Submission No 20

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

Regional Development Australia Southern Inland response to
NSW Parliamentary Inquiry into Zonal Taxation

Regional Development Australia Southern Inland (RDASI) would like to thank the Committee on Investment, Industry and Regional Development for the opportunity to comment on the issue of zonal taxation.

Regional Development Australia Southern Inland (RDASI) is part of a national network of 52 Regional Development Australia Boards across Australia and one of 14 in NSW. RDASI is a Federally funded non-government body encompassing seven Local Government Areas – Wingecarribee, Goulburn Mulwaree, Yass Valley, Snowy Monaro, Hilltops, Queanbeyan Palerang and Upper Lachlan. Up until recently we were also State funded.

Our role is to promote economic development in the region by identifying opportunities for business development and linking businesses and community organisations with government grants, programs and infrastructure investments, creating jobs and encouraging prosperity for the region's population.

RDASI believes that a considered and positive approach to zonal taxation has the potential to help stimulate new business investment in regional areas of the State.

RDASI endorses the submissions of fellow Regional Development Australia Boards from RDAsFar West, Hunter and Orana.

As discussed in the Interim Report Inquiry into Zonal Taxation, the recently implemented Victorian regional payroll tax rate of 3.65% should be closely reviewed to determine any measurable change in new regional business investment in that state. It has certainly raised concerns with cross border towns fearing an advantage for new business investment to establish in (or relocate to) Victoria.

We believe established industries with large workforces are potentially unlikely to change sides of the border due solely to the payroll tax issue, but new businesses or businesses with aging premises who are going through an expansion phase or readjustment could be significantly influenced.

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RDASI can provide two local examples of where zonal taxation either has played or could play a significant role in a business's decision to relocate their business.

1. Currently, there is an opportunity to relocate the NSW Wool Selling Centre at Yennora in Sydney to Goulburn. The lease on the current facility, located in one of the more expensive commercial property rental zones in NSW, was up for renewal in 2017 and there was concern from local NSW brokers and producers that the NSW selling centre would be merged into one selling centre for the East Coast of Australia in Melbourne. This is still now expected when the current short term lease extension expires.

   Should the merger of the east coast selling centres occur, no wool sales would take place in NSW, greatly impeding the wool market from NSW and Queensland and giving some overseas buyers a greater monopoly potential.

   RDASI commissioned Deloitte to undertake the financial cost benefit analysis of a relocation to Goulburn NSW. The analysis revealed significant cost savings to the industry of $2.44 million per year, or approximately $5 per bale to the grower.

   After RDASI facilitated several meetings with industry stakeholders and producers, RDASI understands that the industry would like to see some government input and incentives to relocate to regional NSW. These could be in the form of:

   - *A lower payroll tax rate*; RDASI is concerned that the lower payroll tax rate in Victoria for non-regional and regional businesses will play a significant factor in the decision of brokers and buyers when they have to decode to relocate.
   - *Stamp Duty*: A reduction in stamp duty for the purchase of commercial property in regional NSW could also be a factor in the decision to relocate to regional NSW, rather than a metro area in Victoria. This would reduce the cost for businesses, such as brokers and wool buyers, to relocate their business from Sydney to Goulburn.

   Centralising wool sales in Melbourne is potentially a significant risk to the NSW and Queensland wool industry. A reduction in payroll tax and stamp duty for regional businesses could help return the wool industry to rural NSW. RDASI is committed to working hard to ensuring Goulburn, the home of the Big Merino, is once again the capital of wool sales for Eastern Australia. State Government tax reform may very well be pivotal to that effort.

2. Two years ago, a large business with approximately 300 – 400 employees were very interested relocating from Sydney to Goulburn. The business approached Goulburn Mulwaree Council for assistance in selecting a suitable site. The business was also considering Melbourne as an option. Victoria offered the business various tax incentives to attract the business to their state. Whilst the NSW Government was approached to match or offer similar incentives to what Victoria were offering, nothing comparable was provided. As a result, what could have been a considerable boost to the regional town of Goulburn, resulted in another large business leaving

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NSW, for its neighbouring state, which provides a greater tax incentive, packages and support to businesses.

Conclusion

The above examples demonstrate the competition between NSW and Victoria as business investment destinations. We have highlighted one of many examples where Victoria has been chosen as the preferred investment destination over NSW. We have also highlighted a potential scenario where an entire industry stands to be taken out of NSW, if NSW does not revise/contemporise its current taxation policies for regional businesses.

Conceptually, RDASI is in favour of zonal taxation and regionally targeted taxation reform as a means to stimulate the economy and thus create jobs. However, zonal taxation can be a 'two edged sword'. Without careful consideration and targeted zonal measures and actions, unintended consequences could eventuate such as over investment and development in a rural or regional area that is not yet ready for it. For example, an unintended consequence could be to prompt a withdrawal of too many businesses from one zone to another creating an employment and investment vacuum. The application of zones needs to be carefully managed and scientifically applied free from political processes such as the election cycle and marginal seat politics.

The availability of skilled labour, both in terms of capability and capacity, will also be a factor to consider when using the 'Zonal Taxation lever' to stimulate a regional economy.

The Board of RDASI thank the Committee on Investment, Industry and Regional Development for this opportunity to make a submission and wish the Committee all the best for its deliberations on this important subject.

Yours Faithfully,

[redacted]

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