

## **ZONAL TAXATION**

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Michael Johnsen MP  
Committee Chair  
Legislative Assembly Committee on Investment, Industry and Regional Development  
Parliament House  
Macquarie Street  
SYDNEY NSW 2000

***Via online submission***

Dear Mr Johnsen

**INQUIRY INTO ZONAL TAXATION – UPDATED SUBMISSION RESPONDING TO COMMITTEE’S INTERIM REPORT**

Regional Development Australia (RDA) Orana welcomes the opportunity to respond to the Interim Report of the Legislative Assembly Committee on Investment, Industry and Regional Development (the Committee) for its Inquiry into Zonal Taxation. This submission is an update of RDA Orana’s original submission to this inquiry received by the Committee on 25 May 2016.

**RDA Orana**

RDA Orana is a not-for-profit organisation, funded by the Commonwealth Government, responsible for regional development. It is part of a national initiative charged with leading economic development across all regions in Australia.

The RDA Orana region incorporates the Central West and Western regions of New South Wales (NSW), covering approximately 25% of the total area of the state. The largest and most diverse region in the NSW, the Orana region includes 12 Local Government areas and services a population of over 120,000 people. The major towns in the region include Dubbo and Mudgee. Many of the smaller towns and villages across the region are highly disadvantaged in comparison to other areas in NSW.

**Executive Summary**

RDA Orana is focused on overcoming economic challenges and stimulating growth across its region. To achieve this, RDA Orana advocates strongly for businesses to have access to better incentives that promote investment in the region. It also encourages regional policies that reduce ‘red-tape’ for businesses operating in regional areas. Therefore the key issues currently being considered by the Committee for this inquiry are of great interest to RDA Orana.

Payroll tax relief in the form of an increased threshold (i.e. greater than the current \$750,000) provides an incentive for regional businesses that is supported by RDA Orana. There are many regional businesses looking to employ additional staff but are concerned that in doing so, they will incur payroll tax.

Another possible incentive for regional business is a regional payroll tax scheme. RDA Orana is supportive of a regional payroll tax scheme being adopted in this state, viewing it as a mechanism to help overcome challenges for businesses that locate and operate within regional NSW. However, RDA Orana would like a more wide-spread model to be considered for NSW as opposed to the model currently used in the Victorian scheme.

As a region heavily reliant on the agriculture industry, RDA Orana is also supportive of concessions for stamp duty for the purchase of commercial property in regional areas. Considered a reduction in 'red tape,' RDA Orana believes that such stamp duty concessions could assist with stimulating economic activity across its region through the purchase of land and property for businesses, particularly in the agriculture sector.

### Key Issues

The following is RDA Orana's response to the five key issues identified by the Committee in its Interim Report.

**ISSUE 1** –The current \$750,000 payroll tax threshold may act to discourage regional businesses from expanding due to the payroll tax liability that would apply should a business exceed the threshold.

Regional businesses provide a vital mechanism for economic stimulation and growth right across Central West and Western NSW. Consequently the RDA Orana region relies heavily on businesses locating and operating within their towns and villages.

Issues identified in the RDA Orana Regional Plan<sup>i</sup> (the Plan) describe many of the challenges faced by the Orana region in supporting the success and longevity of its regional businesses. Declining and ageing populations, high levels of disadvantage, inadequate infrastructure, critical skills gaps and work readiness are all issues that continue to impact upon regional businesses across the region. Significant distance from, and accessibility to, metropolitan areas also continue to present some challenges for regional businesses regardless of technological advances.

Despite these ongoing challenges, an analysis of business counts over a three year period<sup>ii</sup> for 8 of the Orana regions local government areas (LGAs) shows a modest increase in actively trading businesses across these regional areas. The analysis also shows that approximately 60% of actively trading businesses are classed as non-employing and 28% of businesses employ 1-4 staff.

Based on this, it is expected that many existing businesses in the Orana region would not reach the threshold required for the payment of payroll tax (i.e. wages totalling \$750,000), although a significant percentage could be close. Where businesses' wages are nearing the threshold, RDA Orana understands that some businesses are choosing to use contractors, often from outside of the Orana region, to avoid reaching or exceeding the threshold. This knowledge was outlined in RDA Orana's initial submission to this inquiry and is supported by Walgett Shire Council's submission stated in the Committee's Interim Report as follows:

Walgett Shire Council proposed that an increase in the payroll tax threshold from \$750,000 to \$900,000 would lead to an increase in job creation and enable local businesses to employ more local people, rather than rely on contractors.<sup>iii</sup>

Consequently RDA Orana believes that payroll tax relief in the form of an increased threshold (i.e. greater than the current \$750,000) is likely to incentivise businesses that are looking to employ additional staff but are concerned about incurring payroll tax. Further, reduced payroll tax rates are likely to be received favourably by regional businesses looking to expand their operations and stimulate job creation across the region.

In addition to incentives for existing business in the region, RDA Orana is aware of the demand for additional businesses to be located in Central West and Western NSW. Therefore RDA Orana supports changes in government policy that encourage businesses to either relocate or establish their base within its region.

RDA Orana believes that policies involving decentralisation provide a mechanism for stimulating regional development and delivering greater opportunities to rural and regional communities through the creation of jobs in regional centres.<sup>iv</sup> This is supported by the submission of Orana Regional Organisation of Councils (OROC), referred to in the Committee's Interim Report, stating:

Any proposed economic zone could include the following: an increase in the payroll tax threshold for rural based businesses, to encourage relocation of larger business from the Sydney Basin to the bush.<sup>v</sup>

In order to enhance decentralisation policies and encourage regional business, RDA Orana considers a regional payroll tax scheme, including an increased payroll tax threshold, to be a major incentive for businesses to locate and operate across its region.

**ISSUE 2** – The recently implemented Victorian regional payroll tax rate (which, although applying after a lower threshold, at 3.65% is lower than for non-regional Victorian businesses at 4.85%, compared to 5.45% in New South Wales) represents a new approach to payroll tax in Australia.

This scheme should be closely reviewed by the Government, and if successful, consideration could be given to applying it in New South Wales regions. The Victorian scheme will require particular analysis to determine if it creates disparities for New South Wales communities on the Victorian border.

The Committee is seeking further evidence on possibilities for regional payroll tax approaches in New South Wales.

**ISSUE 3** – Providing a favourable payroll tax scheme to a specific geographic area may disadvantage neighbouring areas and unfairly provide assistance to only some businesses within the state. The viability of a more widespread model could be examined, such as the Victorian approach, that only distinguishes between 'regional' and 'metro' zones, rather than particular regions.

The Committee is looking at this in greater detail and invites submissions on this issue.

**ISSUE 4** – The application of different regional payroll tax thresholds and rates within the state could result in additional administrative complexity for businesses that operate across multiple regions.

RDA Orana is supportive of the adoption of a regional payroll tax approach in this State, viewing it as a mechanism to help overcome challenges for businesses that locate and operate within regional NSW. However, simply making small changes will not be enough to improve economic activity and productivity in the RDA Orana region.

In order to make a significant difference, RDA Orana believes that a regional approach must contain measures that are consistent with the level of disadvantage and inequity present in each of the individual LGAs located across the region. Because of this, RDA Orana has some preliminary concerns regarding the Victorian regional payroll tax scheme, mainly the geographical distinction between ‘regional’ and ‘metro’ zones rather than particular regions.

Based on information provided by the Committee in its Interim Report about the Victorian regional payroll tax scheme, and geographical information from Australian Bureau of Statistics (ABS),<sup>vi</sup> there appears to be a direct correlation between the State Revenue Office Victoria’s (SROV) definition of regional Victoria (including a list of Councils and six alpine resorts) and the ABS Victoria Remoteness Area boundaries.<sup>vii</sup> Relevant ABS maps show that areas outside of the “Major cities of Australia” areas have been deemed “regional” for the purposes of the Victorian scheme. Should a parallel model be adopted in NSW with this geographic breakdown, the result would see a vast range of NSW LGAs being deemed “regional” in accordance with the ABS New South Wales Remoteness Area boundaries irrespective of differing levels of disadvantage and inequity.<sup>viii</sup>

The possibility that disadvantaged LGAs in the RDA Orana region will remain on an even playing field with growing regional centres seems counterproductive to the regional payroll tax scheme acting as a mechanism to help regional businesses overcome economic and social challenges. RDA Orana accepts and supports the possibility that the adoption of the Victorian scheme in NSW would increase the competitiveness of key regional centres such as Dubbo and Mudgee against metropolitan areas. However, should such a scheme apply equivalent benefits to towns outside of these regional centres, RDA Orana is concerned that the economies of these areas would not necessarily receive the same advantages.

To overcome this and develop a scheme that provides relief to businesses consistent with the level of disadvantage and inequity present in the LGA within which they operate, RDA Orana suggests that a more wide-spread model be examined. Ideally such a model would take into account an added geographical distinction.

The ABS New South Wales and Victoria Remoteness Area boundaries<sup>ix</sup> include five different remoteness areas. Under the Victorian scheme, these appear to have been classified under either “regional” or “metro” areas. In considering a more wide-spread model, RDA Orana suggests that consideration be given to adding an additional geographic area for which greater concessions be provided based on the remoteness, and often consequential disadvantage, of such areas.

For example, the model would see “metro” areas include the ABS remoteness area of “Major Cities of Australia.” The “regional” areas would include the ABS remoteness area of “Inner Regional Australia.” A third category would then be created to include the remaining ABS remoteness areas of “Outer Regional Australia,” “Remote Australia” and “Very Remote Australia.” RDA Orana believes that such an approach would be better suited than the current Victorian scheme to address greater disadvantage and inequity for businesses in more rural and remote areas.

RDA Orana acknowledges that the wide-spread approach highlighted above could be seen as increasing administrative complexity for businesses that operate across multiple regional areas. In order to overcome this issue, RDA Orana suggests that any NSW scheme includes additional Government support for regional businesses to assist them with the administration of payroll tax. RDA Orana promotes the reduction of 'red-tape' for businesses and believes this extra support would go some way to achieving that while providing vital incentives to regional businesses.

**ISSUE 5** – Stamp duty concessions for the purchase of commercial property in regional areas could stimulate regional business investment.

The Committee is seeking further evidence on possibilities for (and implications of) such stamp duty concessions in regional New South Wales.

RDA Orana is supportive of concessions for stamp duty for the purchase of commercial property in regional areas. Considered a reduction in 'red tape,' RDA Orana believes that such stamp duty concessions could assist with stimulating economic activity across its region through the purchase of land and property for businesses.

For the RDA Orana region, this is particularly relevant to the purchase of farming land. According to 2016 ABS Census data, agriculture remains the leading industry for employment in the Orana region at 13.5%. It also accounts for 12.3% of the gross revenue generated by businesses and organisations in the RDA Orana region.<sup>x</sup>

As outlined in RDA Orana's previous submission to this inquiry, the purchase of an agricultural enterprise is generally a much more significant investment than residential property. Consequently, RDA Orana believes that stamp duty concessions for such investments could encourage purchase of farming land in the region, particularly by younger generations. Because of this, RDA Orana agrees with the following views of NSW Farmers included in the Committee's Interim Report:

NSW Farmers also noted that stamp duty acted as a considerable impediment to young farmers trying to start new farms ... NSW Farmers also acknowledged that there are current exceptions from stamp duty for intergenerational transfers between family members, and that it is critical that this exemption be retained. However, NSW Farmers strongly suggested that the Government 'consider an exemption for all young farmers purchasing their first farming enterprise' and urged the Government to initiate meaningful taxation reform.<sup>xi</sup>

Regarding any proposed restructure of the land tax scheme noted in the Committee's Interim Report, RDA Orana echoes the following acknowledgement from the Committee:

We also acknowledge concerns that stamp duty can act as a barrier for young people being able to purchase farms or establish businesses in regional New South Wales. It is particularly important to maintain primary production industries in regional areas. The Committee identified this as an issue that has implications for agricultural regions across New South Wales.<sup>xii</sup>

The significance of the agriculture sector across the RDA Orana region, and the impacts this has on local economies, was highlighted in the RDA Orana Regional Plan<sup>xiii</sup> stating:

Relying heavily on one industry, such as agriculture, to support an economy can heighten risk in terms of impact to communities and quality of life for residents if a downturn in that sector occurs.<sup>xiv</sup>

Therefore RDA Orana fully supports measures that help sustain the positive impacts the agriculture industry has on its economy and seeks consideration of the following:

To ensure the continuing sustainability of the agriculture sector, and to capitalise on the region's strengths and comparative advantage, government must develop policy to help safeguard the industry in a more competitive, water constrained and carbon conscious environment. Government must also develop measures to support the industry to continue to grow by addressing the barriers that currently exist, particularly around regional infrastructure, production costs and existing government policy.<sup>xv</sup>

### Conclusion

RDA Orana is supportive of a review of payroll tax as it currently exists in NSW, particularly in relation to the current threshold and consideration of a regional payroll tax scheme. It also supports a review of stamp duty concessions in relation to the purchase of commercial property. If done in close consultation with regional businesses and communities, RDA Orana believes that a review of these matters will assist its region to overcome economic challenges and stimulate growth through greater incentives and reduction of 'red-tape' for regional business.

Regards,



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<sup>i</sup> Regional Plan 2013-2016 Regional Development Australia Orana NSW, p. 7, 31

<sup>ii</sup> <http://www.economyprofile.com.au/>, accessed 7 February 2018 (REMPAN public-access economic profiles for the LGA's of Bourke, Cobar, Coonamble, Dubbo Region, Gilgandra, Mid-Western Regional, Narramine and Warrumbungle Shire based on snapshots of actively trading businesses as at June 2014, 2015 and 2016 from the Australian Bureau of Statistics Business Register)

<sup>iii</sup> Legislative Assembly Committee on Investment, Industry and Regional Development, *Inquiry into Zonal Taxation, Interim Report*, Report 2/56 – January 2018, p. 14

<sup>iv</sup> Regional Plan 2013-2016 Regional Development Australia Orana NSW, p. 19

<sup>v</sup> Legislative Assembly Committee on Investment, Industry and Regional Development, *Inquiry into Zonal Taxation, Interim Report*, Report 2/56 – January 2018, p. 14

<sup>vi</sup> Australian Bureau of Statistics, Australian Statistical Geography Standard (ASGS): Volume 5 - Remoteness Structure Maps, Australia, July 2011, [http://www.ausstats.abs.gov.au/Ausstats/subscriber.nsf/0/EB3374C05104D74ACA257D1E00128192/\\$File/1270055005\\_2011\\_remoteness\\_struct ure\\_maps.pdf](http://www.ausstats.abs.gov.au/Ausstats/subscriber.nsf/0/EB3374C05104D74ACA257D1E00128192/$File/1270055005_2011_remoteness_struct ure_maps.pdf), accessed 12 February 2018.

<sup>vii</sup> Australian Bureau of Statistics, Australian Statistical Geography Standard (ASGS): Volume 5 - Remoteness Structure Maps, Australia, July 2011, [http://www.ausstats.abs.gov.au/Ausstats/subscriber.nsf/0/EB3374C05104D74ACA257D1E00128192/\\$File/1270055005\\_2011\\_remoteness\\_struct ure\\_maps.pdf](http://www.ausstats.abs.gov.au/Ausstats/subscriber.nsf/0/EB3374C05104D74ACA257D1E00128192/$File/1270055005_2011_remoteness_struct ure_maps.pdf), accessed 12 February 2018.

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<sup>viii</sup> Australian Bureau of Statistics, Australian Statistical Geography Standard (ASGS): Volume 5 - Remoteness Structure Maps, Australia, July 2011, [http://www.ausstats.abs.gov.au/Ausstats/subscriber.nsf/0/EB3374C05104D74ACA257D1E00128192/\\$File/1270055005\\_2011\\_remoteness\\_structure\\_maps.pdf](http://www.ausstats.abs.gov.au/Ausstats/subscriber.nsf/0/EB3374C05104D74ACA257D1E00128192/$File/1270055005_2011_remoteness_structure_maps.pdf), accessed 12 February 2018.

<sup>ix</sup> Australian Bureau of Statistics, Australian Statistical Geography Standard (ASGS): Volume 5 - Remoteness Structure Maps, Australia, July 2011, [http://www.ausstats.abs.gov.au/Ausstats/subscriber.nsf/0/EB3374C05104D74ACA257D1E00128192/\\$File/1270055005\\_2011\\_remoteness\\_structure\\_maps.pdf](http://www.ausstats.abs.gov.au/Ausstats/subscriber.nsf/0/EB3374C05104D74ACA257D1E00128192/$File/1270055005_2011_remoteness_structure_maps.pdf), accessed 12 February 2018.

<sup>x</sup> REMPLAN Economy, Orana RDA (Dec 2017), <https://www.remplanlogin.com.au/economy/>, accessed 13 February 2018

<sup>xi</sup> Legislative Assembly Committee on Investment, Industry and Regional Development, *Inquiry into Zonal Taxation, Interim Report*, Report 2/56 – January 2018, p. 24

<sup>xii</sup> Legislative Assembly Committee on Investment, Industry and Regional Development, *Inquiry into Zonal Taxation, Interim Report*, Report 2/56 – January 2018, p. 26

<sup>xiii</sup> Regional Plan 2013-2016 Regional Development Australia Orana NSW

<sup>xiv</sup> Regional Plan 2013-2016 Regional Development Australia Orana NSW, p. 18

<sup>xv</sup> Regional Plan 2013-2016 Regional Development Australia Orana NSW, p. 17-18