Submission
No 22

ZONAL TAXATION

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Submission to the Legislative Assembly Committee on Investment, Industry and Regional Development.

Inquiry into Zonal Taxation

Firstly, I commend the Committee for inquiring into zonal taxation and I trust some change can be recommended to assist regional parts of the State.

A positive approach to zonal taxation could help stimulate new business investment in regional areas. At the same time I am conscious that any reduction in taxation revenues will affect Government income to deliver programs and services. The benefits of zonal taxation must outweigh this loss of revenue.

The sub headings below follow the terms of reference.

(i) Payroll Tax, Stamp Duty and Land Tax

The Committee should firstly look at current exemptions to all 3 State Taxes and assess their justification. Are charities and religious groups who engage in manufacturing industries exempt from State taxes but other manufacturing industries competing to make similar products pay taxes? Is there a 'level playing field' ?

Payroll Tax:

Payroll Tax alone will not be the deciding factor on new business investment in a regional area. Access to resources, transport, energy and skilled workforce are also key factors that will decide where a business will locate (or relocate) itself.

Any business will weigh up the marginal cost of additional employment in deciding to expand its workforce. Marginal cost includes all on-costs such as payroll tax.

Victoria's decision to allow a 3.65% payroll tax rate for regional industries should be monitored for 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.

Queensland also has a lower payroll tax rate than NSW – 4.75% and a higher tax free threshold - $1.1M.

Established industries with large workforces are unlikely to change sides of the border just because of payroll tax alone but industries with aging premises who are going thru an expansion phase could be influenced significantly - especially if accompanied by other Government incentive programs. Victoria has a suite of incentive programs. So does Queensland.

Currently NSW does not have any lower rate of taxation or higher tax-free threshold for regional areas of the State and the Department of Industry's programs for payroll tax rebates applying over the initial years of new business investment and employment in regional areas have largely gone. It is not clear if any current regional development programs are effective in attracting new investment.

The NSW Treasury would have research data and economic modelling on the effects any zonal payroll tax reduction (or tax free threshold increase) would have on the State's budget (I don't) but if a zonal payroll tax reduction is contemplated it is suggested the following broad parameters should apply focussing on small – medium sized businesses:

Eligibility:
All businesses with less than $50M annual turnover engaged in the following activities:

- Manufacturing industries including value adding food processing
- Intensive agricultural industries (including seasonal agriculture caught by monthly threshold limits).
- Engineering service industries and companies delivering regional infrastructure construction.

Exclusions:

- Industries located in the Sydney, Central Coast, Hunter and Illawarra regions.
- All businesses with > $50M annual turnover. The $50M including all operations in NSW and outside NSW.
- Mining (including oil and gas)

Stamp Duty:

The current exemptions from stamp duty for first home buyers appear to be working with increased numbers of first home buyers being reported in statistics on property sales. It is suggested such exemptions should remain.

Proposals to remove Stamp Duty from property purchase transactions and replace with a broad based Land Tax could be considered provided:

(i) It applied only to property purchase transactions from a specified date and did <u>not</u> apply to existing property ownership where Stamp Duty has been paid; and

(ii) A lower rate of Land Tax is applied to owner occupied housing (ie Land Tax on investment properties is additional).

The initial impact of Stamp Duty removal on the State's revenue reduction would have to be managed.

A reduction of stamp duty on commercial properties in regional areas is unlikely to stimulate new investment on its own. The current status of local economies in specific towns and areas will determine any interest in purchasing or investing in commercial properties.

However I would suggest that regional areas that are severely depressed economically (declining population, business closures, services being withdrawn, etc) should be offered reduced stamp duty on property transactions in an effort stimulate renewed interest in the area. Parameters would need to be developed.

Land Tax:

Suggestions for a broad based land tax for consideration are mentioned previously under the Stamp Duty subheading.

Subdivided rural properties should also be liable for Land tax on the subdivided vacant lots upon approval of the subdivision if they are not used for primary production. The current exemption applying to R5 Large Lot Residential zoning should be reviewed.

(ii) Utility charges

Gas Prices

The deregulation of the gas industry in 2017 has not resulted in the forecast price reductions due to open competition. The opposite has occurred and gas users (industrial and domestic) have been subjected to substantial price increases.

This change has been a failure to date.

Proposals by the Federal Government and agreements announced with gas providers have yet to see any benefit flow on to consumers and commercial gas users. There have been various announcements predicting future gas price reductions but these have yet to eventuate.

It is becoming increasingly unacceptable that gas producers are able to export without obligation to supply domestic markets first. The Government should mandate obligations for domestic supply at reasonable prices before export is allowed.

The Government should also consider a program for obligating domestic gas reticulation in regional towns in return for gas extraction approval. No obligations currently exist. Towns like Boorowa, Cooma, Bombala and Gunning are located adjacent to major gas pipelines and have above ground gas terminals ready for reticulation but nothing is currently reticulated. Various other towns like Crookwell have short distances to gas pipelines.

Electricity Prices

Confusion over electricity generation and government direction at state and national level is not seeing any new investment in major electricity generation. This has also been exacerbated by State Governments nation wide selling off their major electricity generation to the private sector with no obligation to continue large scale generation into the future.

The whole issue is being bogged down in arguments over climate change resulting in no commitment to future coal fired generation (the major readily available source of electricity generation). Australia has an abundance of coal and gas that could readily solve the generation problem if governments would support it.

Deregulating the retail side of the electricity industry saw some initial reductions (after years of excessive increases) as electricity retailers tempted commercial and domestic consumers with timed contracts but these are now ending and being renewed at higher prices.

The price of electricity is unlikely to decrease unless more large scale generation is committed. It is doubtful the renewable energy industry alone can generate sufficient future needs although its technologies are improving with time.

Piecemeal government programs like rebates for low income people are not long term solutions.

The Government should consider re-entering the large scale electricity generation market if the private sector does not commit to it.

Water Prices

Water is a scarce resource in regional Australia and the recent revelations by the ABC Four Corners Program on irrigation water management in NSW highlight an unacceptable current regime. It is understood enquiries into this are still continuing?

As for domestic water usage in regional areas the Government should continue support for regional towns reticulating treated wastewater for use on parks, sporting fields and gardens. This will help reduce growing demands on water resources as regional town populations expand. Mandating dual water supplies to new subdivisions (water and treated water) should also be planned.

Currently water billing is broken down into fixed charges to cover network costs and a consumption charge. Local Government should be restricted to CPI increases for water consumption charges (since the resource costs nothing).

Some shifting of fixed water charges to the consumption calculation should also be considered. This will help drive down excess consumption if users realise they will pay much more.

(iii) Fuel Levies and Surcharges

All fuel levies and surcharges should be <u>BANNED</u>. They are merely an excuse to charge increased prices for transport of people as well as goods & services.

The aviation industry is the worst offender at this and appears to be immune from Government action. All airlines have long term forward hedged contracts for fuel supplies with oil companies to counter fluctuating fuel prices yet they still charge fuel levy surcharges even when the global price of oil is low and domestic fuel prices are low.

Operators in the road transport industry also have forward hedged contracts with certain fuel suppliers for national supply of fuel. The same principle applies.

Research by the Orana Regional Development Board in 1995 discovered the NSW Government contract price of petrol supplied to Cobar was only 6 cents per litre more than Sydney yet the retail price for consumers was some 25 cents per litre more. They rightly concluded fuel only costs 6cpl more for transport to Cobar.

The State and Federal Governments should ban all fuel levies and surcharges immediately and develop some set guidelines and limitations for charges to remote area fuel supplies.

(iv) Other Matters

Fire and Emergency Services Levy.

It was disappointing the Government did not proceed with the proposed Fire and Emergency Services Levy being applied to Council rates in 2017/18 instead of insurance policies. This proposal was very popular and would have resulted in most property owners paying less overall.

The Committee should recommend to the Government the reintroduction of the Fire and Emergency Services Levy to Council Rates in lieu of Insurance polices.

(sent electronically)
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23 February 2017