Submission
No 9

INQUIRY INTO ZONAL TAXATION

Organisation: Chartered Accountants Australia and New Zealand

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CHARTERED ACCOUNTANTS
AUSTRALIA • NEW ZEALAND

3 June 2016

The Committee Manager
Committee on Investment, Industry and Regional Development
Parliament House
Macquarie Street
Sydney NSW 2000

Dear Sir/Madam,

Inquiry into zonal taxation

Thank you for the opportunity to participate in the inquiry by the Legislative Assembly Committee on Investment, Industry and Regional development (the Committee) into zonal taxation for regional economies, infrastructure and services in New South Wales (NSW).

This submission concentrates on the first term of reference, namely "exemptions from, or concessions in relation to payroll tax, stamp duty, and land tax".

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Executive summary

Whilst providing concessions, higher thresholds or exemptions from payroll tax, land tax and stamp duty may seem a helpful way to stimulate regional development, there are several practical issues which make this proposition problematic, namely:

- The existing payroll tax and land tax bases are already very narrow. The narrow tax bases makes it hard to provide further meaningful exemptions without eliminating these taxes entirely.
- Payroll tax, stamp duty and land tax are very significant contributors to the State budget. It is unclear where revenue to fund additional exemptions could come from.

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- To ensure that NSW has a steady efficient revenue stream, numerous tax reviews and policy bodies have been advocating that residential stamp duty (which is the tax that has the least exemptions and would be the tax most applied in regional areas) be abolished and replaced with a comprehensive land tax. Assuming such advocacy has some support amongst Parliamentarians, adding further exemptions to a land tax that already has a narrow base will only make such a transition more difficult.

The existing tax bases are already very narrow

There are already a number of provisions reducing the scope of payroll tax and land tax. These provisions are so extensive that it would be difficult to meaningfully increase the scope of the exemptions/threshold without practically eliminating these state taxes entirely for some geographical areas. For example:

- Land tax does not apply (amongst other things) to agricultural holdings, a person's principal place of residence, total land holdings in NSW less than $482,000, boarding houses, retirement villages, aged care facilities and nursing homes.

  As a result it can be concluded that land tax "generally applies only to a limited range of commercial land and investor-owned residential land."[1] Yet despite its limited base, land tax still represents 10% of the NSW's revenue and is predicted to have growth of 5.7%.

- For the 2015-2016 year, payroll tax does not apply to NSW payrolls below $750,000. To illustrate: "Mr Walkom [Regional Development Australia Orana Chairman] has said: "with 60 per cent of Orana businesses non-employing and a further 28 per cent employing fewer than five people, many would not reach the threshold required to pay payroll tax."[2]

  This is supported by the Henry Report which stated that "the [then] current NSW threshold (which is lower than most other States) exempts around 91 per cent of NSW businesses from payroll tax (IPART 2008)."[3] Yet, once again, despite its limited tax base, payroll tax manages to provide 28% of NSW's revenue.[4]

Both land tax and payroll tax could be eliminated entirely or substantially by providing further exemptions. Whether this is desirable depends upon one's views of the sustainability of NSW's budget.

Where will the revenue come from?

Chartered Accountants ANZ has long advocated that the GST base and rate need to increase to ensure that Australia's tax system as a whole is sustainable. However, a State government cannot by itself affect either the GST rate or base. The agreement of the Commonwealth and all States and Territories is required. Over the past couple of years, it has been clearly demonstrated that obtaining such agreement is difficult, although we are aware that State and Federal officials have occasionally undertaken research projects to explore GST policy options.

Given these circumstances, it seems prudent that State governments improve both the efficiency and the reliability of their own taxation revenue streams wherever possible.

[1] http://taxreview.treasury.gov.au/content/FinalReport.aspx?doc=html/publications/Papers/Final_Report_Part_2/chapter_c2-3.ht

[2] http://www.dailyliberal.com.au/story/3827173/rda-orana-chairman-john-walkom-in-favour-of-tax-breaks/

[3] http://taxreview.treasury.gov.au/content/FinalReport.aspx?doc=html/publications/Papers/Final_Report_Part_2/chapter_d3-2.htm

[4] See appendix 1

“The three largest state taxes are payroll tax, stamp duty on property transfers (transfer duty) and land tax, together providing around 65.9 per cent of taxation revenue in 2015-16.”[5]

Whilst the current property boom in Sydney has been kind to the coffers of the State government, it is unlikely that that boom will continue indefinitely. Indeed, the charts in Appendix 1 of this submission indicate that stamp duty and Federal government grants can vary widely. For example, chart 6.4 in Appendix 1 of this submission demonstrates that stamp duty on residential properties has grown by 80%, 60%, 40% and 20%; and shrunk by almost 40% on several occasions during the period from June 2003 to June 2016. Table 5.5 in Appendix 1 of this submission shows that Federal government grants are expected to vary in average growth per annum during the period 2014-15 to 2018-19 by negative 13% through to 5.5%.

The recently released *2016 Intergenerational Report for New South Wales*, also indicates that, like the Federal government, the NSW government needs to consider substantive tax reform to fill the expected fiscal gap.

> “Without corrective action, the fiscal gap is projected to be 3.4 per cent of GSP in 2055-56. …. Expenditure growth exceeding revenue growth by 0.6 percentage points a year means debt would mount, as borrowing would be required to fund the expenditure. The accumulation of debt would be so large that in 2055-56 around 20 per cent of revenue would have to be diverted from services to fund interest payments. This is not sustainable.”[6]

Expanded land tax arrangements

To ensure that State governments have a stable, growth orientated and efficient revenue stream to match their stable growth oriented expenditure (particularly in relation to health and education), it has been suggested that residential stamp duty (a relatively inefficient tax) be replaced by land tax (a highly efficient tax). Numerous reviews and organisations from across the spectrum of society have supported this proposition. Some organisations have even provided studies of the positive economic impact of implementing such as proposal and outlined how such a transition could be achieved politically. For example:

- Australia’s Future Tax System review
- Grattan Institute
- ACOSS
- NSW Business Chamber and NSW Chamber of Social Service (NCOSS)
- McKell Institute
- Business Council of Australia
- PricewaterhouseCoopers
- KPMG
- NSW Government Lambert report
- NSW Independent Pricing and Regulatory Tribunal.

The Australian Capital Territory (ACT) government is currently implementing such a switch. The South Australian government has announced that it will abolish stamp duty on transfers of non-residential, non-primary production land. The recent Victorian state budget has increased the rate of stamp duty and land tax on foreigners.

The NSW Business Chamber and NCOSS commissioned KPMG to undertake an analysis of the impact of such a switch for NSW. The KPMG modelling indicated that such a switch could provide a boost of more than 1% to Gross State Product, generate around 10,000 additional jobs and more than $1,400 in additional consumption for the average householder.

[5] http://www.budget.nsw.gov.au/__data/assets/pdf_file/0009/126396/2015-16_Budget_Paper_No._1_-_Budget_Statement.pdf
[6] Page 76
http://www.treasury.nsw.gov.au/__data/assets/pdf_file/0020/128144/Intergenerational_Report_2016_-_full_report.pdf

The McKell Institute report noted that if land tax is levied on a per square metre basis on a progressive scale starting at zero then it is likely that no tax would be paid on the majority of primary production land. This report concluded that “this is fair and preferable to continuing to exempt primary production land for two reasons. Firstly, removing the exemption would reduce administration costs improving the simplicity of land tax. Secondly, it would ensure that low value land could also be used for purposes other than primary production.”[7] Given the existence of lower value land in regional areas this could encourage a greater range of activities, and employment, to migrate to the regions.

In view of the scope of this inquiry, Chartered Accountants ANZ has not provided details concerning the positive impact of replacing stamp duty with land tax or how it can be achieved. The point that we simply want to make is that if such a transition is required to ensure the sustainability of the NSW budget, then providing further exemptions from land tax will not make such a transition easier.

I would be happy to discuss any aspects of our submission with you. I can be contacted on [redacted] or by email at [redacted]

Yours faithfully,

[redacted]

Michael Croker
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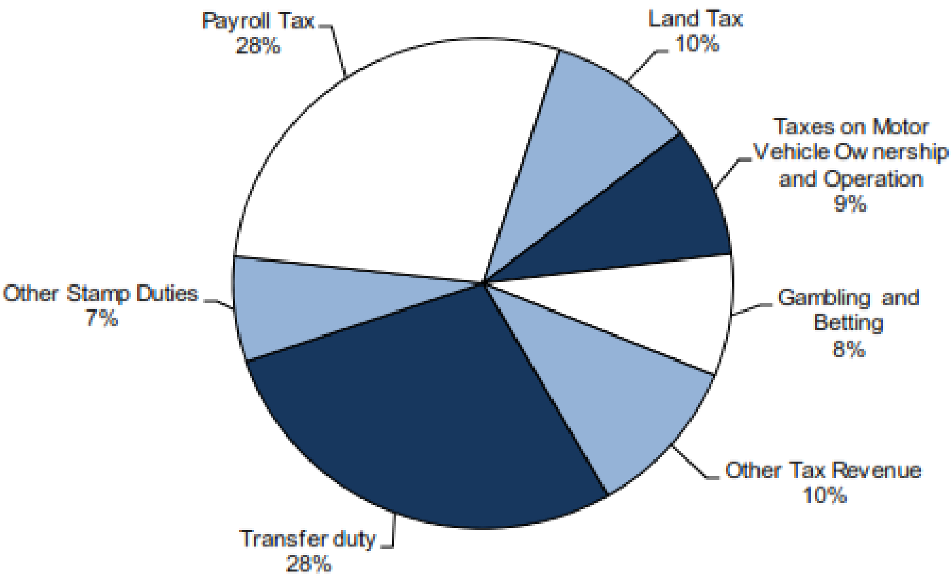
[7] Page 28 http://mckellinstitute.org.au/wp-content/uploads/2016/03/McKell_Stamp_Duty_Land_tax.pdf

Appendix 1

The NSW budget has benefited substantially from the Sydney property boom. The pie chart below demonstrates that 28% of NSW's own source revenue has been generated from stamp duty. Another 28% has been generated from payroll tax and a further 10% from land tax. Whilst overall own sourced tax revenue is expected to grow by an average of 4.7 per cent per annum over four years to 2018-19, residential stamp duty is expected to grow 11.8 per cent in 2015-16 compared to 2014-15. This is due to historically low interest rates and high investor demand.[8]

Land tax is forecast to increase in 2015-16 by $163 million, or 6.5 per cent, and to grow at an annual average rate of 5.7 per cent in the four years to 2018-19, reflecting growth in land values.[9]

Chart B4.1: Composition of Tax Revenue, 2015-16



Source: http://www.budget.nsw.gov.au/__data/assets/pdf_file/0011/126389/App_B4.pdf

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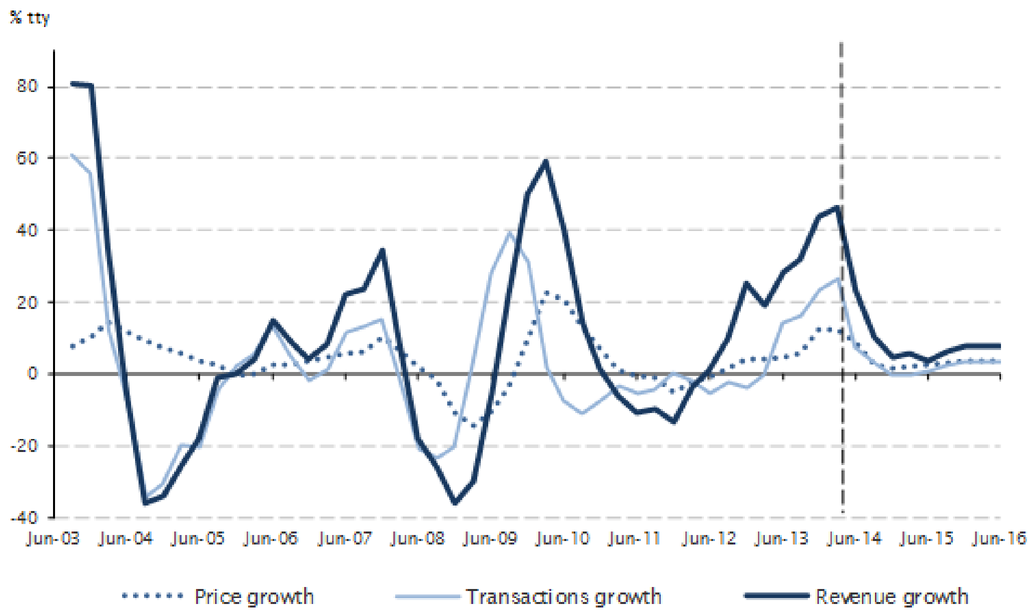
[8] http://www.budget.nsw.gov.au/__data/assets/pdf_file/0011/126389/App_B4.pdf

[9] http://www.budget.nsw.gov.au/__data/assets/pdf_file/0011/126389/App_B4.pdf

The sustainability of the residential stamp duty stream is uncertain. The following chart demonstrates the volatility of this revenue stream.

Chart 6.4: Growth of Residential Transfer Duty, Transactions and Home Prices

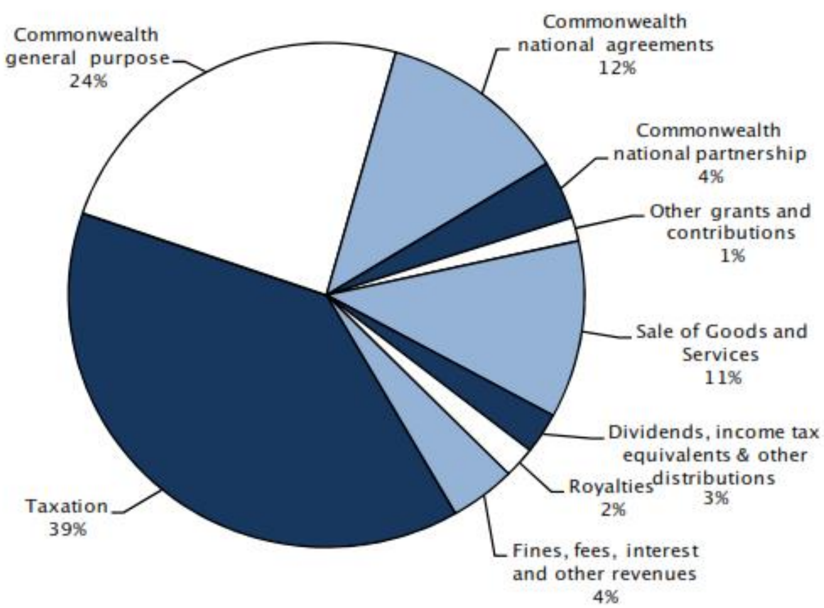


Source: Office of State Revenue; and Treasury

Source: http://www.budget.nsw.gov.au/__data/assets/pdf_file/0015/124314/Ch_6.pdf

Government grants are also a significant form of revenue.

Chart 5.4: Composition of Total Revenue, 2015-16



Source: http://www.budget.nsw.gov.au/__data/assets/pdf_file/0009/126396/2015-16_Budget_Paper_No._1_-_Budget_Statement.pdf

Government grants can also be volatile.

> *"In 2015-16, New South Wales is expected to receive $28.7 billion (40 per cent of total revenue) in Commonwealth untied payments for General Purposes (primarily GST), and tied grants for National Agreements (NAs) and National Partnerships (NPs) which need to be used for particular purposes. As a result of re-profiling from 2015-16 into 2014-15, lower GST relativities, and the Australian Government's decision last year to reduce hospital and education funding, total Commonwealth grant revenue is expected to fall in the last two years of the forward estimates (see Table 5.5)."*[10]

Table 5.5: Grant Revenue

	2013-14	2014-15		2015-16	2016-17	2017-18	2018-19	% Average growth p.a 2014-15 to 2018-19
	Actual	Budget	Revised	Budget	Forward estimates			
	$m	$m	$m	$m	$m	$m	$m	
Commonwealth – general purpose	15,894	16,810	17,065	17,346	17,864	18,214	18,828	2.5
Commonwealth – national agreements	7,449	7,829	8,073	8,619	9,262	9,681	9,997	5.5
Commonwealth – national partnership	3,963	2,632	2,829	2,712	3,794	2,587	1,622	(13.0)
Total Commonwealth grants	**27,306**	**27,272**	**27,967**	**28,678**	**30,920**	**30,482**	**30,447**	2.1
Annual change in Commonwealth Grants	*11.6%*		*2.4%*	*2.5%*	*7.8%*	*-1.4%*	*-0.1%*	
Other grants	1,026	1,029	1,045	1,098	1,062	783	887	(4.0)
Total grant revenue	**28,332**	**28,301**	**29,013**	**29,775**	**31,982**	**31,265**	**31,334**	**1.9**

[10] 5-9 at http://www.budget.nsw.gov.au/__data/assets/pdf_file/0009/126396/2015-16_Budget_Paper_No._1_-_Budget_Statement.pdf