

31 January 2014

The Hon Mike Baird MP  
Treasurer  
Level 36 Governor Macquarie Tower  
1 Farrer Place  
SYDNEY NSW 2000

NSW Business Chamber  
incorporates

- Sydney Business Chamber
- Australian Business Limited Apprenticeships
- Australian Business Lawyers and Advisors
- Australian Business Consulting and Solution

Dear Treasurer

**RE: 2014-15 NSW BUDGET**

I am writing to you to convey the views of the NSW Business Chamber regarding the 2014-15 NSW Budget.

The Chamber recognises that tough economic conditions have placed additional pressure on the State Budget, and commends the Government for maintaining the State's AAA Credit Rating through its capable management of the State's finances. The Government should continue its efforts to control spending and look towards further privatising state assets to free up capital for much needed infrastructure projects, which will also help boost the State's struggling non-residential construction sector.

However, economic weakness weighs even more heavily on the State's business community than it does on the State budget. With this in mind, the Chamber has formulated a number of modest proposals to improve economic efficiency and ease the burdens facing the State's businesses.

The Chamber recommends that the following policy changes be implemented in the upcoming State Budget.

1. Follow other States in abiding by the Intergovernmental Agreement to abolish taxes on the transfer of business ownership and commercial property.
2. Reduce disincentives to take out insurance by following other States in abolishing the Fire Services Levy.
3. Improve business cash flow and reduce red-tape by adjusting the payroll tax payment frequency for SMEs.
4. Reduce red tape by allowing businesses to register for payroll tax annually rather than monthly.

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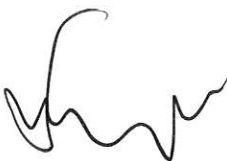
5. Make it more practical for businesses to claim the Payroll Tax Rebate (Jobs Action Plan) by increasing the period for which a position can be vacant to 90 days.
6. Create a Local Government Reform Fund to help facilitate the merging of the State's 152 local councils as recommended by the Independent Local Government Review Panel.

The Chamber also has several recommendations that would require more extensive consultation and development, but should be implemented in future budgets.

7. Seek the support of the Commonwealth and other States to end the over-taxation of business loans that results in overpayment of more than \$750 million.
8. Examine options for compensating businesses located in cross-border regions, which pay more tax than their counterparts in Victoria and Queensland.

These proposals are outlined in further detail at Attachment A. Please contact the Chamber's regulation and economics adviser, Tim Hicks (9458 7259; [tim.hicks@nswbc.com.au](mailto:tim.hicks@nswbc.com.au)) should you have any questions regarding these proposals.

Yours sincerely



**Stephen Cartwright**  
Chief Executive Officer

## **Attachment A**

### **1. Follow other States in abiding by the Intergovernmental Agreement to abolish taxes on the transfer of business ownership and commercial property**

- The retention of these taxes (transfer duty on non-real business property, transfer duty on unlisted marketable securities and commercial mortgage duty) costs NSW businesses around \$350 million a year.
- These taxes reduce the income that retiring business owners can expect from the sale of their business, discourage mergers, acquisitions or restructures that provide a way out for struggling businesses or improve the efficiency of business operations, and provide a disincentive for start-up businesses (that typically end in trade sales) to establish in NSW.
- NSW has already deferred its commitment to abolish these taxes as part of the Intergovernmental Agreement on Federal Financial Relations several times. This leaves NSW businesses at a disadvantage compared with businesses in most other States (including Victoria and Queensland) who abolished these taxes several years ago (or never had them in the first place).

### **2. Reduce disincentives to take out insurance by following other States in abolishing the Fire Services Levy**

- NSW is the only State that still taxes insurance to pay for emergency services.
- This tax is unfair because it means that those who pay to insure themselves must also pay for the emergency services of others who do not purchase insurance.
- It is also inefficient because it pushes up the price of insurance, making it more likely that individuals and businesses will underinsure, or avoid taking out cover altogether, which may also result in additional costs if the State is required to provide support to the underinsured in an emergency.

### **3. Improve business cash flow and reduce red-tape by adjusting the payroll tax payment frequency for SMEs**

- If a business has an annual payroll tax liability of less than \$6,000 they may pay payroll tax annually rather than monthly. An annual payroll tax liability of \$6,000 equates to around \$110,000 of wages. This means

businesses with annual wages of less than \$860,000 can pay payroll tax annually.

- The Government could improve business cash flow and reduce red-tape by allowing businesses above the \$860,000 threshold to align their payroll tax payment frequency with their PAYG payments.
- As a rough estimate, around 19,000 businesses would be affected initially and this would fall to around 17,000 as federal plans to move to a monthly PAYG for businesses with more than \$20 million turnover are implemented.<sup>1</sup>
- These businesses would benefit from decreased regulatory compliance and improved cash flow, which would provide a net benefit to the economy as these businesses have higher borrowing costs than government.
- As a very rough estimate, (assuming these businesses are evenly distributed within the income range categories for which data on the number of payroll tax payers is available), these businesses would pay around \$5.3 billion in payroll tax.
- Assuming government had to borrow (or would be unable to pay down debt) because payments were delayed, the cost to government would start at \$6.5 million a year and fall to \$2 million a year over the forward estimates.

#### **4. Reduce red tape by allowing businesses to register for payroll tax annually rather than monthly**

- Businesses only have to pay payroll tax if they exceed the annual \$750,000 threshold. However, this threshold is converted into a monthly amount for registration purposes so that businesses must register for payroll tax within 7 days if their monthly wages during any month exceed the relevant monthly threshold (usually around \$60,000). If they exceed the annual payment threshold they may have to make a payment that is then refunded at the end of the year, but usually no payment would be required.
- Currently businesses near the threshold must closely monitor their monthly wages to determine whether they are liable for payroll tax.
- This is particularly problematic for businesses that vary the monthly hours of their staff based on customer demand and even firms that are

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<sup>1</sup> Based on the fact that most industries have a sales-to-salary ratio of more than two.

reducing staff may be affected if they have to pay out annual leave for departing staff.

- To reduce unnecessary red tape the Government should:
  - give businesses a full month to register following the end of the registration period; and
  - allow businesses to register for payroll tax annually rather than monthly.
- The proposed changes would mean that businesses near the threshold only have to check their payroll tax liability once a year and businesses with variable workflow would be relieved of the need to register. There would also be a small one-off impact on the timing of payments, as businesses that would have registered during the calendar push their registration back to the end of the calendar year. The biggest potential difficulty would be the impact on payroll tax harmonization, but this just means that NSW has an opportunity to play a leadership role in red tape reduction efforts across all states.

**5. Make it more practical for businesses to claim the Payroll Tax Rebate (Jobs Action Plan)**

- Historical data indicates that take-up of the payroll tax rebate for new employees has been very low. This may have improved since the government boosted the size of the rebate, but this seems unlikely as the process remains cumbersome.
- The biggest difficulty in claiming the rebate is that businesses cannot confidently commit that if the employee for whom the rebate is claimed leaves the business, a replacement can commence work within 30 days, particularly given the replacement candidate they select may have to give 28 days' notice to their current employer.
- Increasing the period that a position for which the rebate is claimed may be vacant to 90 days would make it far more practical for businesses to claim the rebate, and therefore increase its effectiveness as an incentive to hire new staff

**6. Create a Local Government Reform Fund to help facilitate the merging of the State's 152 local councils as recommended by the Independent Local Government Review Panel**

- Following extensive consultation throughout NSW, the Independent Local Government Review Panel has now provided its final



recommendations to Government on options for local council governance models, structures and boundary changes.

- The Panel found that council mergers or changes in governance could provide financial benefits and service improvements. However, often the councils that would benefit most from these changes lack the financial resources to initiate and/or complete the process.
- To overcome this problem, the Government should provide funding to allow the Division of Local Government (DLG) to support mergers or arrangements for shared service delivery where councils lack sufficient internal resources.
- The funding would allow DLG to:
  - appoint suitably qualified persons on a case-by-case basis to analyse the benefits and practical implementation of proposed changes; and
  - provide funding, where necessary, to cover some of the implementation costs for councils that succeed in merging or sharing functions.
- The proposed funding for the program is \$10 million over two years with further funding contingent upon its success.

**7. Seek the support of the Commonwealth and other States to end the over-taxation of business loans that results in overpayment of more than \$750 million**

- For technical reasons<sup>2</sup> GST can't be applied to financial services where payment is based on interest margins. Instead these financial supplies have GST applied to their inputs, but not their outputs. This also means businesses cannot claim input tax credits for financial services.
- The Henry Review estimated that in 2010-11 this resulted in businesses being over taxed by \$760 million while consumers were undertaxed by \$3.9 billion.
- NSW should seek the support of other governments to fully tax consumption of financial supplies, as recommended by the Henry Review and others.
- This measure would improve the competitiveness of Australia as an exporter of financial services and encourage investment by reducing the cost of finance for business.

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<sup>2</sup> See Australia's Future Tax System Review Final Report, Part 2, Chapter D4:  
[http://taxreview.treasury.gov.au/content/FinalReport.aspx?doc=html/publications/Papers/Final\\_Report\\_Part\\_2/chapter\\_d4-2.htm](http://taxreview.treasury.gov.au/content/FinalReport.aspx?doc=html/publications/Papers/Final_Report_Part_2/chapter_d4-2.htm).

**8. Examine options for compensating businesses located in cross-border regions, which pay more tax than their counterparts in Victoria and Queensland**

- NSW's higher tax rates can have a negative impact on businesses located in the cross-border regions of the State (particularly Tweed and Albury)
- The Government should consider arrangements to provide a rebate to businesses located in these regions that can show they would have paid less tax were they located across the border.