

**Submission
No 46**

**SUPPORT FOR DROUGHT AFFECTED COMMUNITIES IN NEW SOUTH
WALES**

Organisation: NSW Business Chamber

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Supporting drought affected communities



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Introduction

The NSW Business Chamber (the Chamber) welcomes the opportunity to provide a submission to the Committee on Investment, Industry and Regional Development inquiry into the impacts of drought on regional NSW.

The Chamber is one of Australia's largest business support groups, with a direct membership of 20,000 businesses and providing services to over 30,000 businesses each year. The Chamber works with businesses spanning all industry sectors including small, medium and large enterprises. Operating throughout a network in metropolitan and regional NSW, the Chamber represents the needs of business at a local, state and federal level.

The drought is having a significant toll on the regional business community. Feedback from our members indicates 84 per cent of regional businesses are impacted by the drought.¹ The complex nature of this challenge means there is no silver bullet (apart from rain), and a high degree of agility is needed to respond to the changing environment as conditions change over time. Indeed, each community faces different challenges with some areas more severely impacted than others. Further, the economic profile of affected regions is not homogeneous and so the impacts, including on primary producers and supply chains, can be different across regions.

The Chamber notes there are many significant review processes currently underway including the Productivity White Paper process, the Thodey Review of Federal Financial Relations and the recent NSW Economic Blueprint. The Chamber encourages the committee to review our recent submissions to these consultations as they cover a range of matters affecting regional NSW including taxation and regional development.²

This submission will briefly note some recent work from the Chamber and indicate, in broad terms, the Chamber's views on policy matters noted in the terms of reference.

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¹ See: https://www.nswbusinesschamber.com.au/NSWBC/media/Policy/Drought-Survey-2018-Report-Final_1.pdf

² Productivity White Paper submission, see:

<https://www.nswbusinesschamber.com.au/NSWBC/media/Policy/Taxation%20and%20Regulation/Reducing%20the%20regulatory%20burdens%20faced%20by%20business/191127-Productivity-Review-Final.pdf>

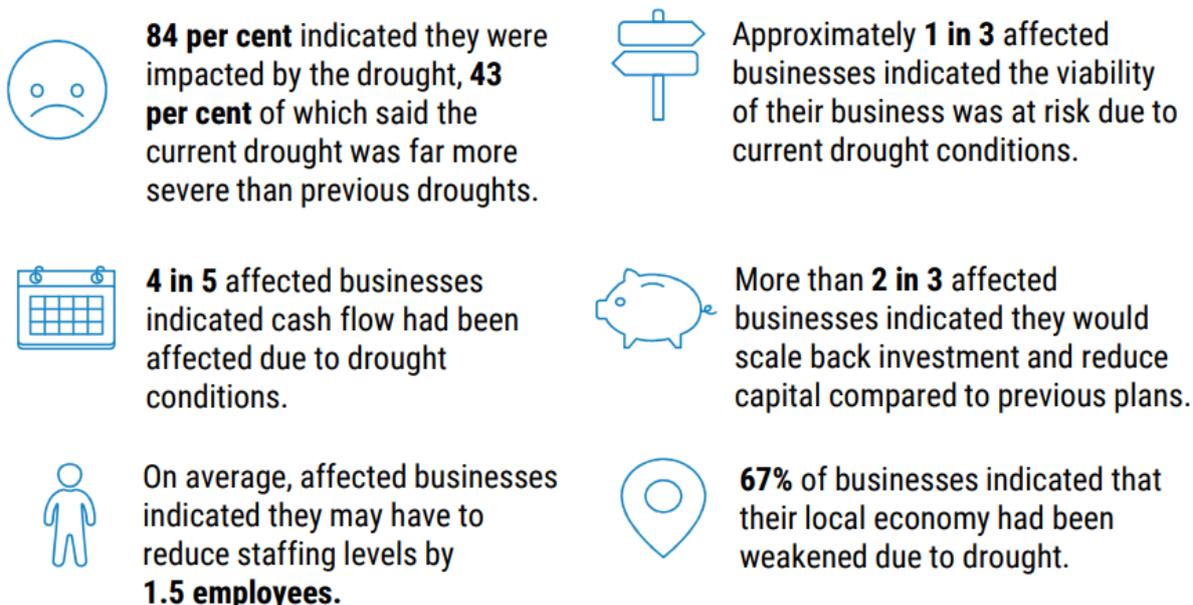
Thodey Review submission, see:

<https://www.nswbusinesschamber.com.au/NSWBC/media/Policy/Taxation%20and%20Regulation/Reducing%20the%20regulatory%20burdens%20faced%20by%20business/191122-Thodey-Review.pdf>.

Drought survey

In August 2018 the Chamber surveyed its members to find out about impacts of the drought. We encourage the committee to review the results of our survey to understand some of the key impacts identified. Key highlights are summarised below in Figure 1.

Figure 1 – August 2018 Drought Survey



Note: 'Affected businesses' refers to respondents indicating they had been impacted by the current drought.

Source: https://www.nswbusinesschamber.com.au/NSWBC/media/Policy/Drought-Survey-2018-Report-Final_1.pdf

It is notable that 43 per cent of respondents had indicated that current drought conditions were far more severe than previous droughts. With the drought continuing into 2020, it is likely that even more businesses will be experiencing impacts beyond those encountered previously. This underscores the need for a more aggressive policy response than what may have occurred in the past.

With our drought survey now more than a year old the Chamber considered it timely to re-examine some of the survey questions originally asked in August 2018. We are currently surveying members with a view to compiling an update to our original drought survey. We expect to have a drought update prepared in early 2020.

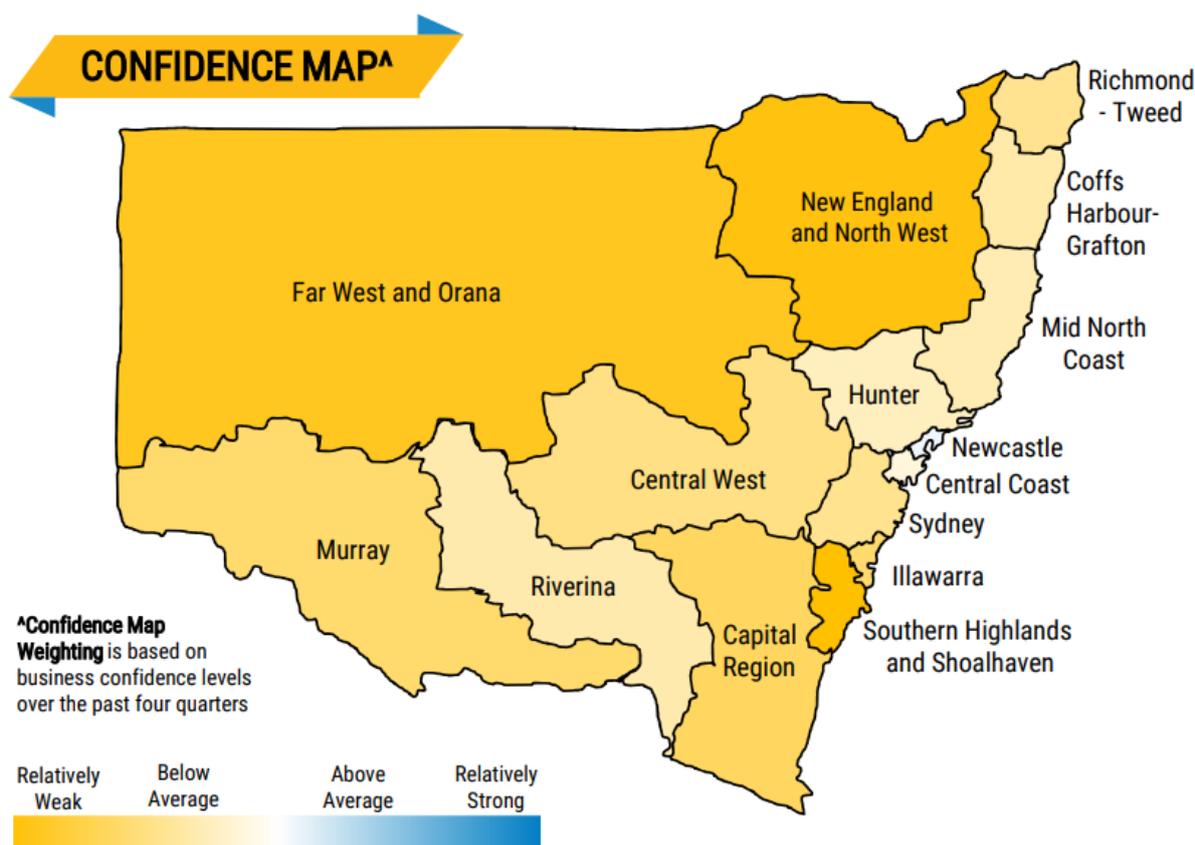
Business conditions surveys

The Chamber also regularly surveys its members as part of our Business Conditions Survey (BCS).³ While the survey invites feedback across a broad range of topics, it reflects deteriorating economic conditions that have resulted from severe drought. According to the BCS, economic conditions have deteriorated significantly over the past several years (coinciding with the onset of severe drought). While broader economic

³ See: <https://www.nswbusinesschamber.com.au/Issues/Business-Surveys/Business-Conditions>.

factors are also reflected (such as weak household demand across the state), regional NSW is impacted more than other parts of the state (see Figure 2).

Figure 2 – Business Confidence in NSW



Source:

[https://www.nswbusinesschamber.com.au/NSWBC/media/Policy/Taxation%20and%20Regulation/SEP-19-BCS-Report-\(2-0\).pdf](https://www.nswbusinesschamber.com.au/NSWBC/media/Policy/Taxation%20and%20Regulation/SEP-19-BCS-Report-(2-0).pdf)

Zonal Taxation Inquiry

The Chamber welcomed the final report from the *Inquiry into Zonal Taxation* when it was released in May 2018. While the Chamber’s tax reform priorities are not identical to those recommended in the final report, it nonetheless contains many sensible suggestions to make it easier to do business in regional NSW, particularly given exacerbating drought conditions.

While the Chamber does not support zonal taxation arrangements on a permanent basis, it would nonetheless support a number of measures based on recommendations made in the final report. This includes:

- payroll tax relief for businesses relocating from interstate into regional NSW;
- fast-tracking increases to the payroll tax threshold for regional businesses located outside of metropolitan Sydney; and
- stamp duty exemptions for purchases of commercial and industrial property located outside of metropolitan Sydney.

Fast-tracking regional infrastructure

Many of the Chamber's regional members have expressed concern at the pace of infrastructure delivery in regional NSW.

While funds are available to regional NSW under Restart NSW, regional communities face challenges associated with developing business cases for projects where the benefits are more challenging to quantify than for larger scale projects in metropolitan centres.

The Chamber considers the proportion of annual Restart NSW funding that goes to regional projects should be consistent with the 30 per cent target overall. This will require a stronger and more consistent focus from Government in both identifying, prioritising and progressing projects in regional NSW.

Regional infrastructure is an important policy lever for promoting regional development while at the same time ensuring that NSW residents have access to sufficient opportunities and amenity no matter where they live. An approach to project assessment that helps identify base levels of service provision from public infrastructure would help ensure all regions receive increased levels of infrastructure investment.

Protecting NSW from natural disasters

While the current focus is drought, Australia more generally is a land of droughts, flooding rains and bushfires. In recent years NSW has had more than its fair share of each. The Chamber's Drought Survey⁴ found one in three affected businesses have had their viability affected by current drought conditions while more than two in three indicated they would scale back investment.

Our regions are disproportionately exposed to adverse weather events and need targeted support so they can pick themselves back up when a natural disaster hits.

The Government's election commitment to draw on the \$4.2 billion Snowy Hydro Legacy Fund to boost funding for dams, weirs, and pipelines is welcome but more can be done to support businesses that want to protect themselves. This includes through abolishing stamp duty on insurance premiums for commercial and business premises; providing flexible payroll tax payment arrangements; and establishing a natural disaster recovery fund to provide concierge services for impacted businesses. Fast tracking assessments of disaster affected locations and financial support should also be progressed.

As part of our Keeping NSW State Election Campaign⁵, the Chamber recommended the Government should:

- abolish stamp duty on insurance premiums for commercial and business premises to encourage increased insurance coverage;
- Provide flexible payroll tax payment arrangements for those impacted by natural disaster; and
- Establish a natural disaster recovery fund to better support businesses and communities impacted by natural disasters.

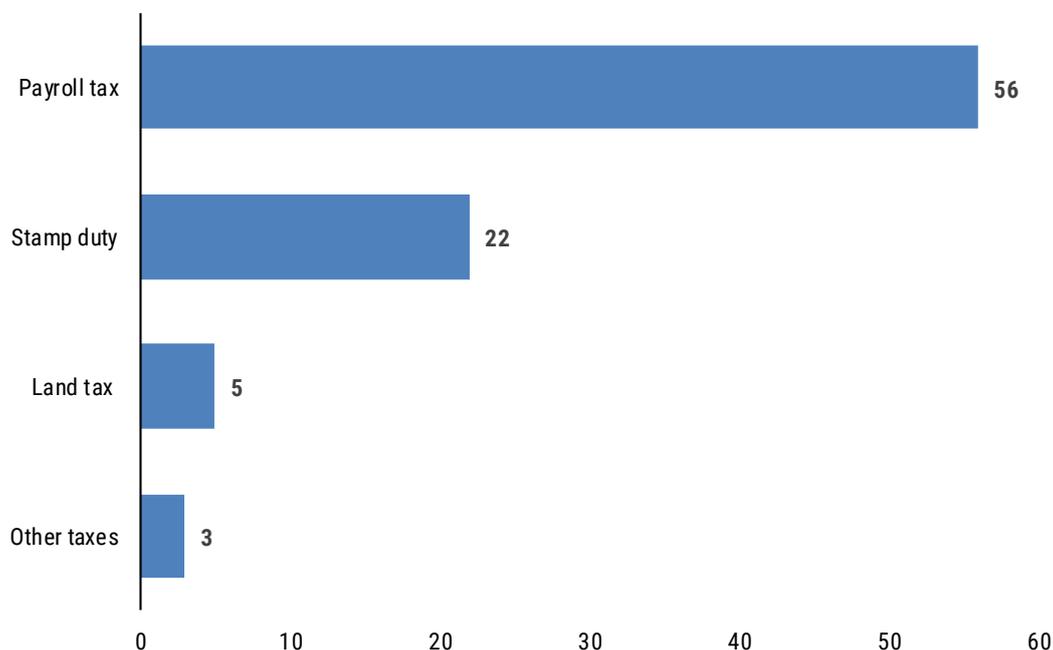
⁴ Accessible at: https://www.nswbusinesschamber.com.au/NSWBC/media/Policy/Drought-Survey-2018-Report-Final_1.pdf.

⁵ See: <https://www.nswnumber1.com.au/>.

Payroll tax

The terms of reference specifically ask the committee to examine whether businesses should have access to temporary relief from state taxes. More of our members raise concerns about payroll tax than any other tax (see Figure 3).

Figure 3 - Unprompted responses raising a state tax issue as a concern



Note: Responses collated from free text answers to NSWBC Business Conditions Survey over four surveys between December 2018 and September 2019. Businesses were not prompted to raise a tax issue. Among respondents that raised stamp duty, 11 specifically indicated property-related duty; 1 specifically indicated motor vehicle stamp duty; and 10 did not specify (among the group that did not specify, it can be assumed many would be referring to transfer duty by its more commonly known name).

Source: NSWBC Business Conditions Surveys (as noted above).

Regional NSW also accounts for a higher relative share of SMEs (when compared metropolitan areas) which incur higher tax administration costs relative to their payroll tax liabilities. Feedback from our members indicate they incur around \$10,000 in tax administration costs in meeting their payroll tax obligations.⁶

High tax administration costs are the reason the Chamber has supported increases to the payroll tax threshold (because it excludes more SMEs from the payroll tax system altogether). It also ensures SMEs, which are the lifeblood of regional NSW, gain an appropriate share of payroll tax relief (whereas payroll tax rate cuts tend to concentrate greater relief to larger corporates based in metropolitan areas).

To support regional NSW, the Chamber has previously advocated for regional NSW to have immediate access to the \$1m payroll tax threshold rather than waiting until 2021-22 when it applies across NSW. This would be particularly welcome given the

⁶ See: <http://www.nswbusinesschamber.com.au/NSWBC/media/Policy/180706-NSW-Treasury-Review-of-Payroll-Tax-Administration.pdf>.

impact of drought and bushfires on regional businesses. This would not be a costly initiative and would be a sensible way of offering temporary relief in a way that maximises the economic impact in the first year, with the fiscal impact scaling back over subsequent years.

However, it is now some time since the Chamber first proposed an immediate \$1m threshold for regional NSW and so the economic impact of the proposal is not as large as it would have been when first proposed. For this reason the Chamber also supports consideration of more targeted initiatives which could support regional employers.

For example, the Chamber has previously proposed a reconfigured Jobs Action Plan rebate which would confer rebate benefits to employers automatically (without having to fill in paperwork) as payrolls increase.⁷ Such an initiative could be made available to regional employers.

Alternatively, a special drought rebate could apply to employers that meet certain tests (such as their integration into supply chains for primary producers or being an employer in a drought affected community). Such a rebate could be configured to be temporary in nature and could be calculated to lower the effective rate of payroll tax.

More generally the Chamber agrees with the principle that relief from any taxes or levies should be targeted to where they will have the greatest impact. The Chamber supports proper policy design and configuration so that measures can minimise job losses and support business growth. The Chamber is not advocating for windfall gains to employers unaffected by drought, or for funds to be spent in a manner unlikely to benefit broader drought affected communities.

The key to any of these arrangements will be a funding commitment from the Government. The optimal configuration of any payroll tax relief will ultimately depend on the scale of funds on offer. Given payroll tax is growing and is now the largest state-based tax in NSW, the Chamber believes there is scope for substantial payroll tax relief concentrated in the areas of most severe need.

⁷ See: <http://www.nswbusinesschamber.com.au/NSWBC/media/Policy/180706-NSW-Treasury-Review-of-Payroll-Tax-Administration.pdf>.