Submission
No 16

INQUIRY INTO ZONAL TAXATION

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Legislative Assembly: Committee on Investment, Industry and Regional Development
Parliament of New South Wales
Macquarie St
SYDNEY NSW 2000

RE: Regional Development Australia (RDA) Orana response to NSW Parliamentary Inquiry into zonal taxation

To whom it may concern

RDA Orana believes that any enquiry into zonal taxation could be of significant value for the regional economy if done in consultation with business and community.

There are a number of businesses in the Orana region that would currently reach the $750 000 salary threshold required for the payment of **payroll tax**. Some examples include hotels and motels, large trade businesses such as electrical, plumbing and building; real estate agencies; professional businesses such as legal and accounting firms; large transport operators and car dealerships. The prospect of exceeding the threshold through employing additional staff may be a hindrance to economic growth. A large regional accounting firm suggests that raising the payroll tax threshold to around $950,000 could lead to more regional job creation. This is because currently a number of regional businesses choose to use contractors, who often live outside the Orana region, to avoid the payroll tax. If the threshold was raised these businesses could then choose to directly employ people based in the region instead.

Exemptions or concessions for **stamp duty** and **land tax** could be seen as a reduction in 'red tape' and may stimulate economic activity through the purchase of land and property for both businesses and residents. Zonal stamp duty and payroll tax concessions could lead to an increase in start-ups, and that a reduction in stamp duty could facilitate first home buyers' entry into the market. In particular, stamp duty concessions would assist young people to purchase farms. The Orana region is heavily reliant on agriculture - the industry accounts for 10.4% of the region's output (REMPLAN

2016) - yet there are less young farmers entering the workforce and more older farmers retiring. Purchasing an agricultural enterprise is generally a much more significant investment than an in-town residence. Consequently, reducing stamp duty would be one way to provide an incentive for young people to purchase farms and encourage them into the agriculture industry, as many people are currently priced out of the market.

The Orana region has a higher proportion of low income families than the rest of NSW. For example, 9.07% of Orana households have a weekly income of just $400-$699, compared to 6.73% for the rest of NSW (REMPLAN 2016). Many smaller centres in the region are highly disadvantaged when compared with the rest of NSW. Residents in the Orana region also pay significantly higher **electricity charges** than in metropolitan areas. For example, residents in Dubbo and the region pay on average $650 or 37% more per year for electricity than their counterparts in Sydney, according to one cost comparison (www.mozo.com.au). Dubbo residents are paying on average $440 per year more than residents in similar-sized centres like Bathurst and Orange.

If regional households receive higher utility charges than in metropolitan areas, it can be inferred that this would also be the case for regional businesses. Regional businesses would therefore be at a disadvantage when compared to their metropolitan counterparts. Also, if a higher percentage of household income is spent on utilities less money is available to be spent in regional businesses. Concessions for utility charges could therefore have a significant impact for our region, particularly for small business and lower income families.

The Orana region spans 25% of NSW and is sparsely populated, with residents often travelling long distances to access services. Combined with long distances, the lack of adequate public transport in smaller centres necessitates the use of private transport, incurring high **fuel costs** for both consumers and businesses. The distances and lack of public transport also affect the high rate of car ownership in the region, meaning that residents and businesses alike are required to pay **stamp duty** on the purchase of private or business vehicles.

The Orana region is heavily dependent on agriculture and resources, which provide 14% and 5.5% of the region's employment respectively (REMPLAN 2016). These industries rely on road transport and diesel consumption to produce the primary and value-added products and services which drive the region's economy. Naturally, fuel is also required to transport these goods and services to market and to import other goods and services into the region. These fuel costs affect the production costs and therefore can make regional businesses less competitive when compared with metropolitan businesses that do not experience long distances as a barrier. **Fuel levies** imposed by freight and transport companies are a significant cost that is usually passed on to consumers. This reduces the efficiency and productivity of these businesses and therefore the productivity and growth of the region. Of course, the affected industries are not confined to agriculture, farming and resources. Many other industries such as manufacturing, retail and hospitality also rely on the movement of goods by road transport.

Case Study: Fletcher International Exports

Fletcher International Exports (Fletcher's) is a large regional abattoir in the Orana region, located in Dubbo, NSW. The business employs approximately 600 staff so is one of the region's largest employers.

Fletcher's pays between $130,000 and $140,000 each month in **payroll tax.** Previously the Office of State Revenue introduced an online portal to register trainees' and apprentices' exemption from payroll tax. However, the business did not proceed with this process as it was found to be onerous and duplicitous of the trainee/apprentice registration process required for State Training Services.

In relation to vehicle **stamp duty**, the business has over 50 vehicles registered in NSW. Fletcher's owns medium industrial-zoned land in Dubbo as well as the plant itself. The combined value of this land is equivalent to approximately $25 million; consequently a large sum of **land tax** applies.

Utilities are the business's third-largest cost. The monthly electricity bill for the abattoir alone (Fletcher's also has a grain export facility) is equivalent to approximately $160,000 and for gas it is approximately $130,000.

Because the abattoir side of the business has the most limited margins, any zonal concessions to payroll tax, stamp duty and land tax would create wider margins and consequently have wider implications for the regional economy. For example, wider margins would allow the business to purchase sheep at a higher price, meaning that benefits would flow to farmers and further down the supply chain. The sheep, grains, beef and dairy sector alone accounts for $1.15 billion annually or 8.2% of the Orana region's output (REMPLAN 2016) so these economic benefits are potentially very significant.

In order for zonal concessions or exemptions to make a significant difference in the Orana region, the measures need to be consistent with the level or disadvantage and inequity. Small changes will not be sufficient to improve economic activity and productivity in the region.