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Final Report

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The motto of the coat of arms for the state of New South Wales is "Orta recens quam pura nites". It is written in Latin and means "newly risen, how brightly you shine".

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Chair's Foreword

I am pleased to present the Final Report of the Committee's Inquiry into Zonal Taxation.

The New South Wales economy as a whole is progressing well, with Greater Sydney driving much of the State's economic growth. However, regional areas face different challenges to Sydney, and we need to ensure that regional areas share in the State's economic growth. During the Inquiry, we heard that growth in regional New South Wales has fallen behind that of metropolitan Sydney. Greater Sydney is under pressure from continued population growth, with increasing issues such as congestion, high property prices and infrastructure pressures.

Businesses should be encouraged to consider relocating to regional New South Wales. We want to make regional New South Wales more competitive when it comes to attracting business relocation and investment. We also want to encourage existing regional small and medium sized businesses to grow, and to create more local employment opportunities.

The recommendations arising from this Inquiry represent positive measures to support the people and businesses of regional New South Wales. Our recommendations will create more jobs in regional areas and incentivise Sydney and interstate businesses to consider relocation.

As Chair, I was determined to ensure the Committee gathered evidence to provide factual experience that supported what most people believe, that Greater Sydney is under infrastructure pressure and opportunity abounds in regional New South Wales. Our recommendations are bold, visionary and designed to facilitate growth in regional New South Wales, reduce population and infrastructure pressures in Greater Sydney and enhance lifestyle opportunities for the citizens of New South Wales.

It is important to note that in January 2018 we published an Interim Report, in which we reported on issues that had been raised by submission makers regarding the terms of reference. We used the Interim Report as an opportunity to focus the second part of the Inquiry on the two issues of regional payroll tax and commercial property stamp duty. Our deliberations since the Interim Report and the contents of this Report have largely focused on those two particular issues.

New South Wales needs to be aware of interstate competition with regard to regional growth and incentives for businesses to relocate from capital cities. Additionally, New South Wales cannot afford to allow businesses to relocate to other states, by way of an uncompetitive taxation environment. The report addresses the interstate competition and future threats from proposed commitments of other state governments are listed in Appendix 6.

Taxes that impact businesses are key levers available to state governments to influence business and economic growth. We have decided that the most effective mechanism to provide regional areas with tax concessions and exemptions is to create two tax zones; a metropolitan zone covering the Greater Sydney area and a regional zone covering the rest of the State. A zonal taxation approach with a single regional zone covering all of the State apart from Greater Sydney will allow for specific regional tax incentives and concessions in the interests of increasing employment and economic growth.

We have recommended that any business that relocates to regional New South Wales from Greater Sydney, overseas or interstate should have a one year payroll tax exemption. This saving will be an incentive for international and interstate businesses to consider regional areas for relocation or investment. We have also recommended a stamp duty exemption for the purchase of commercial and industrial property for businesses relocating from Sydney or outside the State. This exemption will be an initial capital cost saving to encourage businesses to purchase regional property and relocate to our regions. These measures are aimed at bringing new employment opportunities to regional areas and encouraging our regional centres to grow.

We also want to ease the 'handbrake' of payroll tax for regional small businesses. We want to see more jobs created in regional New South Wales, and more opportunities for existing regional small businesses to pursue expansion and growth.

This is why we have recommended that the payroll tax threshold should be raised from \$750,000 to \$1 million for businesses based in regional New South Wales. Increasing the threshold will remove the payroll tax administration cost for regional businesses currently at and just above the threshold, and will allow these small businesses to employ some more staff without incurring payroll tax. It will be a cost saving for regional small businesses, which make up one third of all small businesses in the State. Job creation in regional areas is crucial for regional growth and prosperity. We have recommended that the regional threshold should further increase in 2022 to \$2 million, which will allow regional businesses to plan for further expansion and employment growth.

I look forward to the Government continuing to work towards state-wide economic growth, with a particular focus on ensuring the regional zone also participates in the State's success.

I thank the Deputy Premier, Minister for Regional New South Wales, Minister for Skills, and Minister for Small Business, the Hon. John Barilaro MP, for referring this important Inquiry to the Committee.

I thank my fellow Committee members for their contributions to this Inquiry, and all those stakeholders who made submissions or appeared at our public hearing. I also acknowledge the efforts of former Committee Chairs and Committee members who have left the Committee since the Inquiry began. My thanks also go to the Committee staff for their assistance in compiling this report.



Michael Johnsen MP
Chair

Findings and Recommendations

Finding 1 _____	1
A zonal taxation approach in New South Wales is justified to support and encourage regional economic growth.	
Recommendation 1 _____	6
That the NSW Government implement a zonal taxation approach for payroll tax and commercial and industrial property stamp duty using the following zones:	
<ul style="list-style-type: none"> • a ‘metropolitan’ zone incorporating the Greater Sydney area; and • a ‘regional’ zone incorporating the remainder of New South Wales. 	
Recommendation 2 _____	10
That the NSW Government provide a one year payroll tax exemption for businesses relocating to regional New South Wales from interstate, overseas or from Greater Sydney.	
Recommendation 3 _____	10
That the NSW Government increase the payroll tax threshold for regional businesses to \$1 million from 1 July 2019.	
Recommendation 4 _____	10
That the NSW Government further increase the payroll tax threshold for regional businesses to \$2 million from 1 July 2022.	
Recommendation 5 _____	25
That the NSW Government exempt the purchase of commercial and industrial property in regional New South Wales from stamp duty when businesses relocate from Greater Sydney or from outside New South Wales from 1 July 2019.	
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That the NSW Government seek an Australian Government review of the income tax zone offset scheme.	

Chapter One – A two zone taxation approach to assist regional New South Wales

1.1 The Inquiry into Zonal Taxation was referred to the Committee in February 2016, and the terms of reference for the Inquiry (see Appendix One) were adopted on 23 March 2016.

1.2 In January 2018, we published an Interim Report outlining the issues we had identified regarding possible zonal taxation approaches in New South Wales. We recognised that regional payroll tax and commercial property stamp duty warranted further examination by the Committee. We called for further submissions from the public on these two particular issues in January 2018, and we held a public hearing on 26 March 2018.

Finding 1

A zonal taxation approach in New South Wales is justified to support and encourage regional economic growth.

1.3 We find that a zonal approach to taxation is justified to support:

- Regional economic growth through business expansion and higher employment;
- Encouraging the movement of people and businesses to regional New South Wales; and
- Ensuring regional areas in New South Wales remain competitive for business investment and growth compared to interstate regions.

1.4 We recommend that a zonal taxation approach in New South Wales use two zones: a metropolitan zone covering Greater Sydney and a regional zone covering the remainder of the State (as discussed from paragraph 1.28).

1.5 We recommend that concessions and exemptions for payroll tax and commercial and industrial property stamp duty apply in the regional zone. Similar zonal taxation approaches have recently been pursued or discussed in other states, including Victoria. In Victoria, a metropolitan zone covering Greater Melbourne and a regional zone covering the remainder of the State have been introduced for payroll tax.

1.6 The definition of the two new zones and our recommended zonal taxation approaches are discussed later in this report. We recommend that these changes are implemented from 1 July 2019.

Supporting regional economic growth through business expansion and higher employment

- 1.7 The Committee received limited economic analysis as evidence during the inquiry. Detailed economic modelling was not available to the Committee. We have referred to a number of research papers and reports in our discussion of economic growth in New South Wales. A list of these papers and reports is available at Appendix Five.
- 1.8 We acknowledge that the State as a whole is experiencing continued economic growth. The April 2018 CommSec State of the States report indicated that New South Wales is the top Australian jurisdiction in five of eight economic indicators: retail trade, dwelling starts, equipment spending, construction work and unemployment. The report stated that New South Wales is third in the nation on economic growth, population growth and housing finance indicators.¹
- 1.9 However, there is a divide between the growth experienced in Sydney and rates of growth in regional New South Wales. During the inquiry the New South Wales Business Chamber (NSWBC) advised the Committee that regional New South Wales is growing at less than half the pace of metropolitan Sydney.²
- 1.10 In January 2018 the Australian Office of the Chief Economist reported that since 2000-01, the nation's economic growth has largely been distributed amongst capital cities, with mining regions being the exception. From 2000-01 to 2015-16, the annual average gross regional product (GRP) growth in Australian non-mining regional areas was 2.5%. This is below the average growth rate of capital cities at 3.2%, where growth was also occurring off a higher base. The Chief Economist stated that as cities continue to grow, some regions are 'likely to fall further behind as a share of the economy (i.e. inequality between regions is likely to grow)'.³
- 1.11 The Chief Economist also commented in regards to regional population trends that 'remote and regional areas of Australia have experienced a net loss of working age residents'. A key reason for this change was that 'areas with higher concentrations of economic activity are attractive to people'.⁴
- 1.12 In a 2016 report, the Office of the Chief Economist noted that economic growth and employment growth had been uneven between regional areas and cities in Australia since 1992. The Chief Economist stated:

The uneven performance of regions has important implications for the sustainability of non-metropolitan regions. Increasing regional competitiveness can improve regional performance and economic growth by securing access to local and other

¹ CommSec, *State of the States April 2018*, https://www.commsec.com.au/content/dam/EN/Campaigns_Native/stateofstates/April2018/CommSec_State_of_the_States_April2018.pdf, p. 2, accessed 1 May 2018

² Mr Luke Aitken, Transcript of evidence, 26 March 2018, p. 7

³ Office of the Chief Economist, *Industry Insights; Flexibility and growth*, (March 2018) <https://industry.gov.au/Office-of-the-Chief-Economist/Publications/IndustryInsights/documents/Industry-Insights-Flexibility-and-growth.pdf>, pp. 50, 55, 64, accessed 9 May 2018

⁴ Office of the Chief Economist, *Industry Insights; Flexibility and growth*, (March 2018) <https://industry.gov.au/Office-of-the-Chief-Economist/Publications/IndustryInsights/documents/Industry-Insights-Flexibility-and-growth.pdf>, p. 59, accessed 9 May 2018

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markets. A region's competitiveness is determined by many factors, some of which can be influenced or affected by government policy.⁵

- 1.13 In 2015, PWC reported that Australia's economic growth is concentrated in a few key areas. This concentration encourages industries to move towards major cities and creates an economic and social divide between metropolitan and regional areas. PWC advised that concentrated and fragmented economic growth nationwide is likely to continue into the future:

Fewer key locations will be relied upon to drive an increasingly large share of economic growth. From an economic point of view, this implies we should potentially be less worried about the fact that 1 in 3 locations are contracting. However, from a social and equity point of view this creates unique challenges and potential conflicts between economic and social policy and investment imperatives.⁶

- 1.14 SGS Economics and Planning reported in December 2017 that in recent financial years regional New South Wales had experienced periods of weak economic growth:

...the economy of Regional New South Wales contracted in 2013-14 (-0.7 percent) and experienced very weak growth in 2014-15 (0.6 percent). A key factor in the economic decline has been a fall in Manufacturing. The last two years have seen stronger growth in GDP of 3.6 per cent and 1.5 per cent.⁷

- 1.15 Other data indicates that regional New South Wales trails behind the Greater Sydney region in employment growth rates. The New South Wales Parliamentary Research Service has reported that the average 12-month cumulative employment growth rate (as at March 2018) was 5.2% for regional New South Wales, compared to 11.1% for the Greater Sydney region over the same period.⁸

- 1.16 During the Inquiry other stakeholders voiced concerns about the particular challenges faced by businesses in regional New South Wales. Regional Development Australia (RDA) Orana advised:

One of the issues for businesses operating out of regions is the additional expenses they incur from operating out of a region. There is a differential in a number of costs including transport and things like electricity and power as well as telecommunications. Anything that government can do to even the playing field between a regional business and a metropolitan business is really important, so that businesses on the same playing field would not be unviable. They play an extremely

⁵ Office of the Chief Economist, *Australian Industry Report 2016*, (January 2017) <https://industry.gov.au/Office-of-the-Chief-Economist/Publications/AustralianIndustryReport/assets/Australian-Industry-Report-2016.pdf>, p. 101, accessed 9 May 2018

⁶ PWC, *Understanding the economy from the ground up*, (2015) <https://www.pwc.com.au/consulting/assets/analytics/understanding-economy-ground-up-jun15.pdf>, p. 6, accessed 1 May 2018

⁷ SGS Economics and Planning, *Economic Performance of cities and regions*, (December 2017) https://www.sgsep.com.au/application/files/8415/1236/7941/Economic_Performance_of_Australias_Cities_and_Regions_2016-17_Compressed.pdf, p. 36, accessed 1 May 2018

⁸ NSW Parliamentary Research Service, *Regional labour force trends and NSW electorates (March 2018)*, <https://www.parliament.nsw.gov.au/researchpapers/Pages/NSW-regional-labour-force-data---interactive-portal.aspx#Interactive%20charts>, accessed 1 May 2018. Note: Greater Sydney data here includes the Central Coast.

important role in those communities by generating production and value for the State of New South Wales.⁹

- 1.17 We consider that the creation of a regional taxation zone in New South Wales will reduce tax costs for regional businesses and allow regional businesses to pursue expansion opportunities that boost economic and employment growth. By creating an environment conducive to increased employment and business growth, a regional taxation zone will incentivise businesses in Sydney and outside the State to consider regional New South Wales as an option for relocation or investment.

Encouraging the movement of people and businesses to regional New South Wales

- 1.18 Stakeholders noted that regional tax changes could be pursued to not only support regional growth but also to assist with managing pressures faced in Greater Sydney by encouraging regional relocation. Greater Sydney continues to be subject to large population increases. This has flow on effects on issues such as congestion, housing affordability and infrastructure pressures. A zonal taxation model will also seek to slow down the trend of business, population and economic growth being centralised in Sydney. Slowing this trend and easing Sydney's infrastructure pressures will have a long term impact on maintaining viable regional communities throughout New South Wales and helping regional centres grow.
- 1.19 Recent Australian Bureau of Statistics data has indicated that in the 2016-17 financial year Sydney increased by 101,600 people, while the rest of the State only grew by 20,200.¹⁰ The areas with the largest and fastest population growth in the State were all located in the Greater Sydney region.¹¹
- 1.20 In their submission to the Inquiry RDA Orana advised:
- 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.¹²
- 1.21 Gunnedah Shire Council also supported incentives to encourage relocation:
- Reduced business costs in regional areas would provide opportunities for existing businesses to expand and grow...
- The proposed zonal taxation changes could provide the incentive needed for city families to relocate to country areas and encourage workers to the region.¹³

⁹ Ms Megan Dixon, Transcript of evidence, 26 March 2018, p. 21

¹⁰ Australian Bureau of Statistics, *Regional Population Growth, Australia, 2016-17*, (24 April 2018) <http://www.abs.gov.au/ausstats/abs@.nsf/mf/3218.0>, accessed 1 May 2018

¹¹ Australian Bureau of Statistics, *Regional Population Growth, Australia, 2016-17*, (24 April 2018) <http://www.abs.gov.au/ausstats/abs@.nsf/Latestproducts/3218.0Main%20Features202016-17?opendocument&tabname=Summary&prodno=3218.0&issue=2016-17&num=&view=>, accessed 1 May 2018

¹² Submission 16a, RDA Orana, p. 3

¹³ Submission 24, Gunnedah Shire Council, p. 2

1.22 In contrast, NSWBC advocated for tax changes that would be ‘geographically blind’ to support businesses throughout the State rather than limit support to specific geographic regions.¹⁴ However, the organisation acknowledged there may be some grounds to consider arrangements specific to regional areas in the short term including:

Promotion of regional development as a means to alleviate pressures facing Sydney — regional payroll tax arrangements could potentially encourage employers and employees to relocate.¹⁵

1.23 Considering continued population increases in Greater Sydney and the infrastructure and other pressures facing the city, we consider that a zonal taxation approach and the creation of a regional tax zone is justified to encourage movement of businesses to regional New South Wales.

Ensuring regional areas in New South Wales remain competitive for business investment and growth compared to interstate regions

1.24 Stakeholders argued that aspects of the State’s current tax system are less competitive than in other states and territories. NSWBC noted particularly in regards to payroll tax:

... other jurisdictions subsequently have moved further than we have—indeed, we have not moved for quite some time, probably more than five years now. We are being left further and further behind.¹⁶

1.25 Conditions such as higher tax rates and lower thresholds in New South Wales compared to other parts of Australia could impact decisions made by businesses to relocate, establish, invest or expand. This was particularly noted as a challenge for towns located in the State’s border regions. Albury City Council stated:

Albury City has a unique position in New South Wales given that we are located adjacent to a similar-sized, cross-border city, being the city of Wodonga. This obviously has a range of implications, which include cross-border competition for investment and the regulatory and taxation anomalies that arise from that position.¹⁷

1.26 Stakeholders from other border areas echoed these concerns. Tweed Shire Council noted that favourable payroll tax conditions exist across the Queensland border. The Council stated:

This inequity represents a competitive disadvantage that is an issue regularly highlighted by many of our larger businesses. It is also a disincentive to prospective businesses looking at relocation to the Tweed.¹⁸

¹⁴ Mr Mark Frost, Transcript of evidence, 26 March 2018, p. 11

¹⁵ Submission 8a, NSW Business Chamber, p. 6

¹⁶ Mr Mark Frost, Transcript of evidence, 26 March 2018, p. 12

¹⁷ Ms Tracey Squire, Transcript of evidence, 26 March 2018, p. 1

¹⁸ Submission 18, Tweed Shire Council, p. 1

- 1.27 A zonal taxation approach introducing a regional zone could address these border issues by offering more competitive tax conditions for regional businesses in New South Wales.

A two zone approach – a ‘metropolitan’ and ‘regional’ zone

Recommendation 1

That the NSW Government implement a zonal taxation approach for payroll tax and commercial and industrial property stamp duty using the following zones:

- a ‘metropolitan’ zone incorporating the Greater Sydney area; and
- a ‘regional’ zone incorporating the remainder of New South Wales.

- 1.28 We recommend that the Government implement a zonal taxation approach in New South Wales specifically for payroll tax and commercial and industrial property stamp duty. Our recommended changes to regional payroll tax and stamp duty will be discussed in Chapters Two and Three respectively.
- 1.29 We recommend that the definition of the metropolitan zone covering Greater Sydney be the same as that used by the Greater Sydney Commission. Specifically, the metropolitan zone should be the area within the boundary shown on the map in Schedule 1 of the *Greater Sydney Commission Act 2015*.¹⁹
- 1.30 This definition for the metropolitan zone is in accord with the Government’s planning for the Sydney area through the Greater Sydney Commission and reflects an accurate representation of metropolitan Sydney. We recommend that the regional zone cover the remainder of New South Wales outside the metropolitan zone.
- 1.31 The creation of two zones covering Greater Sydney and the remainder of the State is the best approach to support regional New South Wales through zonal taxation. By providing a wide regional zone with favourable tax concessions and incentives, the Government can encourage shared economic and business growth throughout regional areas. This is more beneficial than containing economic growth to smaller region specific Special Economic Zones (SEZs).
- 1.32 The market realities that apply to Greater Sydney, like all large cities, are likely to ensure that the Greater Sydney zone will also remain attractive for new, established and international businesses.
- 1.33 A number of stakeholders noted the divide between circumstances faced by businesses in Sydney and those faced by regional businesses. Pressures that face Sydney including rising housing prices were noted as reasons why businesses and individuals should consider regional New South Wales as a relocation alternative. Megan Dixon, Executive Officer, RDA Orana advised the Committee:

We think that there is a benefit to the State of New South Wales by supporting regional growth and regional activity. In the media we see that Sydney, as an example,

¹⁹ *Greater Sydney Commission Act 2015*, Schedule 1,
<https://www.legislation.nsw.gov.au/#/view/act/2015/57/whole>

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and metropolitan areas are facing traffic congestion and not being able to handle the population growth.²⁰

- 1.34 Troy Green, General Manager of Tweed Shire Council, spoke about the pressures facing Sydney:

Realistically, from a whole of New South Wales perspective, your growth pressures are in Sydney. You are bursting at the seams, your housing affordability is out of control and your commute times are crazy.²¹

- 1.35 Mr Green reflected on the possible outcomes of a new regional zonal taxation approach, and the importance of supporting regional employment:

The fact of the matter is most jobs are in Sydney and most people leave regional areas to seek employment. It would be a way to decentralise by not using a government lever, in other words, not relocating the Office of Local Government to Nowra. This [a regional taxation rate] would be a huge financial incentive for some businesses to seriously look at regional areas... and with that would come jobs, growth and prosperity.²²

- 1.36 Trevor John, Director of Regional Development and Executive Officer of RDA Hunter commented on the potential for Sydney residents and businesses to consider relocating to regional areas:

I would think there is a great opportunity out of this inquiry to keep pushing the case to not continue to be congested and locked into Greater Sydney. We are not saying do not do business here [in Sydney]. We are saying that you can live somewhere else and still do business here and you will be a lot better off for it, and so will the communities that people move into.²³

- 1.37 Witnesses from the NSWBC spoke to the Committee about the differences in Sydney and regional economies:

Many regional areas face high rates of unemployment and the local economies are less diversified, making them vulnerable to external shocks such as weather events, currency movements or changes in government policy. For these reasons, and many more, it is necessary that all tiers of government design policies that meet the needs of our regional communities.²⁴

A zonal taxation system with two zones overcomes boundary and administrative obstacles

- 1.38 During the Inquiry some stakeholders advocated for the introduction of more than two tax zones to address the different conditions and circumstances faced in metropolitan, regional and remote areas of the State. Our recommendation of a

²⁰ Ms Megan Dixon, Transcript of evidence, 26 March 2018, p. 22

²¹ Mr Troy Green, Transcript of evidence, 26 March 2018, p. 35

²² Mr Troy Green, Transcript of evidence, 26 March 2018, p. 35

²³ Mr Trevor John, Transcript of evidence, 26 March 2018, p. 56

²⁴ Mr Luke Aitken, Transcript of evidence, 26 March 2018, p. 7

single tax zone for all regional New South Wales will provide all regional areas with the same level of taxation relief.

- 1.39 This approach will not create regional pockets of SEZs and can overcome concerns raised in the 2012 Legislative Assembly Committee on Economic Development Inquiry into the Establishment of Special Economic Zones. The 2012 Inquiry identified potential negative impacts of creating multiple taxation boundaries within New South Wales, including the likelihood of border region special economic zones ‘simply shifting the border, and the subsequent border issues, on to regions which are just outside the special economic zone.’²⁵
- 1.40 We support a zonal taxation approach that is as simple as possible, using the two natural economic regions that already exist in the State; Greater Sydney (the metropolitan zone) and the remainder of New South Wales (the regional zone). Keeping the zonal taxation approach to two zones will limit administrative complexity and will place all of regional New South Wales on an equal footing.
- 1.41 RDA Orana supported zonal taxation in theory but raised concerns that an approach incorporating only a metropolitan and a regional zone may not address levels of disadvantage or inequity experienced by specific areas of the State:
- 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.²⁶
- 1.42 Organisations including RDA Riverina supported the introduction of a ‘Victorian style’ metro and regional zone taxation approach to assist areas outside Sydney. RDA Riverina argued that the creation of several smaller zones within New South Wales would not be advisable due to the flow on affects this would create for nearby areas.
- 1.43 RDA Riverina argued that existing close connections and partnerships between the Riverina and Murray regions means that dividing the two regions into two separate tax zones would not lead to better outcomes. Arguing against the establishment of smaller, specific regional economic zones, RDA Riverina opined that smaller economic zones could create regional silos within the State and limit the ‘cooperative advantages of cross regional development’. The organisation supported the two zone concept:

²⁵ Legislative Assembly Committee on Economic Development, *Establishment of Special Economic Zones*, (October 2012) <https://www.parliament.nsw.gov.au/committees/inquiries/Pages/inquiry-details.aspx?pk=2266>, p. 18

²⁶ Submission 16a, RDA Orana, p. 4

A two zone taxation approach to assist regional New South Wales

RDA Riverina supports the notion of 'regional' vs 'metropolitan' rather than attempting to create overly narrow definition[s] of economic regions throughout the state.²⁷

1.44 With regard to whether a single regional tax zone would provide similar benefits to a possible specific Albury-Wodonga SEZ, Tracey Squire (Director, Economic Development and Tourism) of Albury City Council said:

It [a broad regional New South Wales tax zone] would also provide a stimulus for investment and business growth across regional New South Wales. If the Government believed that was appropriate, I think that would be applauded by all regional communities, not only those in a cross-border situation.²⁸

1.45 While strongly supporting state-wide payroll tax reform, NSWBC indicated that the Victorian model (a Melbourne zone and a zone for the rest of Victoria) could provide a suitable template for defining regional employers. NSWBC indicated that there 'is merit in considering whether regions could be given early access to more favourable payroll tax arrangements', which could, in time, apply to the whole state.²⁹

1.46 As noted in our Interim Report, drawing tax boundaries within the State may cause difficulties for businesses located near or on the designated borders. As indicated by Peter Wilson of NSW Farmers, 'as with any taxation measure, the moment you draw a line you have this problem of people falling one side or the other.'³⁰

1.47 We are confident that by creating two zones, and by using the definition of Greater Sydney as used by the Greater Sydney Commission, the impact of the zonal taxation approach on businesses near the metro-regional zone border will be limited. By implementing only two zones administration will be as simplified as possible and only one tax border will be created within the State.

²⁷ Submission 19, Regional Development Australia Riverina, p. 2

²⁸ Ms Tracey Squire, Transcript of evidence, 26 March 2018, p. 3

²⁹ Submission 8a, NSW Business Chamber, p. 6

³⁰ Mr Peter Wilson, Transcript of evidence, 26 March 2018, p. 45

An increased regional payroll tax threshold and a one year exemption for businesses relocating from Greater Sydney, interstate or overseas

Chapter Two – An increased regional payroll tax threshold and a one year exemption for businesses relocating from Greater Sydney, interstate or overseas

Recommendation 2

That the NSW Government provide a one year payroll tax exemption for businesses relocating to regional New South Wales from interstate, overseas or from Greater Sydney.

Recommendation 3

That the NSW Government increase the payroll tax threshold for regional businesses to \$1 million from 1 July 2019.

Recommendation 4

That the NSW Government further increase the payroll tax threshold for regional businesses to \$2 million from 1 July 2022.

- 2.1 In our Interim Report we identified regional payroll tax reform as an issue for further inquiry. We noted that in 2017 the Victorian Government implemented a new regional payroll tax scheme. In Victoria a payroll tax rate of 3.65% is now applied to regional businesses compared to a rate of 4.85% for businesses in Melbourne.³¹
- 2.2 In January 2018, we called for further submissions regarding possible options for a new regional zone payroll tax approach in New South Wales. We were particularly interested in perspectives on whether an approach similar to the Victorian scheme could work in New South Wales.³²
- 2.3 To encourage economic growth and attract new businesses and employment opportunities to our regions, we recommend that a one year payroll tax exemption be provided to businesses that relocate to the new regional zone from Greater Sydney, interstate or overseas.
- 2.4 To encourage regional businesses to increase local employment, and to create competitive conditions for regional areas, we also recommend that the payroll tax threshold increase to \$1 million for regional businesses. This change should come

³¹ Legislative Assembly Committee on Investment, Industry and Regional Development, *Inquiry into Zonal Taxation – Interim Report*, (January 2018), <https://www.parliament.nsw.gov.au/committees/inquiries/Pages/inquiry-details.aspx?pk=2384#tab-reportsandgovernmentresponses>, p. v

³² Legislative Assembly Committee on Investment, Industry and Regional Development, *Inquiry into Zonal Taxation – Interim Report*, (January 2018), <https://www.parliament.nsw.gov.au/committees/inquiries/Pages/inquiry-details.aspx?pk=2384#tab-reportsandgovernmentresponses>, p. v

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into effect from 1 July 2019. We recommend that the regional payroll tax threshold further increase to \$2 million from 1 July 2022.

Regional employment and economic growth

- 2.5 New South Wales currently has a \$750,000 payroll tax threshold which exempts smaller businesses (with low staff numbers) from paying the tax. However, a concern expressed throughout the Inquiry was that the payroll tax threshold acts as an obstacle to small business growth.³³ This is because businesses at or near the threshold may choose not to employ more staff in order to avoid payroll tax and the tax administration costs incurred once the threshold is crossed.
- 2.6 During the Inquiry Luke Aitken, Senior Manager, Policy, of the NSWBC described payroll tax as ‘a particularly insidious tax as it penalises businesses who want to employ new staff, increase staff hours or even deliver wage increases to their employees’.³⁴
- 2.7 A number of stakeholders advocated for payroll tax reform in regional areas in order to support local business and employment growth. The Orana Regional Organisation of Councils stated:
- Tax incentives such as an increase in the payroll tax free threshold for rural based businesses would act as a catalyst to re-industrialise rural NSW and provide the required job opportunities to keep young families from migrating out of rural and regional areas.
- Tax incentives that help return industry to rural NSW have the ability to reduce the welfare burden on the federal government and to a lesser extent state government, and decrease infrastructure pressure on the Sydney basin.³⁵
- 2.8 Kerri Riddington of regional food production business The Everson's Group described payroll tax as ‘a handbrake on business’:
- It is a handbrake on business. I do believe that it is a tax on jobs. If we want to incentivise employers – especially in regional New South Wales – we really have to look at taxation.³⁶
- 2.9 RDA Orana advocated for an increased regional payroll tax threshold to incentivise businesses:
- 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.³⁷
- 2.10 We note data that indicates regional unemployment levels are higher than those in the Greater Sydney area. Information from the New South Wales Parliamentary

³³ Submission 25, Nambucca Shire Council, p. 2

³⁴ Mr Luke Aitken, Transcript of evidence, 26 March 2018, p. 7

³⁵ Submission 4a, Orana Regional Organisation of Councils, p. 1

³⁶ Ms Kerri Riddington, Transcript of evidence, 26 March 2018, p. 37

³⁷ Submission 16a, Regional Development Australia Orana, p. 1

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Research Service indicates that Regional New South Wales is lagging behind Greater Sydney in a number of employment-related measures (see Table 1).

Table 1: New South Wales Labour Force Trends³⁸

	Five-year cumulative employment growth (12 month average) Mar 2013 to Mar 2018	Participation rate (12 month average)	Unemployment rate (12 month average)	Youth unemployment rate(12 month average)
Regional New South Wales	5.2%	59.5%	5.4%	11.9%
Greater Sydney (including the Central Coast)	11.1%	66.5%	4.5%	10.1%
New South Wales as a whole	9.1%	64.1%	4.8%	10.7%

2.11 Youth unemployment in regional New South Wales is also a concern. At the public hearing Troy Green of Tweed Shire Council advised:

Our youth unemployment is higher here [in the Tweed region] than our general unemployment, so we tend to lose our youth to the cities.³⁹

2.12 In March 2018, the youth employment rate in regional New South Wales at 11.9% was higher than the rate for Greater Sydney at 10.1%.⁴⁰ The Brotherhood of St Laurence reported that at January 2018 five regional New South Wales areas were in the top 20 regions with the highest 12-month average youth unemployment rates in Australia. The Brotherhood of St Laurence reported that these New South Wales areas were the Southern Highlands and Shoalhaven (28.7% youth unemployment), Murray (21.5%), Coffs Harbour – Grafton (19.8%), Central Coast (18.6%) and New England and North West (16.6%).⁴¹

2.13 We heard from regional stakeholders that a change to the payroll tax scheme in regional areas would encourage business growth and increase local employment. Representatives from The Everson’s Group commented that a decrease in their

³⁸ NSW Parliamentary Research Service, *Regional labour force trends and NSW electorates (March 2018)* <https://www.parliament.nsw.gov.au/researchpapers/Pages/NSW-regional-labour-force-data---interactive-portal.aspx>, accessed 7 May 2018

³⁹ Mr Troy Green, Transcript of evidence, 26 March 2018, p. 34

⁴⁰ NSW Parliamentary Research Service, *Regional labour force trends and NSW electorates (March 2018)* <https://www.parliament.nsw.gov.au/researchpapers/Pages/NSW-regional-labour-force-data---interactive-portal.aspx>, accessed 7 May 2018

⁴¹ Brotherhood of St Laurence, *An Unfair Australia? Mapping Youth Unemployment Hotspots*, (March 2018) http://library.bsl.org.au/jspui/bitstream/1/10573/1/BSL_Unfair_Australia_Mapping_youth_unemployment_hotspots_Mar2018.pdf, accessed 27 April 2018

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payroll tax liability would directly lead to the employment of more workers at their business. Kerri Riddington stated at the public hearing:

If we want to incentivise employers—especially in regional New South Wales—we really have to look at taxation. That is why I am glad you are doing it. For example, if I could get rid of a third of the payroll tax we could employ another five to eight people.⁴²

2.14 The NSWBC also commented on the potential for payroll tax reform to lead to increased employment:

We have businesses that tell us that payroll tax is the difference between taking on a new staff member and not. We hear that all the time. I have no doubt that it will have a massive impact in terms of employment, jobs growth and so on.⁴³

2.15 Payroll tax reform has been identified as a possibility for further consideration by the Government. The Government's NSW Small Business Strategy specifies that by 2021 the Department of Industry expects to see more jobs created as a result of payroll tax initiatives.⁴⁴ The Small Business Strategy states:

The NSW Government will continue to look at tax relief initiatives, ensuring that NSW businesses are able to grow jobs and that NSW remains competitive with other states. The government will:

- Continue to promote existing taxation relief and incentives available to small business
- Explore opportunities for further taxation relief.⁴⁵

A one year exemption from payroll tax for businesses relocating from Greater Sydney, interstate or overseas

2.16 We have recommended that an exemption from payroll tax should be applied for a period of one year for businesses which relocate from Greater Sydney, interstate or overseas to the new regional zone (for further discussion of the regional zone boundary, see Chapter One).

2.17 Increasing businesses and job opportunities in regional areas is a key step in improving regional economic growth and regional employment levels. A one year exemption for Greater Sydney, interstate and international businesses moving to regional New South Wales will encourage such businesses to further consider our regions for relocation and investment.

2.18 During the Inquiry, we heard that other states use incentive packages to encourage businesses to move to their jurisdiction. Albury City Council indicated that Victorian incentive packages had impacted the decision of international and New

⁴² Ms Kerri Riddington, Transcript of evidence, 26 March 2018, p. 37

⁴³ Mr Mark Frost, Transcript of evidence, 26 March 2018, p. 15

⁴⁴ NSW Department of Industry, *Small Business Strategy*, https://www.industry.nsw.gov.au/_data/assets/pdf_file/0003/107643/nsw-small-business-strategy.pdf, pp. 4-5

⁴⁵ NSW Department of Industry, *Small Business Strategy*, https://www.industry.nsw.gov.au/_data/assets/pdf_file/0003/107643/nsw-small-business-strategy.pdf, pp. 4-5

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South Wales businesses to relocate to regional Victoria over regional New South Wales.⁴⁶

- 2.19 It is crucial that regional New South Wales can compete with regional areas in other states to attract business relocation and investment. Our recommended one year payroll tax exemption for relocating Greater Sydney, international and interstate businesses will be a positive effort to make regional New South Wales an attractive destination for relocation. A one year payroll tax exemption will be a substantial cost saving for Greater Sydney, international and interstate businesses to consider when assessing regional parts of Australia for investment and relocation.
- 2.20 The one year exemption and our recommendation for a commercial and industrial property stamp duty exemption for relocating businesses (discussed in Chapter Three) represent a comprehensive relocating business incentive package. These recommendations are aimed at increasing the ability of the New South Wales regional zone to attract relocating businesses.

A threshold of \$1 million from 1 July 2019 and \$2 million from 1 July 2022

- 2.21 We have recommended that the payroll tax threshold in the regional zone be increased to \$1 million from 1 July 2019. We have also recommended that the regional threshold further increase to \$2 million after three years on 1 July 2022.
- 2.22 A number of possible increased threshold figures were suggested during the Inquiry. Walgett Shire Council suggested an increase to \$900,000 may lead to more regional jobs being created.⁴⁷ In indicating support for an increased state-wide threshold, Luke Aitken from NSWBC stated:
- In our submission we have made a strong case for increasing the payroll tax threshold from \$750,000 to at least \$1 million.⁴⁸
- 2.23 We are of the view that a \$1 million threshold is needed for regional New South Wales businesses. An increase to \$1 million will substantially increase the current threshold. This will allow businesses currently just below the \$750,000 threshold to effectively have the capacity to increase their current payroll to \$1 million without incurring a payroll tax penalty.
- 2.24 The threshold increase has the potential to boost regional employment levels, allowing more local residents to be employed by small businesses and providing more opportunities for youth employment. The increase will remove administrative costs of small business payroll tax compliance and ensure regional New South Wales remains competitive.
- 2.25 We also see a need to ensure that regional businesses are encouraged to pursue growth and increase employment into the future. To achieve this, we have

⁴⁶ Ms Tracey Squire, Transcript of evidence, 26 March 2018, p. 1

⁴⁷ Submission 10, Walgett Shire Council, p. 1

⁴⁸ Mr Luke Aitken, Transcript of evidence, 26 March, p. 7

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recommended that the regional payroll tax threshold further increase to \$2 million with effect from 1 July 2022.

- 2.26 This future increase will ensure that regional small and medium businesses are better off over the long term, and allow businesses to plan for future expansion and employment growth. We anticipate that other jurisdictions will continue to adjust their payroll tax approaches in the future. A planned threshold increase to \$2 million will maintain competitive conditions for business growth in regional New South Wales over the next few years.

Why change the payroll tax threshold and not the payroll tax rate?

- 2.27 Our recommendation of an increased payroll tax threshold is specifically aimed at supporting small and medium businesses in regional New South Wales. The threshold increase to \$1 million is focused on supporting businesses ranging from those with payrolls just under the \$750,000 threshold to those with close to \$1 million.

- 2.28 A rate change would concentrate tax relief on the larger businesses in the regions that are less in need of Government incentives. We note that larger businesses will still receive a benefit from an increased payroll tax threshold as the increased threshold will decrease their overall payroll tax liability.

- 2.29 Removing payroll tax liability entirely from small businesses will be more beneficial than lowering the payroll tax rate, as it also removes the administration cost to small businesses of processing payroll tax. Businesses that exceed the payroll tax threshold are immediately subject to an additional cost due to the administration and processing required for the tax. Luke Aitken of the NSWBC stated:

One of the reasons why we want to keep businesses out of that payroll tax system is that in our last red tape survey that we undertook we found that just complying with the payroll tax system just as you tip over [the threshold] costs the average business \$10,000. It is a significant regulatory burden that is placed on businesses as they tip over the threshold. More businesses out in regional New South Wales are just close to that threshold, so if you do increase it more benefits flow to regions.⁴⁹

- 2.30 In the NSWBC's 2018-19 Pre-Budget Submission, the Chamber explained that payroll tax processing involves a significant commitment of time and resources by small and medium businesses:

A number of our members report payroll tax compliance consumes almost a third of the time of a full time staff member (the need for this would vary depending on the size and complexity of a business' payroll). Using this benchmark, payroll tax administration costs could be as much or more than \$25,000 a year for some businesses...

A large share of tax administration costs for smaller firms can be attributed to processes associated with becoming ready for payroll tax (such as altering systems, training staff and understanding obligations) whereas larger businesses tend to be

⁴⁹ Mr Luke Aitken, Transcript of evidence, 26 March 2018, p. 8

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occupied with more complex payrolls (and challenges associated with determining wages for the purposes of payroll tax).⁵⁰

- 2.31 By lifting the regional threshold to \$1 million, many more regional businesses will no longer be required to allocate time and resources to the administration of payroll tax. We consider this to be a positive outcome as it would allow regional small businesses to focus on their operations and growth.
- 2.32 NSWBC preferred a change to the state-wide threshold rather than a change to the rate, as a rate change would focus assistance on larger businesses. In response to a question at the hearing about whether an increased threshold would have a better impact than a rate reduction, Mark Frost, Policy Manager, Business Regulation and Economics, said:
- Absolutely. Apart from the fact that if you reduce the rate all you would be doing would be—well, it would be better than nothing, but you would be concentrating relief to larger businesses. We support doing it in a way that ensures that small and medium enterprises [SMEs] benefit. Apart from that, you do not get any efficiency dividend from a tax administration point of view.⁵¹
- 2.33 Western Division Councils of NSW (WDC) explained that a threshold increase would directly impact smaller sized businesses:
- The present payroll tax threshold starts at \$750,000 about \$60,000 a month which means a business that employs about 20 people. This is not a large business and raising this threshold or waiving it would encourage more established businesses in the regions to expand their workforce.⁵²
- 2.34 In advocating for a state-wide threshold change rather than a payroll tax rate change, NSWBC also indicated a threshold adjustment would focus on small and medium businesses:
- ...increasing the threshold would allow a more aggressive reduction in the effective rate of payroll tax paid by SMEs than could be achieved with a rate reduction within the same funding envelope.⁵³
- 2.35 There were some arguments for a regional payroll tax rate change. Troy Green of Tweed Shire Council indicated that a rate change would be preferable as it would impact larger businesses with 70 or more employees. These companies would currently pay large amounts of payroll tax and Mr Green indicated they could be attracted to Queensland due to the more generous payroll tax rate on offer there.⁵⁴
- 2.36 We note that many of the State’s small businesses are located in regional areas, and the NSW Small Business Commissioner has indicated that one-third of small

⁵⁰ NSW Business Chamber, *2018-19 Pre-Budget Submission NSW Business Chamber*, (April 2018) [https://www.nswbusinesschamber.com.au/NSWBC/media/ABI/NSW-Business-Chamber-Pre-Budget-Submission-\(FINAL\).pdf](https://www.nswbusinesschamber.com.au/NSWBC/media/ABI/NSW-Business-Chamber-Pre-Budget-Submission-(FINAL).pdf), p. 4, accessed 23 April 2018

⁵¹ Mr Mark Frost, Transcript of evidence, 26 March 2018, p. 14

⁵² Submission 6, Western Division Councils of NSW, p. 1

⁵³ Submission 8a, NSW Business Chamber, p. 5

⁵⁴ Troy Green, Transcript of evidence, 26 March 2018, p. 34

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businesses in the State were located in regional areas at July 2017.⁵⁵ ABS data indicates that for the ABS 'rest of NSW' region (not incorporating Sydney or the Central Coast) at 30 June 2017 there were 23,498 businesses with between five and 19 employees.⁵⁶ For the Central Coast region the ABS reported 2,234 businesses with between five and 19 employees at 30 June 2017.⁵⁷ We anticipate that these businesses would be most likely to be affected by the increased payroll tax threshold.

Ensuring regional payroll tax conditions are competitive

2.37 Businesses in the State's border regions can be particularly affected when payroll tax reductions are pursued interstate. Each Australian jurisdiction has different payroll tax arrangements (Table 2), and New South Wales currently has one of the lowest payroll tax thresholds in the country.

Table 2: Payroll tax rates and thresholds across Australian jurisdictions as at 20 April 2018

	Rate (%)	Threshold
NSW	5.45%	\$750,000
VIC	4.85% (metro) 3.65% (regional)	\$625,000
QLD	4.75%	\$1.1 million
ACT	6.85%	\$2 million
SA	2.5% Variable between 2.5% and 4.95% 4.95%	\$600,000 to \$1 million \$1 million to \$1.5 million Over \$1.5 million
TAS	6.1%	\$1.25 million
WA	5.5%	\$850,000
NT	5.5%	\$1.5 million

2.38 Tweed Shire Council reported that a cheaper payroll tax rate in Queensland was a disadvantage for Tweed businesses and a disincentive for businesses considering relocation to the Tweed area:

New South Wales payroll tax, at 5.45 per cent, is 0.71 per cent higher than the Queensland levy, at 4.74 per cent. This inequity represents a competitive disadvantage that is an issue regularly highlighted by many of our larger businesses.

⁵⁵ NSW Small Business Commissioner, *Making it Easier to do Business in NSW, Annual Report 2017*, <https://www.parliament.nsw.gov.au/la/papers/DBAssets/tailedpaper/webAttachments/73112/Small%20Business%20Commissioner%20Annual%20Report%202017.pdf>, p. 24

⁵⁶ Australian Bureau of Statistics, *Rest of NSW Region Data*, http://stat.abs.gov.au/itt/r.jsp?RegionSummary®ion=1RNSW&dataset=ABS_REGIONAL_ASGS2016&geoconcept=ASGS_2016&measure=MEASURE&datasetASGS=ABS_REGIONAL_ASGS2016&datasetLGA=ABS_REGIONAL_LGA2016®ionLGA=LGA_2016®ionASGS=ASGS_2016, accessed 19 April 2018

⁵⁷ Australian Bureau of Statistics, *ABS.Stat – Regional Statistics by ASGS2016*, <http://stat.data.abs.gov.au/index.aspx?QueryId=921#>, accessed 9 May 2018

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By way of an example, the New South Wales payroll tax for a business with 70 employees on the average wage is around \$35,500 dearer than it is in Queensland.⁵⁸

- 2.39 During the Inquiry, the NSWBC stated that 'NSW is currently being surpassed by just about every jurisdiction when it comes to payroll tax.'⁵⁹ The payroll tax approach in Victoria is particularly relevant to our Inquiry and is discussed below.

Payroll tax in Victoria

- 2.40 In July 2017 Victoria implemented a decreased payroll tax rate of 3.65% for regional businesses.⁶⁰ The intended outcomes of the Victorian approach have been described by Victorian Treasurer Tim Pallas MP as to:

...support employers to grow their businesses, encourage job creation, and ensure our regional communities share the benefits of economic growth.⁶¹

- 2.41 On 1 May 2018 the Victorian Government announced that the Victorian regional payroll tax rate would be further cut to 2.425% for the 2018-19 financial year:

The Victorian Budget 2018/19 builds on last year's tax cuts and further reduces tax for regional businesses, cutting the regional payroll tax rate to 2.425 per cent – half the metropolitan rate.

The reduction means regional businesses now pay the lowest payroll tax rate anywhere in the country...

It's a reduction that will help around 4,000 businesses in regional Victoria continue to grow and create jobs, and helps make sure that every corner of our state shares in the benefits of our economic growth.⁶²

- 2.42 Broader payroll tax changes are also being pursued in Victoria, with the state-wide payroll tax threshold to be increased in 2018-19 to \$650,000.⁶³

- 2.43 The Victorian approach towards encouraging regional economic growth has led to concerns that the southern border regions of New South Wales are increasingly at a competitive disadvantage. RDA Southern Inland (RDASI) stated that the Victorian regional approach has 'certainly raised concerns with cross-border towns fearing an advantage for new business investment to establish in (or relocate to) Victoria.' RDASI noted that there have been numerous instances where businesses have chosen Victoria as their preferred investment destination over New South Wales.⁶⁴

⁵⁸ Mr Troy Green, Transcript of evidence, 26 March 2018, p. 31

⁵⁹ Mr Luke Aitken, Transcript of evidence, 26 March 2018, p. 7

⁶⁰ State Revenue Office Victoria, *Payroll tax and regional employers*, <http://www.sro.vic.gov.au/regionalemployers>, accessed 10 November 2017

⁶¹ Mr Tim Pallas MP, *Victorian Government 2017-18 Treasurer's Speech* (Delivered 2 May 2017) https://s3-ap-southeast-2.amazonaws.com/budgetfiles201718.budget.vic.gov.au/BP1_2017-18_Speech.pdf, accessed 23 April 2018

⁶² Mr Tim Pallas MP, the Hon. Jaala Pulford MLC, and the Hon. Philip Dalidakis MLC, *Creating jobs and growing businesses in regional Victoria*, (1 May 2018) <https://www.premier.vic.gov.au/creating-jobs-and-growing-businesses-in-regional-victoria/>, accessed 1 May 2018

⁶³ State Revenue Office Victoria, *Payroll tax*, <https://www.sro.vic.gov.au/payroll-tax>, accessed 15 May 2018

⁶⁴ Submission 20, Regional Development Australia Southern Inland, pp. 1,3

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- 2.44 RDASI stated that it is broadly in favour of 'regionally targeted taxation reform as a means to stimulate the economy and create jobs'. However, the organisation cautioned that the application of special tax zones should be carefully considered to avoid any unintended consequences, such as the sudden withdrawal of too many businesses from one area to another.⁶⁵
- 2.45 Albury City Council also raised the impact of the Victorian regional approach and noted that Victoria appears to have recently been more competitive in attracting businesses. The Council stated:
- With the regional Victorian payroll tax rate at just 3.65% compared to NSW's 5.45%, Albury's appeal as an investment destination is somewhat diminished. For large business investors, the current variation in rates can mean the difference between establishing operations in NSW or Victoria.
- There are a number of recent local examples of Victoria being the preferred investment destination over NSW. This relates not only to more favourable taxation, fees and charges in that State, but also to attractive jobs and investment growth incentive packages offered by the Victorian State Government.⁶⁶
- 2.46 Little evidence was presented to the Inquiry to draw out the significance of business and employment moves the other way, namely from Victoria to New South Wales. The range and differences in incentives and broader considerations which might prompt a relocation (for example the impact of current grants programs and public infrastructure programs; desirable serviced land) render it difficult to weigh material which is more anecdotal than empirical.

An increased payroll tax threshold to keep pace with changes interstate

- 2.47 Pursuing an increased payroll tax threshold for regional areas will help to assist border economies compete to attract new businesses and will encourage existing businesses to remain in New South Wales. As argued by NSWBC:
- On the payroll tax side of things, a threshold increase to \$1 million would mean that most businesses in Albury, for example, are either better off or at least no worse off locating on the New South Wales side of the border than in Victoria.⁶⁷
- 2.48 Lower payroll tax costs will also improve the competitiveness of businesses in competition with interstate businesses, as indicated by NSWBC:
- ...A threshold increase would also be highly effective in improving the competitiveness of regional businesses facing competition from businesses in other states.⁶⁸
- 2.49 An increased \$1 million threshold would improve the competitiveness of regional New South Wales to attract businesses and encourage established small businesses to pursue growth. A future increase to \$2 million from 1 July 2022

⁶⁵ Submission 20, Regional Development Australia Southern Inland, p. 2

⁶⁶ Submission 7a, Albury City Council, p. 2

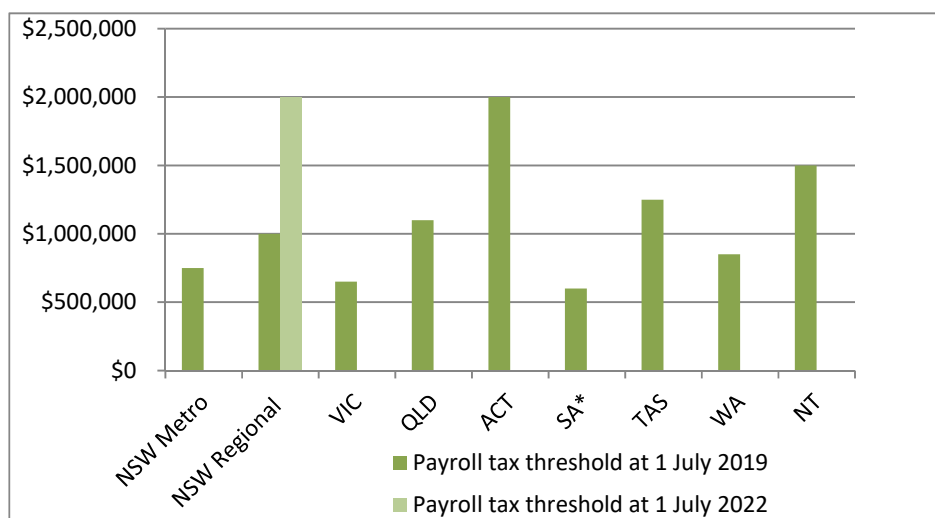
⁶⁷ Mr Mark Frost, Transcript of evidence, 26 March 2018, p. 16

⁶⁸ Submission 8a, NSW Business Chamber, p. 4

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would provide regional New South Wales with the equal highest current threshold in the country (alongside the Australian Capital Territory, as illustrated in Figure 1).

Figure 1: Anticipated Australian payroll tax thresholds at 1 July 2019, incorporating the Committee's recommended increase to the regional New South Wales threshold



* South Australia's base threshold is \$600,000, with variable rates applicable for payrolls higher than \$1 million and \$1.5 million.

How should a business in regional New South Wales be defined for this scheme?

2.50 We note that under the Victorian regional payroll tax scheme a regional business is eligible for the lower regional rate if the business:

- (1) Is 'based in regional Victoria'; and
- (2) Pays 'at least 85 per cent of your Victorian taxable wages to regional employees'.⁶⁹

2.51 Under the Victorian scheme, regional employees are defined as 'employees who perform their services mainly (more than 50%) in regional Victoria during the month.'⁷⁰

2.52 We support the use in New South Wales of a similar definition of regional employer to that used in the Victorian scheme with a requirement that the business be based in the new regional zone. The requirement for businesses to be based outside of Greater Sydney will specifically support regional small businesses and may encourage businesses to consider relocation. Requiring that regional businesses

⁶⁹ State Revenue Office Victoria, *Payroll tax and regional employers*, <https://www.sro.vic.gov.au/ptxregional>, accessed 17 April 2018

⁷⁰ State Revenue Office Victoria, *Payroll tax and regional employers*, <https://www.sro.vic.gov.au/ptxregional>, accessed 17 April 2018

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pay at least 85% of their payroll to regional New South Wales employees supports increased regional employment, while providing some flexibility for employers.

Impact on the Budget

- 2.53 Increasing the regional payroll tax threshold to \$1 million in 2019, and \$2 million in 2022, will impact tax revenues received by the Government. We are of the view that the longer term outcomes of increased regional employment and economic growth mean that the recommended regional payroll tax change is worthy of pursuit. By introducing a regional payroll tax threshold increase, rather than a rate change, the larger payroll tax contributions received from large businesses will continue.
- 2.54 The Minister for Finance, Services and Property advised in correspondence to the Committee during the Inquiry that in 2016-17 and 2017-18 (to January 2018) payroll tax assessments in regional New South Wales constituted 8.2% of all assessments. The majority of payroll tax assessments were from the Sydney Metropolitan Region.⁷¹
- 2.55 Mark Frost from NSWBC advised that strong payroll tax revenues had been recently received by the Government:
- ... over the past year or so there have been particularly strong payroll tax receipts by the Government. On that basis, from our point of view, we believe that strong employment growth is a really good thing, but even stronger employment growth would be better and one way to do that would be to give an even bigger payroll tax cut to incentivise job creation.⁷²
- 2.56 According to the 2017-18 Budget papers, in 2017-18 payroll tax is expected to contribute 27.4% of New South Wales taxation revenue.⁷³ Payroll tax revenue for 2017-18 was budgeted to be \$8,635 million.⁷⁴
- 2.57 The NSW Budget 2017-18 Half-Yearly Review released in December 2017 indicated that payroll tax receipts have been more promising than expected:
- Strong NSW employment growth in 2017-18 has resulted in payroll tax revenue being revised up by \$189.5 million since the 2017-18 Budget. Wage growth remains broadly consistent with the Budget forecasts. Employment growth, particularly in full-time employment, has been stronger than expected, supported by infrastructure and

⁷¹ Correspondence to the Committee from the Minister for Finance, Services and Property, the Hon. Victor Dominello MP, dated 20 February 2018

⁷² Mr Mark Frost, Transcript of evidence, 26 March 2018, p. 12

⁷³ NSW Government, *NSW Budget Statement 2017-18*, pp. 5-7-5-8 and Chart 5.3, <https://www.budget.nsw.gov.au/sites/default/files/budget-2017-06/5.%20Revenue.pdf>, accessed 20 December 2017

⁷⁴ NSW Government, *NSW Budget Statement 2017-18*, p. 5-7, <https://www.budget.nsw.gov.au/sites/default/files/budget-2017-06/5.%20Revenue.pdf>, accessed 20 December 2017

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housing construction. Payroll tax collections in the first quarter of 2017-18 have reflected this strength.⁷⁵

2.58 The Half-Yearly Review indicated that infrastructure and housing construction-related employment has driven increased employment across the State. The Review also stated that ‘since the 2017-18 Budget, revenue forecasts have been revised upwards over the four years to 2020-21. Stronger employment growth is driving a \$1.2 billion increase in payroll tax forecasts.’⁷⁶

2.59 We note that NSWBC has recently commented on the high and increasing payroll tax receipts in New South Wales in its 2018-19 Pre-Budget Submission. The organisation has continued its calls for an increase in the state-wide threshold:

The Chamber acknowledges the Government has competing funding priorities and payroll tax relief must be viewed in this context. However, the \$1.2 billion upward revision of forecast payroll tax receipts over the forward estimates reveals scope to deliver more substantial payroll tax relief than might otherwise have been the case. The Chamber considers the Government is uniquely positioned to match, and preferably exceed, the ambition demonstrated by other jurisdictions in improving the competitiveness of their respective regimes.⁷⁷

2.60 We believe that the positive impact on regional communities of increased local employment and small and medium business growth will offset any lost payroll tax revenue. With substantial payroll tax receipts expected into the future as indicated in the NSW Budget 2017-18 Half-Yearly Review, the Government is able to withstand the revenue impact of an increased regional threshold. There is scope for the Government to provide payroll tax relief to regional small and medium-sized businesses.

Why not change the payroll tax threshold for all businesses in New South Wales?

2.61 We agree that making regions outside of Sydney more attractive for businesses to relocate to will have long-term benefits and will assist to manage pressures faced by businesses in Sydney. We note comments made by RDA Far West NSW:

Exceptions in relation to payroll tax within the Far West would make a significant difference in the region’s ability to attract investors to relocate or begin their business in the region and could further encourage local businesses to diversify and grow their own organisations, thus creating additional employment opportunities.⁷⁸

⁷⁵ NSW Government, *NSW Budget 2017-18 Half-Yearly Review*, https://www.budget.nsw.gov.au/sites/default/files/budget-2017-12/2017-18%20Half-Yearly%20Budget%20Review_0.pdf, p. 23, accessed 24 April 2018

⁷⁶ NSW Government, *NSW Budget 2017-18 Half-Yearly Review*, https://www.budget.nsw.gov.au/sites/default/files/budget-2017-12/2017-18%20Half-Yearly%20Budget%20Review_0.pdf, p. 18, accessed 24 April 2018

⁷⁷ NSW Business Chamber, *2018-19 Pre-Budget Submission NSW Business Chamber*, (April 2018) [https://www.nswbusinesschamber.com.au/NSWBC/media/ABI/NSW-Business-Chamber-Pre-Budget-Submission-\(FINAL\).pdf](https://www.nswbusinesschamber.com.au/NSWBC/media/ABI/NSW-Business-Chamber-Pre-Budget-Submission-(FINAL).pdf), pp. 5-6, accessed 24 April 2018

⁷⁸ Submission 11, RDA Far West NSW, p. 2

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- 2.62 During the Inquiry, some stakeholders advocated for state-wide payroll tax reform.⁷⁹ The NSWBC indicated that as regional New South Wales has a higher relative share of businesses just over the payroll tax threshold, a state-wide threshold increase to \$1 million would naturally distribute the benefits to the regions:
- If we do make a threshold increase, by its very nature, because of the businesses that operate in regional New South Wales, more benefits flow to the regions than to metropolitan areas.⁸⁰
- 2.63 NSWBC suggested that regional employers could possibly ‘gain immediate access to a higher payroll tax threshold (or more favourable arrangements) if a higher threshold is delivered via a transition over a number of Budgets’.⁸¹
- 2.64 A key objective of this Inquiry is to examine zonal taxation policy options that could particularly benefit regional areas of New South Wales. Regional areas face particular challenges that are not faced in Greater Sydney. Issues that particularly impact regional businesses include higher transportation, energy and fuel prices as well as decreasing populations in some areas. Concerns were particularly raised about the western regions of the State, including regarding limited local employment prospects.⁸² Councillor David Gallagher of WDC advised that:
- Population predictions in the Far West of New South Wales are proposed to reduce by about 10 percent over the upcoming 15 years. In order to attract a greater investment and population growth in the Far West, it is critical to equalise the playing field in the form of exemptions or concessions in relation to payroll tax, stamp duty and land tax.⁸³
- 2.65 NSWBC indicated that there would be approximately 1,000 businesses across the State which would be either currently just below the \$750,000 threshold or just at the stage of crossing the threshold. NSWBC also advised that across the State there would be approximately 2,500 businesses between the \$750,000 threshold and \$1 million.⁸⁴ NSWBC advised that the specific breakdown for these businesses in regional areas was not publicly available, however:
- ... with regional New South Wales we are talking about a high relative share of businesses that probably have between 10 and 50 employees and those businesses would benefit.⁸⁵
- 2.66 In contrast to the claims by NSWBC, data provided by the Minister for Finance, Services and Property indicates that in 2016-17 only 378 businesses in New South Wales were just above the \$750,000 payroll tax threshold. Of the 378 businesses

⁷⁹ Submission 8a, NSW Business Chamber, p. 4

⁸⁰ Mr Luke Aitken, Transcript of evidence, 26 March 2018, p. 7

⁸¹ Submission 8a, NSW Business Chamber, p. 6

⁸² Submission 10, Walgett Shire Council, p. 2

⁸³ Councillor David Gallagher, Transcript of evidence, 26 March 2018, p. 26

⁸⁴ Mr Mark Frost, Transcript of evidence, 26 March 2018, p. 11, and as clarified by emailed correspondence to the Committee from Mr Frost dated 23 May 2018

⁸⁵ Mr Mark Frost, Transcript of evidence, 26 March 2018, p. 11

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in the \$750,000 to \$1 million range just above the threshold, only 36 of these had a regional address.⁸⁶

⁸⁶ Correspondence to the Committee from the Minister for Finance, Services and Property, the Hon. Victor Dominello MP, dated 10 May 2018

Chapter Three – A commercial and industrial property stamp duty exemption for businesses relocating to regional New South Wales

Exemptions from commercial and industrial property stamp duty for relocating businesses

Recommendation 5

That the NSW Government exempt the purchase of commercial and industrial property in regional New South Wales from stamp duty when businesses relocate from Greater Sydney or from outside New South Wales from 1 July 2019.

- 3.1 In our Interim Report, we identified possible concessions for stamp duty on commercial properties in regional New South Wales as an issue for further inquiry.⁸⁷
- 3.2 We recommend that an exemption to stamp duty be applied on the purchase of regional commercial and industrial property by businesses moving from Greater Sydney (the metropolitan zone) to the regional zone from 1 July 2019.
- 3.3 The exemption should also apply for businesses moving to the regional zone from outside the State. The exemption will not apply to businesses that are already located in regional areas and seeking to purchase commercial or industrial property. This recommendation is specifically intended to support business relocation to regional areas (which will also assist to relieve Sydney infrastructure pressures). It will improve the competitiveness of regional New South Wales to attract new businesses by lowering the capital costs for business relocation.
- 3.4 As discussed in Chapter One, we recommend that the metropolitan zone for the purposes of the two zone tax approach will cover the area within the boundary shown on the map in Schedule 1 of the *Greater Sydney Commission Act 2015*.⁸⁸ The regional zone will cover the remainder of the State.
- 3.5 During the Inquiry the NSWBC identified stamp duty as an added cost for businesses buying and selling property which can become a costly commercial consideration:

⁸⁷ Legislative Assembly Committee on Investment, Industry and Regional Development, *Inquiry into Zonal Taxation – Interim Report*, (January 2018) <https://www.parliament.nsw.gov.au/committees/inquiries/Pages/inquiry-details.aspx?pk=2384#tab-reports>, p. v

⁸⁸ *Greater Sydney Commission Act 2015*, Schedule 1, <https://www.legislation.nsw.gov.au/#/view/act/2015/57/whole>

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From our business members' point of view every time they want to buy and sell property, which is a commercial decision they may need to make, they get hit with a massive tax. It is very inefficient and very costly.⁸⁹

3.6 Evidence provided by the Minister for Finance, Services and Property with regard to the stamp duty collected for non-residential property transactions in regional New South Wales identified duty assessments to the value of \$339.8 million in 2016/17 and \$735.4 million in 2015/16.⁹⁰ The commercial percentage of these transactions and duties is not identified and as such it is not possible to quantify the value of any change to stamp duty charged on regional commercial premises.

3.7 NSWBC commented that stamp duty is an inefficient tax to administer.⁹¹ NSWBC suggested that measures to eliminate stamp duty outside of metropolitan areas could incentivise people to do business in the regions, while also improving administrative efficiency:

If your objective is to create incentives to encourage people to relocate to the regions, and to encourage and promote development in the regions then absolutely it [stamp duty exemptions] would be a great way to do it. One of the main reasons it would be a great way to do it is that you would kill two birds with one stone. You would give the incentive but you would at the same time, for at least that transaction, get rid of a massive impediment as to how that business wants to structure its business by way of the decisions that it makes about is it going to invest, [or] is it going to purchase an asset.⁹²

3.8 Regional stakeholders regarded stamp duty concessions as a way to alleviate the cost of setting up a business in the regions and boost local economic development. Walgett Shire Council noted that such measures could also encourage the growth of existing businesses:

By introducing exemptions or concessions relating to payroll tax, stamp duty and land tax, the Walgett Shire Council believes it would attract new business to the area and encourage the growth of existing businesses. If tax reform was implemented it could be used to motivate economic development and attract new trade to the Far West.⁹³

3.9 Western Division Councils of New South Wales considered stamp duty concessions as a possible way to equalise the playing field between Sydney and the west of the State, and a means of encouraging job growth in the regions:

In order to attract a greater investment and population growth in the Far West, it is critical to equalise the playing field in the form of exemptions or concessions in relation to payroll tax, stamp duty and land tax. The Far West is a critical contributor to the State's economy. In mining alone the region is contributing \$341.1 million to regions and the GRP in 2014-15. Exemptions and concessions have been successful for many years across the world. They create jobs and prosperity in depressed regional areas and provide opportunities to attract economic growth through concessions in

⁸⁹ Mr Mark Frost, Transcript of evidence, 26 March 2018, p. 16

⁹⁰ Correspondence to the Committee from the Minister for Finance, Services and Property, the Hon. Victor Dominello MP, dated 10 May 2018

⁹¹ Mr Mark Frost, Transcript of evidence, 26 March 2018, p. 16

⁹² Mr Mark Frost, Transcript of evidence, 26 March 2018, p. 17

⁹³ Submission 10, Walgett Shire Council, p. 1

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company tax, investment allowances and accelerated depreciation in wages and subsidies.⁹⁴

- 3.10 The Orana Regional Organisation of Councils (OROC) also supported incentives to promote business relocation to regional New South Wales. OROC stated that the Orana region could benefit from reduced stamp duty for property purchases especially if combined with a scheme similar to the Regional Relocation Grant or Skilled Regional Relocation Incentive to encourage young families to relocate.⁹⁵

Stamp duty conditions

- 3.11 As noted in our Interim Report, in New South Wales stamp duty is calculated using a number of rates and thresholds (indicated in Table 3). The threshold system imposes a progressive tax based on the dutiable value of the property, enforcing a higher rate of duty on properties at the higher end of the scale.

Table 3: Stamp duty thresholds in New South Wales as at 1 May 2018⁹⁶

Dutiable value	Rate of duty
\$0-\$14,000	\$1.25 for every \$100 or part of the value
\$14,001 - \$30,000	\$175 plus \$1.50 for every \$100, that the value exceeds \$14,000
\$30,001 - \$80,000	\$415 plus \$1.75 for every \$100, that the value exceeds \$30,000
\$80,001 - \$300,000	\$1,290 plus \$3.50 for every \$100, that the value exceeds \$80,000
\$300,001 - \$1m	\$8,990 plus \$4.50 for every \$100, that the value exceeds \$300,000
Over \$1m	\$40,490 plus \$5.50 for every \$100, that the value exceeds \$1,000,000
Premium property duty: over \$3m	\$150,490 plus \$7.00 for every \$100, that the value exceeds \$3,000,000.

- 3.12 The Australian Industry Group (AI Group) indicated in May 2017 that commercial property stamp duty costs in 2015-16 in New South Wales were mid-range compared to other states. More attractive stamp duty conditions in other jurisdictions can impact the competitiveness of New South Wales (particularly regional areas) to attract new business property investment.

- 3.13 The AI Group noted that stamp duty can discourage investors and homeowners from investing in property improvements.⁹⁷ It may also discourage people or businesses from relocating to more efficient locations, which could have a

⁹⁴ Mr Gallagher, Transcript of evidence, 26 March 2018, p. 26

⁹⁵ Submission 4a, Orana Regional Organisation of Councils, p. 2

⁹⁶ Revenue NSW, *Transfer duty (Stamp duty)*, <http://www.revenue.nsw.gov.au/taxes/transfer-land>, accessed 1 May 2018

⁹⁷ AI Group Economics Research, *State taxes on business: how do they compare?*, (May 2017), Chart 2, pp. 5-6 http://cdn.aigroup.com.au/Economic_Indicators/Fact_Sheets/AiGroupStateTaxComparison2017.pdf

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disproportionate effect on regions that are already lagging behind in economic growth.

- 3.14 Competitive stamp duty rates in other jurisdictions may have a more pronounced effect on business property purchase decisions in New South Wales border regions. Tweed Shire Council supported stamp duty concessions to address these border issues:

Moving to stamp duty concessions for regional commercial properties, a concession on stamp duty for regional commercial properties would be welcomed by Tweed Shire Council and Tweed commercial property investors alike... lower stamp duty would also encourage business to remain on the New South Wales side of the border.⁹⁸

- 3.15 Commercial and industrial land is available in regional areas for businesses to invest in and consider for relocation. Albury City Council advised that their local government area had 'over 20 years' supply of industrial land available' for business investment, which is intended to cater for the long-term growth of the regional city. Albury City Council advised the Committee that regional stamp duty changes could stimulate regional business investment:

In relation to any proposed changes to Transfer Duty concessions, AlburyCity does advocate for investigation into changes to either the rate or the threshold structure, so as to concentrate benefits to regional NSW. Similar to the proposed Payroll Tax relief outlined in AlburyCity's submission to the Inquiry, regional NSW should be provided with access to any new transfer duty reforms as a means of stimulating business investment for buyers of commercial property.⁹⁹

Commercial property stamp duty changes in South Australia

- 3.16 Recent moves to phase out stamp duty on commercial property in South Australia may have implications on the decision of businesses to invest in property in New South Wales.
- 3.17 The South Australian commercial stamp duty property reform was introduced in December 2015, when the duty payable on non-residential, non-primary production land state-wide was reduced by one-third. A further one-third reduction applied from 1 July 2017 (a total reduction of two-thirds as at 1 May 2018). Stamp duty on transfers of non-residential, non-primary production land in South Australia will be entirely abolished from 1 July 2018.¹⁰⁰
- 3.18 Stakeholders including the Property Council of Australia have supported the South Australian commercial property stamp duty changes:

The Property Council of Australia today reiterated its support for injecting confidence into South Australia's property market, which will encourage local, interstate and possibly foreign investment stimulation.

⁹⁸ Mr Troy Green, Transcript of Evidence, 26 March 2018, p. 31

⁹⁹ Albury City Council, Answers to Questions on Notice, 11 April 2018, p. 2

¹⁰⁰ Revenue SA, *Stamp Duty on Transfer of Real Property (Land)*, <https://www.revenuesa.sa.gov.au/taxes-and-duties/stamp-duties/real-property-land>, accessed 1 May 2018

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“Taking an axe to stamp duty on non-residential property transfers sends a strong message of confidence to South Australia’s small- and medium-sized enterprises,” said SA Executive Director Daniel Gannon.

...Commercial stamp duty abolition will ensure Boards across the country will sit up and pay attention to our state’s property market.¹⁰¹

- 3.19 The South Australian approach to commercial stamp duty signifies a willingness by other Australian jurisdictions to compete for economic investment by pursuing better conditions for businesses. The South Australian removal of stamp duty on commercial property will further alter the unequal playing field for regional New South Wales communities looking to attract business investment. The variations in stamp duty and payroll tax from one state to the next already provide a competitive playing field for businesses which needs to be considered on a case by case basis.
- 3.20 We consider that a zonal approach to commercial and industrial property stamp duty for regional areas can address issues involving regional competitiveness and disparity of business investment conditions. The removal of stamp duty costs for businesses investing in regional property will support regional economic growth and incentivise Sydney-based and interstate businesses to consider possible relocation to regional New South Wales.

Impact on the Budget

- 3.21 Correspondence received by the Committee from the Minister for Finance, Services and Property on 20 February 2018 indicated that regional areas contribute significantly less stamp duty revenue than metropolitan areas.¹⁰²
- 3.22 The NSW Budget 2017-18 Half-Yearly Review released in December 2017 reported that lower than expected stamp duty revenue had been forecasted for the 2017-18 financial year. It was indicated that this result was mainly due to changes to first homebuyer residential stamp duty exemptions and concessions.¹⁰³
- 3.23 During the Inquiry, Chartered Accountants Australia and New Zealand advised that any new concessions or exemptions to stamp duty and payroll tax would significantly impact the Budget:

Payroll tax, stamp duty and land tax are very significant contributors to the State budget. It is unclear where revenue to fund additional exemptions could come from.¹⁰⁴

¹⁰¹ Property Council of Australia, *Attention Interstate Boards: SA Stamp Duty abolition means green light for investment*, (19 June 2015)

https://www.propertycouncil.com.au/Web/Content/Media_Release/SA/2015/ATTENTION_interstate_Boards_SA_stamp_duty_abolition_means_green_light_for_investment.aspx, accessed 1 May 2018

¹⁰² Correspondence to the Committee from the Minister for Finance, Services and Property, the Hon. Victor Dominello MP, dated 20 February 2018

¹⁰³ NSW Government, *NSW Budget 2017-18 Half-Yearly Review*, (December 2017) https://www.budget.nsw.gov.au/sites/default/files/budget-2017-12/2017-18%20Half-Yearly%20Budget%20Review_0.pdf, p. 20, accessed 24 April 2018

¹⁰⁴ Submission 9, Chartered Accountants Australia and New Zealand, p. 1

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- 3.24 As the recommended stamp duty reform will apply to a limited proportion of transactions (only regional commercial or industrial property purchased by relocating Sydney-based or interstate/overseas businesses), the impact of the recommendation on the Budget will be minimal.

Impact of stamp duty on young farmers

- 3.25 During the Inquiry, we heard from stakeholders that stamp duty costs can impact young farmers trying to purchase land for their first farm.

- 3.26 RDA Orana advised that stamp duty concessions could encourage the purchase of farmland particularly by young farmers.¹⁰⁵ Megan Dixon of RDA Orana noted that the growth of the agricultural industry is important to the growth of regional New South Wales:

Agriculture is extremely important to our region. We see a changing of the guard occurring within our region, from older farmers or from farming families where the children are looking to expand and purchase and grow their farming businesses. We want to see that sector grow and thrive. The role of young farmers is extremely important, so exemptions that assist them to acquire land and operate are really important.¹⁰⁶

- 3.27 Ms Dixon advised the Committee that young farmers in the Orana region can have difficulties competing with multinational companies to purchase agricultural property.¹⁰⁷ NSW Farmers advised it is generally opposed to stamp duty as it does not contribute to the value of the relevant land or assets and is a considerable impediment to young farmers trying to enter the agriculture industry.¹⁰⁸ NSW Farmers encouraged the Government to consider stamp duty exemptions for young farmers:

Additionally, young farmers who want to start their own farm or those who cannot inherit property from family find stamp duty is also one of the impediments to getting established. The Government should consider an exemption for all young farmers purchasing their first farming enterprise.¹⁰⁹

- 3.28 Walgett Shire Council also echoed calls for assistance to young farmers entering the agricultural industry:

Unfortunately the agriculture industry seems to be out of reach for a lot of young farmers and something needs to be implemented as the majority of landowners are heading towards retirement.¹¹⁰

- 3.29 Some assistance is currently available for young people entering the agricultural industry. Stamp duty exemptions currently apply to intergenerational rural

¹⁰⁵ Submission 16a, RDA Orana, p. 6

¹⁰⁶ Ms Megan Dixon, Transcript of evidence, 26 March 2018, p. 20

¹⁰⁷ Ms Megan Dixon, Transcript of evidence, 26 March 2018, p. 20

¹⁰⁸ Submission 15, NSW Farmers, pp. 4-5

¹⁰⁹ Submission 15, NSW Farmers, p. 5

¹¹⁰ Submission 10, Walgett Shire Council, pp. 1-2

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transfers for young farmers purchasing farmland from a family member.¹¹¹ The current Young Farmer Business Program provided by the New South Wales Department of Primary Industries also aims to ‘help young farmers and fishers enter into the business of farming or commercial fishing and aquaculture, or expand their existing business aspirations.’¹¹²

3.30 We note that stamp duty exemptions and concessions are currently available for young farmers buying their first farmland property in Victoria. The amount of the Victorian exemption is dependent on the value of the property purchased. A full stamp duty exemption is applied on land worth \$300,000 or less, and partial exemptions and concessions apply for land valued between \$300,000 and \$750,000. The following criteria applies to young farmers applying for the Victorian scheme:

- (1) The applicant must be under the age of 35 at the date of the contract for the transfer of the farmland property,
- (2) The property is the applicant’s (and their partner’s) first property,
- (3) The value of the property must not exceed \$750,000, and
- (4) The applicant must be carrying on, or intending to carry on, a business of primary production in relation to the purchased property.¹¹³

3.31 On 1 May 2018 the Victorian Government announced that the Victorian 2018-19 Budget would include an increase in the young farmers stamp duty exemption from \$300,000 to \$600,000.¹¹⁴ We recognise the importance of the agricultural industry in regional New South Wales, and that is why the Committee recommends that the Government consider the Victorian model of stamp duty concessions for new young farmers buying their first farm.

Recommendation 6

That the NSW Government consider stamp duty concessions for new young farmers who are buying their first farming property.

¹¹¹ Revenue NSW, *Revenue Ruling No. DUT 024 - Exemption from Duty - Intergenerational Rural Transfers and Leases*, <http://www.revenue.nsw.gov.au/info/legislation/rulings/duties/dut024>, accessed 1 May 2018

¹¹² NSW Department of Primary Industries, *Young Farmer Business Program*, <https://www.dpi.nsw.gov.au/about-us/rural-support/yfbp>, accessed 3 May 2018

¹¹³ State Revenue Office Victoria, *Young farmer duty exemption or concession*, <https://www.sro.vic.gov.au/young-farmer-duty-exemption-or-concession>, accessed 1 May 2018

¹¹⁴ Mr Tim Pallas MP, the Hon. Jaala Pulford MLC, and the Hon. Philip Dalidakis MLC, *Creating jobs and growing businesses in regional Victoria*, (1 May 2018) <https://www.premier.vic.gov.au/creating-jobs-and-growing-businesses-in-regional-victoria/>, accessed 1 May 2018

Chapter Four – A review of the zonal taxation approach and other issues impacting regional communities and businesses

Review of the zonal taxation approach after five years

Recommendation 7

That the NSW Government conduct a review of the zonal taxation approach five years after commencement.

- 4.1 We recommend that the Government conduct a review of the zonal taxation approach five years after its commencement on 1 July 2019. The review should be conducted to determine whether the policy objectives of the approach are being achieved and whether the approach is effectively encouraging regional economic growth and employment.
- 4.2 We encourage the review to consider the impact the zonal taxation approach has had on businesses located near the metropolitan-regional zone border. The review should also examine the administrative impact the zonal taxation approach has had on businesses employing staff in both metropolitan and regional zones.
- 4.3 It is important that the findings of the review be made public. A report on the review of the zonal taxation approach should be tabled in both Houses of Parliament within 12 months after the five year period.
- 4.4 Any such review needs to explore, in detail, the success or failure of actually getting employers and employees to move out of the Greater Sydney area on a permanent and full time basis, and not just for the sake of a business address that conveniently avoids tax without making a true and genuine commitment to regional New South Wales.
- 4.5 Any such review should revise, in detail, the boundaries and definition of what is regional and explore whether or not the definitions of regional remain appropriate.

Appropriateness of the income tax zone offset for remote areas of New South Wales

Recommendation 8

That the NSW Government seek an Australian Government review of the income tax zone offset scheme.

- 4.6 During the Inquiry we heard concerns that the current Australian income tax zone offset does not provide effective assistance for remote residents in New South Wales. The income tax zone offset amounts have not changed since 1993, and the

A review of the zonal taxation approach and other issues impacting regional communities and businesses

offset amount available to parts of western New South Wales in 'Zone B' is currently \$57 per financial year.¹¹⁵

- 4.7 Income tax is the responsibility of the Australian Government. We recommend that the NSW Government encourage an Australian Government review of the current income tax zone offset scheme. The income tax offset scheme needs to be reviewed to ensure the offset available to remote residents is appropriate and that the boundary of the scheme's 'Zone B' appropriately reflects remote New South Wales.

Income tax zone offset scheme

- 4.8 The zone tax offset was introduced in 1945 to compensate remote residents for the 'disadvantages of living in remote areas, including distance, climate and the higher cost of living.'¹¹⁶ It is a concessional tax offset available to eligible individuals against their tax liability.¹¹⁷
- 4.9 Individuals who have their usual place of residence in two geographically defined remote or isolated zones (Zone A and Zone B) in Australia are eligible for the offset.¹¹⁸ Zone A covers some regional areas in Queensland, Western Australia and the Northern Territory. Zone B covers a number of other regional areas across Australia, including Bourke, Broken Hill, Collarenebri, Lightning Ridge and Wilcannia in New South Wales. Offsets are also available for designated Special Areas.
- 4.10 Currently the Zone A tax offset is \$338, and the Zone B offset is \$57. The Special Area tax offset, which applies to Lord Howe Island, is \$1,173. Additional loadings on the offsets also apply for dependents.¹¹⁹
- 4.11 The National Institute of Economic and Industry Research has indicated that the value of the rebate has been significantly eroded by inflation.¹²⁰ During the Inquiry NSW Farmers argued:

The Western Division of NSW falls into Zone B which means that residents receive a base rebate per year of \$57 as well as a 20 per cent loading.

The rebate amounts have remained unchanged since 1993. The effects of inflation have rendered the dollar amounts of rebates ineffective in meeting the disadvantages of living in remote areas. At today's rates Zone B should rise to \$221.¹²¹

¹¹⁵ Submission 15, NSW Farmers, p. 10

¹¹⁶ Submission 15, NSW Farmers, p. 10

¹¹⁷ Australian Parliamentary Library, *Changed eligibility for the Zone Tax Offset*, https://www.aph.gov.au/About_Parliament/Parliamentary_Departments/Parliamentary_Library/pubs/rp/BudgetReview201516/Zone, accessed 2 May 2018

¹¹⁸ Australian Taxation Office, *Zone and overseas forces*, <https://www.ato.gov.au/Individuals/Income-and-deductions/Offsets-and-rebates/Zones-and-overseas-forces/#Zonetaxoffset1>, accessed 3 May 2018

¹¹⁹ Australian Taxation Office, *Calculation of zone or overseas forces tax offsets*, https://www.ato.gov.au/Forms/Withholding-declaration--calculating-your-tax-offset/?page=4#Step_1, accessed 2 May 2018

¹²⁰ National Institute of Economic and Industry Research, *Income Tax Zone Rebates*, (October 2013) <http://nieir.com.au/income-tax-zone-rebates>, accessed 3 May 2018

¹²¹ Submission 15, NSW Farmers, p.10

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4.12 We note that the House of Representatives Standing Committee on Regional Australia recommended in February 2013 that the Australian Government review the zone tax offset to ensure that it is appropriate for modern Australia. That Committee recommended that the review consider whether the offset amounts ‘provide reasonable acknowledgement of the cost of living in remote Australia’ and whether ‘the zones are based on a contemporary measure of remoteness’.¹²²

4.13 During our Inquiry NSW Farmers argued that the boundaries for Zone A and B should be widened. The organisation noted inconsistencies between definitions of ‘remote’ New South Wales used by the NSW Government and by the Australian Taxation Office. NSW Farmers commented that the Australian Government could review the areas considered as ‘remote’ under the scheme:

Should the Committee seek to engage with the Commonwealth regarding options for inclusion, it may be worth investigating areas in NSW which attract additional state based incentives for relocation.

For example, the Commonwealth Zone B covers the north-western area of the State, while the NSW Department of Education provides incentives to attract teachers to Western NSW, which is determined as Broken Hill, Central Darling area, Cobar area, Tibooburra, and Sunrasia area.¹²³

4.14 The Griffith Business Chamber argued that the boundary for income tax Zone A should be broadened and the offset made available to people who work in more regional centres.

We believe that a “Zone A” special zone remote offset tax rebate should be applied as an income tax offset to people who work in Griffith & other growing regional centres.

Encouraging decentralization & putting people into jobs must [be] a high priority for our State.¹²⁴

4.15 NSW Farmers recommended that the zonal offset should be increased to keep pace with CPI:

The Association believes that the rebate amount should be increased to an amount in line with CPI, that would be more closely aligned with the original policy intent of the tax zone rebate when it was introduced in 1945, i.e. to compensate recipients for the disadvantages of living in remote areas. Centres with populations greater than a certain level (say 25,000) could be removed from the zoning.¹²⁵

¹²² House of Representatives Standing Committee on Regional Australia, *Cancer of the bush or salvation for our cities? Fly-in, fly-out and drive-in, drive-out workforce practices in Regional Australia*, (February 2013) www.aph.gov.au/parliamentary_business/committees/house_of_representatives_committees?url=ra/fifodido/rep_ort.htm, p 126

¹²³ NSW Farmers Association, Answers to Questions on Notice, pp. 2-3

¹²⁴ Submission 21, Griffith Business Chamber, p. 2

¹²⁵ Submission 15, NSW Farmers, p. 10

Ensuring a fair approach for Government funding in border communities

- 4.16 Some stakeholders raised concerns that border regions may be considered differently to other areas when local funding proposals are assessed by the Government. In its initial submission to the Inquiry, Albury City Council stated:

We understand that NSW regional communities located along the Victorian border, and potentially other State borders, are subject to significant disadvantage compared to metropolitan and inland NSW communities in the assessment of the cost benefit analysis of potential project funding.

A process of 'discounting' the economic benefit of proposed infrastructure investment and/or jobs being generated by existing or proposed NSW based businesses is being applied by NSW Treasury/Department of Industry. This practice is discriminatory and is reducing the competitiveness of border communities and the level of support they receive from the State Government.¹²⁶

- 4.17 At the public hearing Ms Tracey Squire representing Albury City Council advised the Committee:

Our concern came from the fact that cross-border communities which are lodging funding applications need to have confidence that they are going to be given the same consideration as a regional, inland New South Wales city.

While certainly there is no doubt that there may be some cross-pollination of economic benefits in cross-border communities from State to State, certainly there are benefits to Victorian communities from New South Wales and similarly we get the benefit of investment that might be being made in Victoria.

The issue for us was that by having discounting applied to any infrastructure funding application that we lodged, we are going to be significantly disadvantaged when compared with our other regional New South Wales city neighbours.¹²⁷

- 4.18 Tweed Shire Council also raised concerns that the Government does not recognise 'populations or the people who travel every day backwards and forwards across our borders' when considering road projects in the Tweed region.¹²⁸

- 4.19 According to the Council, the Government's decision not to consider the numbers of people crossing the Queensland border daily has meant the region falls short of the 100,000 population required for State Government funding of highway/freeway on-ramps. As a result the Council is required to raise on-ramp funding through its own 'Tweed Road Contribution Plan.' The Council witnesses at the public hearing described the flow on cost of this plan on local businesses as 'absolutely massive' and highlighted it as an example of an issue specific to border areas.¹²⁹

- 4.20 Considerations involved in cost-benefit analyses for projects in border regions can be complex. The treatment of interstate residents when conducting cost-benefit

¹²⁶ Submission 7, Albury City Council, p. 3

¹²⁷ Ms Tracey Squire, Transcript of evidence, 26 March 2018, p. 2

¹²⁸ Mr Troy Green, Transcript of evidence, 26 March 2018, p. 32

¹²⁹ Mr Troy Green, Transcript of evidence, 26 March 2018, p. 32

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analyses for border region projects has recently been examined by Adjunct Associate Professor Leo Dobes of the Australian National University. Dr Dobes noted that the consideration of projects with cross-border implications is a 'grey area':

In particular, it is not clear how to treat a NSW state or local government project in twin cities like Canberra-Queanbeyan, Albury-Wodonga or Tweed Heads-Coolangatta. On the one hand, it is a standard formulation that standing [whose benefits and costs should be counted] should be limited to the whole of the society of a nation or a constituent state that is proposing a project. On the other hand, various arguments have been advanced as to why this rule may be overly restrictive, including for ethical reasons in the case of negative externalities that are imposed by one country on another.¹³⁰

- 4.21 Dr Dobes stated that in cases such as Albury-Wodonga, the concept of 'standing' or the consideration of 'whose benefits and costs should be counted' for a project should generally not be defined from a strictly state-based perspective, unless the facts dictate otherwise.¹³¹
- 4.22 We acknowledge that border regions within New South Wales face unique circumstances, and note that the 2012 Inquiry by the Committee on Economic Development considered the potential of special economic zones particularly for border areas.¹³² We note that the Department of Premier and Cabinet is currently working with communities (including those in border areas) to develop specific Regional Economic Development Strategies.
- 4.23 These strategies aim to provide a 'clearly articulated economic development strategy for the region' and will enable faster access to dedicated state funding.¹³³ Several of these strategies incorporate cross border issues, and Albury City Council has advised that Albury and Wodonga has been identified as part of one 'functional economic region' by the Department.¹³⁴
- 4.24 We were concerned to hear from stakeholders that border region residents could be treated differently to other regions in the State when it comes to the assessment of possible project benefits at the cost-benefit analysis stage. While we acknowledge the complexity involved in analysing projects with cross-border implications, we encourage the Government to work to ensure border

¹³⁰ Leo Dobes, *A Cross-Border Perspective on 'Standing' in Cost-Benefit Analysis*, Crawford School working paper 1711, (November 2017)

https://crawford.anu.edu.au/sites/default/files/publication/crawford01_cap_anu_edu_au/2017-12/a_cross-border_perspective_on_standing_in_cost_benefit_analysis.pdf, p. 4, accessed 30 April 2018

¹³¹ Leo Dobes, *A Cross-Border Perspective on 'Standing' in Cost-Benefit Analysis*, Crawford School working paper 1711, November 2017)

https://crawford.anu.edu.au/sites/default/files/publication/crawford01_cap_anu_edu_au/2017-12/a_cross-border_perspective_on_standing_in_cost_benefit_analysis.pdf, p. 19, accessed 30 April 2018

¹³² Legislative Assembly Committee on Economic Development, *Establishment of Special Economic Zones* <https://www.parliament.nsw.gov.au/committees/inquiries/Pages/inquiry-details.aspx?pk=2266>

¹³³ NSW Premier and Cabinet, *Projects – Regional Economic Development Strategies*, <http://www.dpc.nsw.gov.au/programs-and-services/centre-for-economic-and-regional-development/projects/regional-economic-development-strategies/>. accessed 14 May 2018

¹³⁴ Submission 7a, Albury City Council, pp. 2-3

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communities are not disadvantaged due to their location when local projects are assessed.

- 4.25 We suggest that the Government seek the views of the Cross Border Commissioner to assess the various challenges along border corridors for employers, employees and communities seeking infrastructure.

Impact of electricity costs on regional communities and businesses

- 4.26 We note concerns raised by regional stakeholders about the impact of electricity prices on communities and businesses, particularly those located in more remote areas of the State. In our Interim Report we referenced a number of state-wide Government rebates which are available to assist with utility charges, including the Family Energy Rebate and the Low Income Household Rebate.¹³⁵ We noted that no regional specific utility rebates are available. A number of stakeholders supported the introduction of regional specific energy rebates. Mayor Darriea Turley of Broken Hill City Council advised the Committee that:

Council acknowledges the current rebates are noted in the interim report but also calls to the attention of the inquiry that, given the inequalities in the cost of utilities in rural and regional areas, rebates as applied do not address the differential cost across the State of New South Wales.¹³⁶

- 4.27 WDC also stated that rising electricity costs are ‘impacting the Far West with both businesses and residents experiencing higher than average electricity prices’.¹³⁷ WDC were concerned that businesses in the western areas of the State will struggle with further price rises and be left behind compared to Sydney and other parts of New South Wales.¹³⁸ Councillor David Gallagher of WDC argued that:

Reductions in electricity outgoings will have a significant positive impact on our combined areas to attract and retain residents and businesses.¹³⁹

- 4.28 Albury City Council noted that the cost of electricity infrastructure directly impacts business decisions to set up or expand in locations where new infrastructure will require increased electricity capacity.¹⁴⁰ This could constrain business investment in New South Wales and see investors favouring other jurisdictions (including Victoria).

- 4.29 NSW Farmers particularly noted the unique challenges that are faced by farmers as their industry innovates and electricity becomes the ‘optimal energy source for smart systems, automated vehicles, robots and advanced manufacturing plants’.¹⁴¹

¹³⁵ Legislative Assembly Committee on Investment, Industry and Regional Development, *Inquiry into Zonal Taxation – Interim Report*, <https://www.parliament.nsw.gov.au/committees/inquiries/Pages/inquiry-details.aspx?pk=2384#tab-reports>, pp. 27-28

¹³⁶ Mayor Darriea Turley, Transcript of evidence, 26 March 2018, p. 25

¹³⁷ Councillor David Gallagher, Transcript of evidence, 26 March 2018, p. 25

¹³⁸ Councillor David Gallagher, Transcript of evidence, 26 March 2018, p. 26

¹³⁹ Councillor David Gallagher, Transcript of evidence, 26 March 2018, p. 26

¹⁴⁰ Submission 7, Albury City Council, p. 2

¹⁴¹ Submission 15, NSW Farmers, p. 6

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The organisation explained that the cost of electricity infrastructure is 'dependent on the climate, geography and customer density of the network'.¹⁴²

- 4.30 NSW Farmers argued that network conditions in regional New South Wales have led to higher network costs than in urban areas. Consequently, commercial or business electricity users in regional New South Wales, including farmers, experience network and transmission costs that can account for '50-60% of the bill, compared to about 40% in urban areas'.¹⁴³
- 4.31 NSW Farmers also argued that national policy has neglected innovation opportunities for regional electricity management, resulting in inefficient network services that are disproportionately costly for regional users.¹⁴⁴
- 4.32 We note that the Australian Competition and Consumer Commission reported that in July 2017, Australian retail electricity prices had increased by 80-90% (based on CPI and in real terms) in the past decade. It was also reported that electricity prices for businesses are rapidly increasing.¹⁴⁵
- 4.33 The NSW Council of Social Service (NCOSS) reported in June 2017 that there was a pronounced difference in electricity bills in metropolitan Sydney compared to other regions.¹⁴⁶ NCOSS attributed this difference in pricing to the significantly higher network costs in regional areas. As noted in our Interim Report, the NSW Auditor-General reviewed the energy rebates available in New South Wales in September 2017. The Auditor-General reported that households in rural areas experience higher network costs, however they receive the same rebate as those in urban areas who experience lower network costs.¹⁴⁷
- 4.34 Peter Wilson of NSW Farmers argued that a broad review of the energy system is needed to consider ways to push regional electricity prices down:
- ...to ensure affordable and reliable electricity in regional areas we need to look at all parts of the electricity system, retailers, infrastructure owners and the electricity generators. We need a regional electricity policy framework that drives sufficient demand management and improved engagement by government in advancing farm-scale renewable energy innovations.¹⁴⁸
- 4.35 It is clear that increasing electricity prices across the State and particularly in regional New South Wales is a complex issue. We acknowledge the Government's efforts to encourage efficient electricity use by small businesses as announced in the September 2017 Energy Affordability Package. Details of appliance and

¹⁴² NSW Farmers, Answers to Questions on Notice, 13 April 2018, p 1

¹⁴³ NSW Farmers, Answers to Questions on Notice, 13 April 2018, p 1

¹⁴⁴ NSW Farmers, Submission 15, p 7

¹⁴⁵ Australian Competition and Consumer Commission, *Retail Electricity Pricing Inquiry Preliminary Report*, (22 September 2017), <https://www.accc.gov.au/system/files/Retail%20Electricity%20Inquiry%20-%20Preliminary%20report%20-%2013%20November%202017.pdf>, p. 10, accessed 1 May 2018

¹⁴⁶ NSW Council of Social Service, *Turning off the lights: The cost of living in NSW*, (June 2017) <https://www.ncoss.org.au/sites/default/files/Cost-of-Living-Report-16-06-2017-FINAL.pdf>, p. 11, accessed 1 May 2018

¹⁴⁷ NSW Auditor-General, *Energy rebates for low income households*, (September 2017) <https://www.audit.nsw.gov.au/publications/latest-reports/energy-rebates>, p. 8, accessed 14 May 2018

¹⁴⁸ Mr Peter Wilson, Transcript of evidence, 26 March 2018, p. 44

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equipment upgrade offers for businesses are to be announced in mid-2018.¹⁴⁹ The Energy Affordability Package also increased the rates for all New South Wales energy rebates by 20%.¹⁵⁰

- 4.36 We encourage the Government to further investigate whether regional targeted electricity cost reduction measures would assist regional communities, particularly considering higher electricity prices faced outside Sydney.

¹⁴⁹ NSW Government, *Appliance and equipment upgrades*, <https://powertosave.nsw.gov.au/business/appliances-equipment-upgrades>, accessed 2 May 2018

¹⁵⁰ NSW Government, *Energy Affordability Package 2017*, https://www.resourcesandenergy.nsw.gov.au/_data/assets/pdf_file/0008/736847/Energy-Affordability-Package-Fact-Sheet.pdf, (18 September 2017), accessed 2 May 2018

Appendix One – Terms of Reference

That the Committee inquire into and report on the possible benefits of zonal taxation for regional economies, infrastructure and services in New South Wales, 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.

Appendix Two – Conduct of the Inquiry

On 17 February 2016, the Committee received a referral from the Minister for Regional Development, Skills and Small Business, the Hon. John Barilaro MP, for an Inquiry into zonal taxation. On 23 March 2016, the Committee adopted the inquiry's terms of reference (Appendix One).

Submissions were open until 3 June 2016, and we received 16 submissions. We did not receive a submission from the Government.

In December 2017 we agreed to compile an Interim Report which would discuss matters regarding possible zonal taxation approaches raised in submissions. We tabled our [Interim Report](#) on 19 January 2018. In the Interim Report we identified five particular issues for discussion and further inquiry:

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.

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.

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.

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.

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

Once the Interim Report was tabled we reopened the Inquiry for submissions particularly in regards to the identified five issues. Submissions closed on 23 February 2018.

We received nine new submissions, and five supplementary submissions were made from stakeholders who had already provided submissions in 2016. All published submissions are available on the Committee's webpage and a list of all submissions is available in Appendix Three.

The Committee held a public hearing at Parliament House on 26 March 2018. Several witnesses based in regional areas gave evidence via Skype and teleconference. A full list of witnesses is available in Appendix Four.

Appendix Three – Submissions

1	Mr Christopher Moore
2	Brains Automotive
3	Confidential
4	Orana Regional Organisation of Councils
4a	Orana Regional Organisation of Councils
5	Broken Hill City Council
6	Western Division Councils of NSW
7	Albury City Council
7a	Albury City Council
8	NSW Business Chamber
8a	NSW Business Chamber
9	Chartered Accountants Australia and New Zealand
10	Walgett Shire Council
11	Regional Development Australia Far West NSW
12	Port Macquarie Hastings Council
13	Regional Development Australia Hunter
13a	Regional Development Australia Hunter
14	Central NSW Councils
15	NSW Farmers
16	Regional Development Australia Orana
16a	Regional Development Australia Orana
17	The Everson's Group
18	Tweed Shire Council
19	Regional Development Australia Riverina
20	Regional Development Australia Southern Inland
21	Griffith Business Chamber
22	Mr Barry McDonald
23	Dantia
24	Gunnedah Shire Council
25	Nambucca Shire Council

Appendix Four – Witnesses

Witness	Position	Organisation
Ms Tracey Squire	Director, Economic Development and Tourism	Albury City Council (via Skype)
Ms Jo Hewitt	Acting Economic Development Team Leader	
Mr Luke Aitken	Senior Manager, Policy	NSW Business Chamber
Mr Mark Frost	Policy Manager, Business Regulation and Economics	
Ms Megan Dixon	Executive Officer	Regional Development Australia Orana (via teleconference)
Mayor Darriea Turley AM	Mayor	Broken Hill City Council (via Skype)
Councillor David Gallagher	President	Western Division Councils of NSW (via Skype)
Mr Tony Green	General Manager	Tweed Shire Council (via teleconference)
Ms Kym Kranen	Economic Development Officer	
Mrs Dianne Everson	Co-owner and Finance Manager	The Everson's Group
Ms Kerri Riddington	Human Resources Manager	
Ms Kathy Rankin	Policy Director, Economics and Rural Affairs	NSW Farmers
Mr Peter Wilson	Chair, NSW Farmers Business, Economics and Trade Committee	
Mr Trevor John	Director of Regional Development and Executive Officer	Regional Development Australia Hunter

Appendix Five – List of Reports Referenced

AI Group Economics Research, *State taxes on business: how do they compare?*, May 2017

Australian Competition and Consumer Commission, *Retail Electricity Pricing Inquiry Preliminary Report*, September 2017

Brotherhood of St Laurence, *An Unfair Australia? Mapping Youth Unemployment Hotspots*, March 2018

CommSec, *State of the States April 2018*

House of Representatives Standing Committee on Regional Australia, *Cancer of the bush or salvation for our cities? Fly-in, fly-out and drive-in, drive-out workforce practices in Regional Australia*, (February 2013)

Legislative Assembly Committee on Economic Development, *Establishment of Special Economic Zones*, October 2012

Legislative Assembly Committee on Investment, Industry and Regional Development, *Inquiry into Zonal Taxation – Interim Report*, January 2018

Leo Dobes, *A Cross-Border Perspective on ‘Standing’ in Cost-Benefit Analysis*, Crawford School working paper 1711, Crawford School of Public Policy, Australian National University, November 2017.

National Institute of Economic and Industry Research, *Income Tax Zone Rebates*, October 2013

NSW Auditor-General, *Energy rebates for low income households*, September 2017

NSW Business Chamber, *2018-19 Pre-Budget Submission - NSW Business Chamber*, April 2018

NSW Council of Social Service, *Turning off the lights: The cost of living in NSW*, June 2017

Office of the Chief Economist, *Australian Industry Report 2016*

Office of the Chief Economist, *Industry Insights; Flexibility and growth*, March 2018

PWC, *Understanding the economy from the ground up*, 2015

SGS Economics and Planning, *Economic Performance of cities and regions*, December 2017

Appendix Six – Proposed changes to payroll tax in other states

There have been proposed changes to payroll tax in South Australia and Tasmania.

South Australia

During the 2018 election the South Australian Liberal Party proposed to increase the State's payroll tax threshold. Specifically, the proposal was to increase the state-wide payroll tax threshold to \$1.5 million from 1 January 2019.¹⁵¹

Tasmania

During the 2018 election, the Tasmanian Liberal Party proposed a reduction of the payroll tax rate from 6.1% to 4% for businesses with between \$1.25 million and \$2 million in wages.¹⁵²

The Liberal Party also proposed to:

- 'Provide up to 3 years of payroll tax relief for any business that relocates to Tasmania and establishes its operations in a regional area. In addition to lower costs of operation, interstate businesses will have even more reason to relocate to regional Tasmania. To be eligible businesses will need to:
- Move their operations to a regional area (defined as any region outside the Greater Hobart area); and
- Establish their operations in Tasmania between 1 July 2018 and 30 June 2021.¹⁵³

¹⁵¹ South Australian Liberal Party, *Scrapping Payroll Tax for Small Businesses*, <https://strongplan.com.au/policy/scrapping-payroll-tax-for-small-businesses/>, accessed 20 April 2018

¹⁵² Tasmanian Liberals, *Payroll tax cuts to boost jobs*, <https://www.tas.liberal.org.au/sites/default/files/Payroll%20Tax%20Cuts%20to%20Boost%20Jobs.PDF>, accessed 20 April 2018, pp. 2-3

¹⁵³ Tasmanian Liberals, *More Jobs for Regional Tasmania*, <https://www.tas.liberal.org.au/sites/default/files/More%20Jobs%20for%20Regional%20Tasmania.pdf>, accessed 20 April 2018, p. 3

Appendix Seven – Extracts from Minutes

MINUTES OF MEETING No 9

11.32am

Wednesday, 23 March 2016

Room 1043, Parliament House

Members Present

Mr Anderson (Chair), Mr Aplin (Deputy Chair), Ms Smith, Mr Henskens.

Apologies

An apology was received from Mr Rowell.

Officers in Attendance

Bjarne Nordin, Abigail Groves, Kieran Lewis, Abigail Turingan

1. Minutes of previous meeting

Resolved, on the motion of Mr Henskens: That the minutes of meeting no. 8 held on 17 February 2016 be confirmed.

2. Proposed inquiry into regional zone taxation

The Committee deliberated on the following correspondence:

- Letter received from the Hon John Barilaro MP, Minister for Regional Development, Skills and Small Business, dated 17 February 2016

Resolved, on the motion of Mr Henskens, seconded by Ms Smith: That the Committee adopt the following terms of reference for an inquiry into zonal taxation and call for submissions with a closing date of Friday 3 June:

That the Committee inquire into and report on the possible benefits of zonal taxation for regional economies, infrastructure and services in NSW, with particular reference to:

- a) Exemptions from, or concessions in relation to, payroll tax, stamp duty, and land tax;
- b) Concessions in relation to utility charges;
- c) The impact of fuel levies on regional growth; and,
- d) Any other related matters.

3. ***

4. Adjournment

The meeting adjourned at 11.45 am, until 9.15 am on 4 April 2016.

MINUTES OF MEETING No 10

9:15am

Monday 4 April 2016

Macquarie Room, Parliament House

Members Present

Mr Anderson (Chair), Mr Aplin (Deputy Chair), Mr Barr, Mr Henskens.

Apologies

Apologies were received from Ms Hay, Ms Smith and Mr Rowell.

Officers in Attendance

Bjarne Nordin, Abigail Groves, Kieran Lewis, Abigail Turingan

1. Minutes of previous meeting

Resolved, on the motion of Mr Aplin: That the minutes of meeting no. 9 held on 23 March 2016 be confirmed.

2. Inquiry into zonal taxation

2.1 Stakeholders

Resolved, on the motion of Mr Henskens: That the Chair write to relevant stakeholders inviting them to make a submission to the Inquiry into zonal taxation.

3. ***

4. Adjournment

The meeting adjourned at 4.15pm, until 22 June 2016.

MINUTES OF MEETING No 11

3:00pm

Monday 20 June 2016

Room 1043, Parliament House

Members Present

Mrs Pavey (Chair), Mr Aplin (Deputy Chair), Mr Henskens, Ms Smith.

Apologies

Apologies were received from Mr Barr, Ms Hay and Mr Rowell.

Officers in Attendance

Jason Ardit, Kieran Lewis

1. Committee membership

The Deputy Chair advised the Committee of a change of membership as Mr Anderson was discharged from the Committee on 2 June 2016 following his appointment as Parliamentary Secretary to the Deputy Premier. The Deputy Chair further advised that Mrs Pavey had been appointed to the Committee, also on 2 June 2016.

Resolved, on the motion of Mr Henskens, seconded by Ms Smith: That the Committee thank Mr Anderson for his contribution as Chair.

2. Election of Chair

Resolved, on the motion of Mr Henskens, seconded by Ms Smith: That Mrs Pavey be elected Chair of the Committee. Mrs Pavey then assumed the Chair.

3. Minutes of previous meeting

Resolved, on the motion of Mr Aplin, seconded by Mr Henskens: That the minutes of meeting no. 10 held on 4 April 2016 be confirmed.

4. ***

5. ***

6. Inquiry into zonal taxation

6.1 Submissions received

Resolved on the motion of Mr Aplin that the Committee publish submissions 1-14 on its website.

6.2 Possible site visits/regional hearings

The Committee discussed locations for possible site visits and public hearings and agreed to provide Committee staff with suggested locations.

The Committee agreed to invite Professor Anne Twomey, Professor of Constitutional Law, University of Sydney, to brief the Committee regarding possible constitutional prohibitions against the States implementing differential tax zones.

7. Next meeting

To be confirmed. The meeting adjourned at 4.01pm.

MINUTES OF MEETING No 12

9:30am

Thursday 20 October 2016

Room 1043, Parliament House

Members Present

Mrs Pavey (Chair), Mr Aplin (Deputy Chair), Mr Henskens, Mr Barr, Mr Rowell, Ms Smith.

Officers in Attendance

Carly Maxwell, Emma Matthews, Kieran Lewis

1. Minutes of previous meeting

Resolved, on the motion of Mr Henskens, seconded by Mr Aplin: That the minutes of meeting no. 11 held on 20 June 2016 be confirmed.

2. Inquiry into zonal taxation

2.1 Briefing Note – inquiry update

Resolved, on the motion of Mr Rowell: That the Committee note the Briefing Note and agree to write to the Treasurer.

3. Other business

The Committee discussed future plans for the inquiry into zonal taxation.

4. Next meeting

To be confirmed. The meeting adjourned at 9:41am.

MINUTES OF MEETING No 13

12.30 p.m.

Wednesday 5 April 2017

Room 1136, Parliament House

Members Present

Mr Aplin (Deputy Chair), Mr Barr, Mr Crouch, Mr Harris, Ms Hodgkinson, Mr Rowell, Ms Smith.

Officers in Attendance

Carly Maxwell, Benjamin Foxe, Abegail Turingan.

Mr Aplin as Deputy Chair opened the meeting in accordance with Standing Order 284, which provides for the Deputy Chair to act as Chair, in the Chair's absence.

1. Committee membership

The Deputy Chair advised the Committee of changes in membership:

Mr Harris replaced Ms Hay, resigned (Legislative Assembly Votes and Proceedings, 10 November 2016, entry no. 14).

Mr Crouch and Ms Hodgkinson replaced Mr Henskens and Mrs Pavey, discharged (Legislative Assembly Votes and Proceedings, 29 March 2017, entry no. 14).

The Committee agreed to a note of thanks to the previous Chair of the Committee, Mrs Pavey.

2. Election of Chair

Resolved on the motion of Mr Crouch, seconded by Mr Rowell: That Ms Hodgkinson be elected Chair of the Committee. Ms Hodgkinson then assumed the Chair.

3. General business

The Committee deliberated on the progress of the inquiry into zonal taxation. The Committee also discussed the previous inquiry 'Establishment of special economic zones' conducted by the Legislative Assembly Committee on Economic Development in 2012. Resolved on the motion of Mr Barr, seconded by Mr Crouch: That the Committee complete the inquiry into zonal taxation.

4. Confirmation of minutes

Resolved on the motion of Ms Smith, seconded by Mr Aplin: That the minutes of meeting no. 12 be confirmed.

5. Next meeting

Date to be determined. The Committee adjourned at 12.39 p.m.

MINUTES OF MEETING No 18

4pm

Thursday 23 November 2017

Room 1043, Parliament House

Members present

Mr Aplin (Deputy Chair), Mr Barr, Mr Crouch, Mr Harris, Mr Johnsen

Apologies

Mr Rowell, Ms Smith

Officers in attendance

Simon Johnston, Ben Foxe, Caroline Hopley, Abigail Turingan

Mr Aplin as Deputy Chair opened the meeting in accordance with Standing Order 284, which provides for the Deputy Chair to act as a Chair, in the Chair's absence.

1. Committee membership

The Deputy Chair advised the Committee of a change in membership:

Mr Johnsen replaced Ms Hodgkinson, resigned (Legislative Assembly Votes and Proceedings, 23 November 2017, entry no. 21).

The Deputy Chair welcomed Mr Johnsen to the Committee.

2. Election of Chair

Resolved on the motion of Mr Crouch, seconded by Mr Aplin: That Mr Johnsen be elected Chair of the Committee. Mr Johnsen then assumed the Chair.

3. Confirmation of minutes

Resolved on the motion of Mr Barr, seconded by Mr Crouch: That the minutes of meeting no. 17 be confirmed.

4. ***

5. Next meeting

Date to be determined. The Committee adjourned at 4:02pm.

MINUTES OF MEETING No 19

11:02 am

Monday 18 December 2017

Room 813, Parliament House, and via telephone

Members present

Mr Johnsen (Chair), Mr Aplin, Mr Barr, Mr Crouch, Mr Harris

Apologies

Mr Rowell, Ms Smith

Officers in attendance

Simon Johnston, Ben Foxe, Caroline Hopley, Abigail Turingan

1. Confirmation of minutes

Resolved on the motion of Mr Harris, seconded by Mr Crouch: That the minutes of meeting no.18 be confirmed.

2. Inquiry – Inquiry into zonal taxation

The Committee discussed the inquiry and the possibility of publishing an interim report and reopening the inquiry for submissions on two focus areas.

2.1 Progress of the inquiry

Resolved on the motion of Mr Crouch, seconded by Mr Aplin: That the Chair and the Committee staff prepare an interim report regarding the inquiry and re-open the inquiry for submissions (when the interim report is tabled) to be received by 23 February 2018.

Resolved on the motion of Mr Crouch, seconded by Mr Aplin: That all submission makers and stakeholders contacted at the outset of the inquiry be contacted again and informed of the opportunity to make a submission/supplementary submission.

Resolved on the motion of Mr Crouch, seconded by Mr Aplin: That the Chair issue a media release to announce the reopening of the inquiry for submissions and that the Committee's webpage be updated accordingly.

2.2 Submissions received

Resolved on the motion of Mr Harris, seconded by Mr Aplin: That the Committee authorise the publication of Submissions 15 and 16 in full as recommended.

2.3 Correspondence received

Resolved on the motion of Mr Crouch, seconded by Mr Aplin: That the Committee note correspondence received in November 2016 from the then Minister for Finance, Services and Property, the Hon. Dominic Perrottet MP, regarding the inquiry.

Resolved on the motion of Mr Crouch, seconded by Mr Aplin: That the Committee write to the current Minister for Finance, Services and Property to request an update to the data provided to the Committee by the previous Minister in November 2016.

3. ***

4. ***

5. Next meeting

Date to be determined in January 2018. The Committee adjourned at 11:13 am.

MINUTES OF MEETING No 20

11:05 am

Wednesday 17 January 2018

Room 813, Parliament House, and via telephone

Members present

Mr Johnsen (Chair), Mr Aplin, Mr Barr, Mr Crouch, Ms Smith

Apologies

Mr Harris, Mr Rowell

Officers in attendance

Elaine Schofield, Benjamin Foxe, Caroline Hopley, Abegail Turingan

1. Confirmation of minutes

Resolved on the motion of Mr Aplin, seconded by Mr Barr: That the minutes of meeting no. 19 be confirmed.

2. Inquiry – Inquiry into zonal taxation

2.1 Consideration of the Chair’s draft interim report

The Chair spoke to the draft interim report previously circulated.

The Committee agreed to consider the draft interim report in globo.

Amendment proposed:

Mr Barr moved, seconded by Ms Smith:

That Paragraphs 1.20 to 1.32 be omitted, and that Paragraph 1.19 be amended by omitting the words 'in response are discussed below' and inserting instead 'can be found on the Committee's website, however included below is a discussion of the Government response to Recommendation 3, because of its direct relevance to this inquiry'.

Discussion ensued. Question put. The Committee divided:

Ayes: Mr Barr, Ms Smith

Noes: Mr Johnsen, Mr Aplin, Mr Crouch

Motion negatived.

Mr Crouch moved, seconded by Mr Aplin: That the draft interim report be agreed to.

Discussion ensued. Question put. The Committee divided:

Ayes: Mr Johnsen, Mr Aplin, Mr Crouch, Ms Smith

Noes: Mr Barr

Motion agreed to.

Resolved on the motion of Mr Barr, seconded by Mr Crouch:

- a) That the draft report be the interim report of the Committee, and that it be signed by the Chair and presented to the House
- b) That the Chair and committee staff be permitted to correct stylistic, typographical and grammatical errors.
- c) That, once tabled, the interim report be posted on the Committee's website.

3. ***

4. ***

5. Next meeting

Date to be determined. The Committee adjourned at 11:20 am.

MINUTES OF MEETING No 21

12:01PM

Tuesday 6 March 2018

Room 1254 Parliament House

Members present

Mr Johnsen (Chair), Mr Crouch, Mr Aplin, Mr Harris

Apologies

Mr Barr, Ms Smith, Mr Rowell

Officers in attendance

Elaine Schofield, Benjamin Foxe, Caroline Hopley, Abegail Turingan

1. Confirmation of minutes

Resolved on the motion of Mr Aplin, seconded by Mr Crouch: That the minutes of meeting no. 20 be confirmed.

2. Inquiry – Inquiry into zonal taxation

a. Correspondence

The Committee noted the correspondence dated 20 February 2018 from the Minister for Finance, Services and Property regarding updated tax data.

The Committee noted the correspondence dated 1 March 2018 from Albury City Council.

b. Submissions received

Resolved on the motion of Mr Crouch, seconded by Mr Harris: That the Committee authorise the publication of Supplementary Submissions 4a, 7a, 8a, 13a, 16a and Submissions 17- 25 in full; and that they be published on the Committee website.

c. Public hearing

The Committee considered a list of possible witnesses for the public hearing on 26 March.

Resolved on the motion of Mr Harris, seconded by Mr Crouch: That the Committee hold a public hearing for the inquiry into zonal taxation on Monday 26 March 2018 at Parliament House and invite the following witnesses: Albury City Council, NSW Business Chamber, NSW Farmers, Tweed Shire Council, RDA Orana, The Eversons Group, Broken Hill City Council and Western Division Councils of NSW.

3. ***

4. ***

5. Next meeting

Monday 26 March 2018. Time to be determined. The Committee adjourned at 12:10pm.

MINUTES OF MEETING No 22

8:46 AM

Monday 26 March 2018

Macquarie Room Parliament House

Members present

Mr Johnsen (Chair), Mr Aplin, Mr Barr, Mr Crouch, Mr Harris

Apologies

Mr Rowell, Ms Smith

Officers in attendance

Elaine Schofield, Benjamin Foxe, Caroline Hopley, Abegail Turingan

1. Confirmation of minutes

Resolved on the motion of Mr Crouch, seconded by Mr Aplin: That the minutes of meeting no. 21 on 6 March 2018 be confirmed.

2. Inquiry – Inquiry into zonal taxation

a. Witnesses

Resolved on the motion of Mr Aplin, seconded by Mr Barr: That the Committee invite representatives from Regional Development Australia Hunter to provide evidence at a public hearing on 26 March 2018.

b. Media

Resolved on the motion of Mr Crouch, seconded by Mr Barr: That the Committee authorises the audio-visual recording, photography and broadcasting of the public hearing on 26 March 2018 in accordance with the Legislative Assembly's guidelines for coverage of proceedings for committees administered by the Legislative Assembly.

c. Transcript of evidence

Resolved on the motion of Mr Barr, seconded by Mr Aplin: That the corrected transcript of evidence given on 26 March 2018 be authorised for publication on the Committee's website.

d. Answers to questions on notice

Resolved on the motion of Mr Barr, seconded by Mr Harris: That witnesses be requested to return answers to questions taken on notice and supplementary questions within 14 days of the date on which the questions are forwarded to the witness, and that once received, answers to questions on notice and supplementary questions be published on the Committee's website.

Resolved on the motion of Mr Barr, seconded by Mr Crouch: That members submit any supplementary questions to the secretariat within two days of receipt of the uncorrected transcript.

The deliberative meeting adjourned at 8:49 am, and resumed at 4:35 pm after the conclusion of the public hearing.

e. Acceptance and publication of tendered documents

Resolved on the motion of Mr Barr, seconded by Mr Crouch: That the Committee accept and publish the 'NSW Farmers Association Policies – State Taxes and Energy' document tendered during the public hearing by witnesses from NSW Farmers.

f. Correspondence and research

Resolved on the motion of Mr Barr, seconded by Mr Crouch: That the Committee write to the Government and seek information regarding the following issues:

- Possible implications for regional businesses and for the Budget of a change to the payroll tax threshold or rate, including:
 - The number of businesses in regional areas liable for payroll tax (as per the brackets previously provided by the Committee)
 - The number of businesses in the entire state liable for payroll tax
- Possible implications of changes to commercial stamp duty rates, including:
 - Stamp duty collected from commercial property transactions in regional NSW
 - Stamp duty collected from commercial property transactions in the whole of NSW
 - Number of commercial property transactions in regional NSW
 - Number of commercial property transactions in the whole of NSW

Resolved on the motion of Mr Barr, seconded by Mr Crouch: That Committee staff obtain information regarding:

- The impact of state taxes and charges, particularly payroll tax, on the cost of electricity in regional NSW.
- Financial support provided by the Commonwealth Government to the Victorian and South Australian Governments following the closure of manufacturing industries in those states.

3. ***

4. Next meeting

Date and time to be determined. The Committee adjourned at 4:43 pm.

MINUTES OF HEARING

9:00 am

Monday 26 March 2018

Macquarie Room, Parliament House

Members present

Mr Johnsen (Chair), Mr Aplin, Mr Barr, Mr Crouch, Mr Harris,

Apologies

Mr Rowell, Ms Smith

Officers in attendance

Elaine Schofield, Benjamin Foxe, Caroline Hopley, Abegail Turingan

1. Public Hearing – Inquiry into zonal taxation

The public hearing commenced at 9.00am. The room was opened to the public and the media. The Chair made a brief opening statement.

The following witnesses representing Albury City Council attending via Skype were affirmed and examined:

- Ms Tracey Squire, Director, Economic Development and Tourism, Albury City Council
- Ms Jo Hewitt, Acting Economic Development Team Leader, Albury City Council

Evidence concluded.

The following witnesses representing the NSW Business Chamber were affirmed and examined:

- Mr Luke Aitken, Senior Manager, Policy, NSW Business Chamber
- Mr Mark Frost, Policy Manager, Business Regulation and Economics, NSW Business Chamber

Evidence concluded.

The following witness representing Regional Development Australia Orana attending via Skype was affirmed and examined:

- Ms Megan Dixon, Executive Officer, Regional Development Australia Orana

Evidence concluded.

The following witnesses representing Broken Hill City Council and Western Division Councils of New South Wales attending via Skype were affirmed and examined:

- Cr Darriea Turley, Mayor, Broken Hill City Council
- Cr David Gallagher, President, Western Division Councils of NSW

Evidence concluded.

The following witnesses representing Tweed Shire Council attending via teleconference were affirmed and examined:

- Mr Troy Green, General Manager, Tweed Shire Council
- Ms Kym Kranen, Economic Development Officer, Tweed Shire Council

Evidence concluded.

The following witnesses representing The Everson's Group were affirmed and examined:

- Mrs Dianne Everson, Co-owner and Finance Manager, The Everson's Group
- Ms Kerri Riddington, Human Resources Manager, The Everson's Group

Evidence concluded.

The following witnesses representing NSW Farmers were sworn and examined:

- Mr Peter Wilson, Chair, Business, Economics and Trade Committee, NSW Farmers
- Ms Kathy Rankin, Policy Director, Economics and Rural Affairs, NSW Farmers

Evidence concluded.

The following witness representing Regional Development Australia Hunter was affirmed and examined:

- Mr Trevor John, Director of Regional Development and Executive Officer, Regional Development Australia.

Evidence concluded, the witness and the public withdrew.

The hearing concluded at 4:35pm, at which time deliberative meeting no. 22 resumed.

MINUTES OF MEETING No 23

9:00 am

Thursday 12 April 2018

Room 1254

Members present

Mr Johnsen (Chair), Mr Aplin, Mr Barr, Mr Crouch, Mr Harris, Mr Rowell

Apologies

Ms Smith

Officers in attendance

Elaine Schofield, Benjamin Foxe, Caroline Hopley, Abegail Turingan

1. Confirmation of minutes

Resolved on the motion of Mr Crouch, seconded by Mr Aplin: That the minutes of meeting no. 22 on 26 March 2018 be confirmed.

2. Inquiry – Inquiry into zonal taxation

a. Transcript of evidence

Resolved on the motion of Mr Rowell, seconded by Mr Harris: That the Committee orders that the words requested by the Eversons' Group witnesses to be kept confidential in their evidence of 26 March 2018 at page 36 and 41 (per correspondence received on 3 and 4 April 2018) not be published.

b. Additional document received

The Committee noted the document provided by Tweed Shire Council in addition to their evidence given at the 26 March 2018 public hearing in regards to road funding and population sizes.

c. Briefing notes

The Committee noted the following briefing notes:

- Impact of state taxes on electricity prices; and
- Federal assistance following the closure of motor vehicle manufacturing in South Australia and Victoria

d. Chair's draft report

The Chair asked that Committee members forward proposed recommendations to the Committee staff by close of business Friday 20 April 2018, with the draft report to be considered at a deliberative meeting in May.

3. Next meeting

Date and time to be determined in May 2018. The Committee adjourned at 9:03 am.

MINUTES OF MEETING No 24

9:01 am

Wednesday 23 May 2018 and Thursday 24 May 2018

Room 1254 and Room 1136

Members present

Mr Johnsen (Chair), Mr Aplin, Mr Barr, Mr Crouch, Mr Harris, Mr Rowell

Apologies

Ms Smith

Officers in attendance

Elaine Schofield, Benjamin Foxe, Caroline Hopley, Abegail Turingan

1. Confirmation of minutes

Resolved, on the motion of Mr Crouch, seconded Mr Aplin: That the minutes of the Public Hearing on 26 March 2018 be confirmed.

Resolved, on the motion of Mr Crouch, seconded Mr Aplin: That the minutes of Meeting No 23 on 12 April 2018 be confirmed.

2. Inquiry – Inquiry into zonal taxation

a. Correspondence

The Committee noted correspondence that had been forwarded to the Chair from a number of members of the public expressing support for an increase in the New South Wales payroll tax threshold.

The Committee noted correspondence from the Minister for Finance, Services and Property dated 10 May 2018 responding to questions sent by the Committee on 10 April 2018.

b. Consideration of the Chair's draft final report

Resolved, on the motion of Mr Rowell, seconded Mr Crouch: That the Committee consider the Chair's draft report of the Inquiry into Zonal Taxation – Final Report chapter by chapter.

Chapter One

Resolved, on the motion of Mr Johnsen, seconded Mr Crouch: That paragraphs 1.17 and 1.18 be omitted:

- 1.17 Regional economic growth can be encouraged by removing unnecessary impediments to doing business. A recent report by the

Australian Productivity Commission discussed reforms that would facilitate the transition and development of regions:

All governments can facilitate regional transition and development by removing regulatory obstacles that reduce flexibility and discourage people and business owners from taking up opportunities. Doing so creates an environment conducive to employment and growth, and facilitates the movement of labour and other resources between regions. [FOOTNOTE: Productivity Commission Study Report, Transitioning Regional Economies, (December 2017) <https://www.pc.gov.au/inquiries/completed/transitioning-regions/report/transitioning-regions-report.pdf>, p. 23, accessed 1 May 2018]

- 1.18 The Commission noted that impediments to regional business growth include ‘unnecessarily complex and costly regulatory processes and regulations that restrict what people and businesses can do’. [FOOTNOTE: Productivity Commission Study Report, Transitioning Regional Economies, (December 2017) www.pc.gov.au/inquiries/completed/transitioning-regions/report/transitioning-regions-report.pdf, p. 23, accessed 1 May 2018] The Commission indicated that policy reform opportunities to support regional economic growth include removing regulatory arrangements that prevent people and businesses from pursuing new employment opportunities or reduce the mobility of workers. [FOOTNOTE: Productivity Commission Study Report, Transitioning Regional Economies, (December 2017) <https://www.pc.gov.au/inquiries/completed/transitioning-regions/report/transitioning-regions-report.pdf>, p. 23, accessed 1 May 2018]

Resolved, on the motion of Mr Rowell, seconded Mr Aplin: That Chapter One, as amended, stand as part of the report.

Chapter Two

Resolved, on the motion of Mr Aplin, seconded Mr Rowell: That Recommendation 2 be amended by inserting ‘or from Greater Sydney’ after ‘from interstate or overseas’
Mr Barr moved, seconded Mr Harris: That paragraph 2.4 be amended by:

- a. Inserting ‘at an indicative cost of approximately \$400 million to the State Budget’ after ‘for regional businesses’ and a footnote referencing ‘Correspondence to the Committee from the Minister for Finance, Services and Property, the Hon. Victor Dominello MP, dated 10 May 2018’
- b. Inserting a paragraph break before the words ‘We recommend that the regional payroll tax threshold further increase to \$2 million from 1 July 2022.’
- c. Inserting ‘with an indicative value of more than \$500 million’ after ‘We recommend that the regional payroll tax threshold further increase to \$2 million from 1 July 2022’

Question put and negatived.

Resolved, on the motion of Mr Barr, seconded Mr Harris: that paragraph 2.10 be omitted:

- 2.10 NSWBC has stated in their 2018-19 Pre-Budget Submission that for businesses across the State the majority of any payroll tax savings are likely to be reinvested in order to pursue further growth:

Based on responses to the Chamber's December 2017 Business Conditions Survey, we estimate 85 per cent of payroll tax savings would be used to expand business operations and would include capital investment and increased labour. [FOOTNOTE: NSW Business Chamber, 2018-19 Pre-Budget Submission NSW Business Chamber, (April 2018) [www.nswbusinesschamber.com.au/NSWBC/media/ABI/NSW-Business-Chamber-Pre-Budget-Submission-\(FINAL\).pdf](http://www.nswbusinesschamber.com.au/NSWBC/media/ABI/NSW-Business-Chamber-Pre-Budget-Submission-(FINAL).pdf), p. 2, accessed 23 April 2018]

Resolved, on the motion of Mr Aplin, seconded Mr Barr: That the following new paragraph be inserted after paragraph 2.46:

- 2.46 Little evidence was presented to the Inquiry to draw out the significance of business and employment moves the other way, namely from Victoria to New South Wales. The range and differences in incentives and broader considerations which might prompt a relocation (for example the impact of current grants programs and public infrastructure programs; desirable serviced land) render it difficult to weigh material which is more anecdotal than empirical.

Resolved, on the motion of Mr Barr, seconded Mr Rowell: That paragraphs 2.50, 2.51, 2.52 and 2.53 be omitted:

Payroll Tax in Tasmania

- 2.50 Payroll tax changes have also been recently proposed in Tasmania. During the recent state election, the Liberal Party proposed a reduction of the payroll tax rate from 6.1% to 4% for businesses with between \$1.25 million and \$2 million in wages. [FOOTNOTE: Tasmanian Liberals, Payroll tax cuts to boost jobs, <https://www.tas.liberal.org.au/sites/default/files/Payroll%20Tax%20Cuts%20to%20Boost%20obs.PDF>, accessed 20 April 2018, pp. 2-3]
- 2.51 The Liberal Party also proposed the creation of a regional payroll tax zone to cover all of the state outside Hobart as part of its Regional Jobs and Investment Incentive policy. Specifically, the now re-elected Liberal Government has proposed to:
- Provide up to 3 years of payroll tax relief for any business that relocates to Tasmania and establishes its operations in a regional area. In addition to lower costs of operation, interstate businesses will have even more reason to relocate to regional Tasmania. To be eligible businesses will need to:
 - Move their operations to a regional area (defined as any region outside the Greater Hobart area); and
 - Establish their operations in Tasmania between 1 July 2018 and 30 June 2021. [FOOTNOTE: Tasmanian Liberals, More Jobs for Regional Tasmania, <https://www.tas.liberal.org.au/sites/default/files/More%20Jobs%20for%20Regional%20Tasmania.pdf>, accessed 20 April 2018, p. 3]

- 2.52 The policy proposes a payroll tax 'holiday' of three years to encourage businesses to move to regional Tasmania in order to increase regional jobs, population growth and regional investment.
- 2.53 Other Australian Governments are willing to alter payroll tax approaches to encourage small business growth and remove barriers to employment. This is exemplified by the proposed new payroll tax approaches in Tasmania and South Australia, along with the now established Victorian regional payroll tax rate.

Resolved, on the motion of Mr Aplin, seconded Mr Rowell: That Recommendation 5 be amended to insert 'Greater' before 'Sydney'.

The deliberative meeting was interrupted at 10:01 am for the meeting of the House.

The deliberative meeting recommenced at 9:04 am on 24 May 2018 in Room 1136.

Continuation of consideration of Chapter Two

Resolved, on the motion of Mr Crouch, seconded Mr Aplin: That paragraphs 2.47, 2.48 and 2.49 be omitted:

Payroll tax in South Australia

- 2.47 Proposals have recently been made for a more competitive payroll tax scheme in South Australia. Currently, the South Australian payroll tax approach includes three different thresholds, with businesses under \$600,000 exempt from the tax and businesses between \$600,000 and \$1 million subject to a 2.5% tax rate. Businesses with a payroll of between \$1 million and \$1.5 million face a variable rate between 2.5% and 4.95%, with payrolls over \$1.5 million subject to the 4.95% rate.

[FOOTNOTE: RevenueSA, Payroll Tax,

<https://www.revenuesa.sa.gov.au/taxes-and-duties/payroll-tax>, accessed 20 April 2018]

- 2.48 We note that the incoming South Australian Government has proposed to increase the State's payroll tax threshold. Specifically, the incoming Government has proposed increasing the state-wide payroll tax threshold to \$1.5 million from 1 January 2019, advising that 'a Marshall Liberal Government will scrap payroll tax for all small businesses in South Australia'.

[FOOTNOTE: South Australia Liberal Party, Scrapping Payroll Tax for Small Businesses, <https://strongplan.com.au/policy/scrapping-payroll-tax-for-small-businesses/>, accessed 20 April 2018]

- 2.49 We note that this proposed threshold increase in South Australia has implications for the ongoing competitiveness of New South Wales to attract businesses and encourage business growth.

Resolved, on the motion of Mr Rowell, seconded Mr Crouch: That paragraph 2.72 be amended by:

- a. omitting '1600' and inserting instead '1000'
- b. omitting 'just over the threshold which would have 'less complex payrolls' as a result of a threshold increase' and inserting instead 'between the \$750,000 threshold and \$1 million'

Resolved, on the motion of Mr Barr, seconded Mr Harris: That paragraph 2.73 'Specific payroll tax relief in regional New South Wales is warranted to assist small and medium sized businesses to overcome challenging circumstances faced in regional areas and to support economic growth in the regions' be omitted and the following new paragraph be inserted instead:

2.73 In contrast to the claims by NSWBC, data provided by the Minister for Finance, Services and Property indicates that in 2016/17 only 378 businesses in New South Wales were just above the \$750,000 payroll tax threshold. Of the 378 businesses in the \$750,000 to \$1 million range just above the threshold, only 36 of these had a regional address.

Mr Barr moved, seconded Mr Harris: That the following new paragraph be inserted after paragraph 2.73:

The Minister for Finance, Services and Property was unable to offer a response in regard to the impact on state revenue as a result of making changes to the rate at which payroll tax is charged in conjunction with any proposed increase to thresholds.

Question put and negatived.

Resolved, on the motion of Mr Rowell, seconded Mr Harris: That Chapter Two, as amended, stand as part of the report.

Chapter Three

Resolved on the motion of Mr Barr, seconded Mr Harris: That the following new paragraph be inserted after paragraph 3.5:

3.6 Evidence provided by the Minister for Finance, Services and Property with regard to the stamp duty collected for non-residential property transactions in regional New South Wales identified duty assessments to the value of \$339.8 million in 2016/17 and \$735.4 million in 2015/16. The commercial percentage of these transactions and duties is not identified and as such it is not possible to quantify the value of any change to stamp duty charged on regional commercial premises.

Resolved, on the motion of Mr Harris, seconded Mr Crouch: That paragraph 3.18 be amended by:

- a. Omitting 'may create an' and inserting instead 'will further alter the'
- b. Adding the following new sentence to the end of paragraph 3.18 'The variations in stamp duty and payroll tax from one state to the next already provide a

competitive playing field for businesses which needs to be considered on a case by case basis.'

Mr Barr moved: That the following new paragraph be inserted after paragraph 3.19:

It should also be noted that incentives to drive businesses to establish a regional address, as per the definitions of this Report, may have the unintended consequence of driving up commercial property prices in area just outside of the Greater Sydney area which could lead to a windfall for existing property owners and an unaffordable price increase for new operators seeking to enter the market. A possible unfortunate outcome would be to have those seeking nothing more than a business address, for the sake of accessing these proposed taxation benefits, stifling the prosperity of those that are already and intend genuinely to be based in those regions by both address and practice.

Question put and negatived.

Resolved, on the motion of Mr Barr, seconded Mr Rowell: That paragraph 3.30 be amended by:

- a. Omitting 'we support further Government examination of a young farmer stamp duty exemption in our State' and inserting instead 'that is why the Committee recommends that the Government consider the Victorian model of stamp duty concessions for new young farmers buying their first farm.'
- b. That the following new recommendation be inserted after paragraph 3.30:

Recommendation 6

That the NSW Government consider stamp duty concessions for new young farmers who are buying their first farming property.

Resolved, on the motion of Mr Harris, seconded Mr Crouch: That Chapter Three, as amended, stand as part of the report.

Chapter Four

Resolved, on the motion of Mr Barr, seconded Mr Crouch: That the following new paragraph be inserted after paragraph 4.3:

- 4.4 Any such review needs to explore, in detail, the success or failure of actually getting employers and employees to move out of the Greater Sydney area on a permanent and full time basis, and not just for the sake of a business address that conveniently avoids tax without making a true and genuine commitment to regional New South Wales.

Resolved, on the motion of Mr Barr, seconded Mr Rowell: That the following new paragraph be inserted after new paragraph 4.4:

- 4.5 Any such review should revise, in detail, the boundaries and definition of what is regional and to explore whether or not the definitions of regional remain appropriate.

Resolved, on the motion of Mr Barr, seconded Mr Aplin: That a new paragraph be inserted after paragraph 4.22:

4.22 We suggest that the Government seek the views of the Cross Border Commissioner to assess the various challenges along border corridors for employers, employees and communities seeking infrastructure.

Resolved, on the motion of Mr Crouch, seconded Mr Aplin: That Chapter Four, as amended, stand as part of the report.

Appendices

Resolved, on the motion of Mr Crouch, seconded by Mr Barr, That a new appendix be inserted after Appendix 5 and that the Appendices, as amended, stand as part of the report:

Appendix Six – Proposed changes to payroll tax in other states

There have been proposed changes to payroll tax in South Australia and Tasmania.

South Australia

During the 2018 election the South Australian Liberal Party proposed to increase the State's payroll tax threshold. Specifically, the proposal was to increase the state-wide payroll tax threshold to \$1.5 million from 1 January 2019.

Tasmania

During the 2018 election, the Tasmanian Liberal Party proposed a reduction of the payroll tax rate from 6.1% to 4% for businesses with between \$1.25 million and \$2 million in wages.

The Liberal Party also proposed to:

- Provide up to 3 years of payroll tax relief for any business that relocates to Tasmania and establishes its operations in a regional area. In addition to lower costs of operation, interstate businesses will have even more reason to relocate to regional Tasmania. To be eligible businesses will need to:
- Move their operations to a regional area (defined as any region outside the Greater Hobart area); and
- Establish their operations in Tasmania between 1 July 2018 and 30 June 2021.

Resolved, on the motion of Mr Aplin, seconded by Mr Rowell, that the draft report, as amended, be the report of the Committee and that it be signed by the Chair and presented to the House; and that the Chair and Committee staff be permitted to correct stylistic, consequential, typographical and grammatical errors.

Resolved, on the motion of Mr Harris, seconded by Mr Barr, that, once tabled, the report be published on the Committee's webpage.

3. ***

4. Next meeting

The adjourned at 9:58 am. The next meeting will be at 9:30 am on 29 May 2018 in the Park Beach and Jetty Rooms, Coffs Harbour City Council Building.