

**Submission  
No 25**

## **ZONAL TAXATION**

**Organisation:** Nambucca Shire Council  
**Name:** Mr Michael Coulter  
**Position:** General Manager  
**Date Received:** 28 February 2018

Our Ref:

Date: 28 February 2018

Ben Foxe  
A/Committee Manager  
Legislative Assembly Committee on Investment, Industry and Regional Development  
investmentindustry@parliament.nsw.gov.au

Dear Mr Foxe

## Inquiry Into Zonal Taxation

I refer to your email of 2 February 2018 which was considered by Nambucca Shire Council at its meeting on 22 February 2018.

Council notes the Inquiry's terms of reference are to investigate and report on the possible benefits of zonal taxation for regional economies, infrastructure and services in NSW with particular reference to:

- i. Exemptions from, or concessions in relation to payroll tax, stamp duty, and land tax;
- ii. Concessions in relation to utility charges;
- iii. The impact of fuel levies on regional growth; and
- iv. Any other related matters.

The Council has considered the key parameters of payroll tax being currently a tax rate in New South Wales of 5.45%, with a threshold for the 2017-18 financial year of \$750,000. Therefore payroll tax effectively captures all medium size as well as large business. The Council acknowledges that payroll tax is a substantial part of NSW Government financing being expected to contribute 27.4% of NSW taxation revenue.

The Council noted with interest that the Victorian Government announced that from 1 July 2017 the payroll tax rate would be reduced from 4.85% to 3.65% for all businesses based in regional Victoria. The Council is aware that whilst the Victorian payroll tax rate is lower than in New South Wales, the New South Wales threshold at \$750,000 remains higher than the Victorian threshold of \$625,000.

Whilst it is easy to decry payroll tax as a tax which works directly against reducing unemployment, its quantum is such that advocates of reducing the tax rate or increasing the threshold need to put forward viable alternatives for its replacement. The Henry tax review did just this nominating a broadly based land tax as a means of allowing state governments the revenue they need to replace inefficient taxes like payroll tax and stamp duty.

Similarly with stamp duty the Henry tax review found that stamp duties on the transfer of commercial and residential land are inconsistent with the needs of a modern tax system. The Review suggested that stamp duty affects people who move more frequently, rather than being focussed on their income or wealth. This may in turn affect housing affordability, and particularly affect regions in NSW where average incomes can be lower than metropolitan areas.

The Committee has identified five key issues for discussion and further inquiry. In response to those issues, Nambucca Shire Council provides the following responses.

.../2

*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.*

RESPONSE – Agree

*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 NSW) 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 NSW regions. The Victorian scheme will require particular analysis to determine if it creates disparities for NSW communities on the Victorian border.*

*The Committee is seeking further evidence on possibilities for regional payroll tax approaches in NSW.*

RESPONSE – Agree. The economy of the Nambucca Valley is more sensitive to payroll tax than larger regional centres because the size of its public sector is relatively smaller. Exemptions from payroll tax exist for NGO's, private schools, public hospitals and Area Health Services, some health care providers, defence personnel, charities and public benevolent institutions.

*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, which only distinguishes between “regional” and “metro” zones, rather than particular regions. The Committee is looking at this in greater detail and invites submission on this issue.*

RESPONSE – The Victorian approach is the preferred model for the reasons of its equity and simplicity. There are any number of economic studies which demonstrate the strength of the metropolitan economy of Newcastle, Sydney and Wollongong over the rest of NSW so there is sufficient policy justification to pursue the Victorian model in NSW.

*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.*


RESPONSE – Agreed and for this reason the Victorian approach is preferred.

*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 NSW.*

RESPONSE – Agreed. Whilst Council has no evidence on the extent of stimulation of regional business investment which would occur, a modest, affordable reduction for all regional areas should be considered.

I would be pleased if the Committee could consider Council's views in preparing the final report.

Yours faithfully



**Michael Coulter**  
**GENERAL MANAGER**