful expenditure, the Premier is fuelling fears of new or increased taxes because he will not reveal the extent of the deficit, and refuses to rule out to

tax hikes.

Raising the tax-free threshold on payrolls from Labor's \$600,000 to \$850,000 will encourage business to invest and give greater financial incentive to employ more staff. This is a win for business in New South Wales, because under the Liberal-Coalition policy, which this bill would make law, 4,500 businesses would be exempt from paying payroll tax and more than 22,000 businesses will receive tax cuts of up to \$15,000. Raising the payroll tax threshold to match Queensland will deliver a \$282 million boost to businesses in 2007-08, providing a significant incentive for businesses to remain in New South Wales and not consider moving, or be forced to move, north

Under our policy, payrolls of less than \$850,000 would pay no payroll tax; a business with total taxable wages of \$1 million will pay only \$9,000, whereas under Labor they would pay \$24,000; a business with total taxable wages of \$1.5 million will pay only \$39,000, whereas under Labor they would pay \$54,000. That would give businesses in New South Wales a real competitive edge against Queensland and that is why I expect the Labor member for Tweed to vote for this bill: he knows that business in his area desperately needs to be able to compete. Queensland makes a great deal of its higher threshold and lower rate, but the Liberal-Coalition policy will make New South Wales an even more attractive business jurisdiction than Queensland.

What Queensland does not often advertise is its reducible threshold. This gives Queensland an effective rate of about 6.4 per cent, higher than the current rate in New South Wales. Even with Queensland's tax rate of 4.75 per cent being lower than this State's 6 per cent, New South Wales businesses are still better off under the Liberal-National Coalition policy, because of Queensland's deduction system where for every \$3 of total taxable wages above the threshold, the threshold is reduced by \$1, and once total taxable wages in Queensland exceed \$3.4 million there is no entitlement to a deduction.

Pursuant to sessional orders business interrupted

Debate resumed from 22 September 2005.

Ms PETA SEATON (Southern Highlands) [10.02 a.m.]: I continue today to urge the Government to support the Liberal-National Coalition's Pay-roll Tax Amendment (Supporting Jobs and Small Business) Bill. I remind members that at the time the debate was last interrupted I was explaining the difference between Queensland's payroll tax rate as it stands now compared to a New South Wales payroll tax system as it would be implemented by a Liberal-National Coalition government, including our payroll tax cuts, which would make New South Wales at last competitive again with Queensland.

Even with Queensland's tax rate of 4.75 per cent being lower than New South Wales 6 per cent, New South Wales businesses will still be better off under the Liberal-National Coalition policy because Queensland's reducible threshold system, or deduction system, is such that for every \$3 of total taxable wages above the threshold, the Queensland threshold is reduced by \$1, and once total taxable wages in Queensland exceed \$3.4 million, there is no entitlement to a deduction. For example, under Queensland's system a business with total taxable wages of \$1 million would pay \$9,500 in payroll tax, whereas under the Liberal-National Coalition policy a New South Wales business with the same total taxable wages would pay only \$9,000. So a New South Wales business under the Liberal-National Coalition system would pay \$500 less payroll tax than in Queensland.

I bring to the attention of the House some other examples of where the Liberal-National Coalition policy will save New South Wales businesses relative to Queensland. For a \$900,000 payroll, in Queensland a business would pay \$3,167 and in New South Wales it would pay only \$3,000, a saving of \$167. For a \$1.35 million payroll, in Queensland a business would pay \$31,667 and in New South Wales only \$30,000. For a \$1.4 million payroll, in Queensland a business would pay \$34,833 and in New South Wales only \$33,000. For a \$2 million payroll, in Queensland a business would pay \$72,833 and in New South Wales under the Liberal-National Coalition policy it would pay only \$69,000. For a \$3.4 million payroll, in Queensland a business would pay \$161,500 and in New South Wales under the Liberal-National Coalition policy it would pay only \$153,000.

Queensland's 4.75 per cent rate is somewhat deceptive to those who do not have the time to look further into what it means. Queensland has a reducible threshold; although superficially Queensland has a lower rate, effectively its tax rate is about 6.4 per cent compared with New South Wales at 6 per cent. If we match Queensland's threshold of \$850,000, which under the Liberal-National Coalition policy we will, that puts New South Wales businesses way ahead. That is great news for all New South Wales businesses, and it is particularly good news for businesses in the Tweed, New England, Barwon and Murray-Darling areas. That is something that everyone in this House should support.

The provisions of this bill will enable businesses to hire more staff and still remain below the new threshold. According to the Illawarra Business Chamber, an average business in New South Wales employs around 11 people before being subject to Labor's \$600,000 threshold. This policy will enable business owners to give pay rises to valuable staff they may otherwise have held back on in order to keep below the threshold. This means that people might be able to attract higher salaries and higher benefits, because the Liberal-National Coalition policy will not hold back businesses, and it will enable about 4,500 New South Wales businesses to avoid ever having to take on the extra paperwork of tax compliance because they will be below the higher threshold.

Presently, under Labor, New South Wales compares very badly with payroll tax regimes in other States. Let us compare them. In New South Wales, under Labor, there is a 6 per cent flat rate, with the first \$600,000 exempt; Queensland, 4.75 per cent rate, the first \$850,000 exempt, but on that rather deceptive deduction system; Victoria, 5.25 per cent flat rate, the first \$5,500 exempt; Tasmania, 6.1 per cent flat rate, the first \$1.01 million exempt; Western Australia, 6 per cent flat rate, like New South Wales, with the first \$750,000 exempt; Northern Territory, 6.2 per cent flat rate, the first \$1 million exempt; and in the Australian Capital Territory, 6.85 per cent flat rate, the first \$1.25 million exempt. The Liberal-National Coalition policy to reduce payroll tax will put New South Wales back into the game against our competitor States, particularly Queensland.

I would expect the first speaker for the Government on this bill to be the Minister for Small Business. He is not even in the Chamber this morning to listen to our argument. He needs to explain his public opposition to payroll tax cuts and why he dismissed this great opportunity for small businesses across New South Wales, including the Illawarra. I draw the attention of the House to a media release issued by the Illawarra Business Chamber [IBC] on 25 August 2005, which says:

The Illawarra Business Chamber has welcomed the commitment of the NSW Liberal/Nationals Coalition to increase the NSW payroll tax threshold to \$850,000 if elected to Government in March 2007.

The media release further says:

We have to address the growing economic divide between NSW and Queensland.

It is a shame the Minister for Small Business does not understand that and refuses to acknowledge that we are going backwards. The IBC press release continues:

Over the past 12 months Queensland has created 73,000 new full time jobs and has employment growth running five times the rate of NSW.

A detailed analysis of Australian Bureau of Statistics data recently commissioned by Illawarra Business Chamber in conjunction with Australian Business Limited revealed that payroll tax and workers compensation costs are over 70% more expensive in NSW than Queensland.

Mr Mark Grimson, the Chief Executive of the IBC, goes on to say:

I am of the view the most significant issue at the next State election will be the competitiveness of NSW. I welcome this commitment by the NSW Coalition which sends a very significant message to the businesses of the Illawarra.

I call on the Minister for Small Business to come into this Chamber and account for his opposition to cutting payroll tax. What has he got against cutting payroll tax and giving small businesses across this State, including the Illawarra, a break? I note that the honourable members representing the electorates of Camden and Macquarie Fields are here today, and the honourable members representing the electorates of Drummoyne, Penrith and Monaro were here earlier. I would like to see all those members speak in support of this bill because there is no doubt that businesses in all those electorates want to see State taxes cut. They know that payroll tax is a disincentive to further employment and business growth. They want cuts in payroll tax and workers compensation WorkCover premiums, as the Coalition has committed to do. I hope that Labor members will do the right thing and think about this legislation and resolve to vote with us. We want to support jobs and small business and reduce payroll tax. This is Labor's chance to show it is willing to represent the best interests of its constituents rather than the best interests of the Premier and the Sussex Street puppet-master, Graham Richardson. I look forward to the support of all members in this place who understand the importance of jobs and small business. I commend the bill to the House.