NSW Business Chamber Budget Priorities

Submission to the 2017-18 NSW Budget

March 2017

Introduction and overview

The NSW Business Chamber (the Chamber) welcomes the opportunity to provide a submission to the 2017-18 Budget.

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

While the Government should be proud of its considerable achievements, we believe a number of challenges remain and that more can be done.

With the community increasingly concerned about deteriorating prospects of home ownership, we are pleased that housing affordability has been cited as one of the Government's key priorities. While tax reform does not provide a silver bullet, the Budget provides an opportunity to review the State's tax policy settings to ensure they do not exacerbate the housing affordability challenge.

NSW is more reliant on transfer duty than any other state or territory and is around twice as reliant as South Australia, Tasmania, the ACT and Queensland; and around three times as reliant as Western Australia and the Northern Territory. In practice this means that a buyer purchasing a house priced at the Sydney median must pay almost $50,000 in transfer duty. Further, transfer duty is widely acknowledged as one of the most inefficient taxes. An increasing role for transfer duty, as would occur if policy settings do not change, is not consistent with our collective aspiration for NSW to be the most competitive economy in Australia.

Another handbrake on NSW business and jobs growth remains the competiveness and administrative efficiency of our payroll tax arrangements. Other states have moved to make their payroll tax regimes more competitive while ours has remained unchanged since 2013. This makes NSW a less competitive place to do business, particularly for regionally based businesses operating in proximity to jurisdictions with more favourable arrangements.

The Chamber strongly supports the Government's statements on the need to ensure that our economic dividends deliver strong growth in jobs and shared prosperity. Reducing the extent to which our payroll tax system imposes unnecessary impediments on businesses hiring new staff would strongly complement the Government's supply-side initiatives such as vocational education and school education reform.

This submission outlines the Chamber's proposals for reforming transfer duty and payroll tax, which remain our top priorities for the 2017-18 Budget, as well as other priorities that form part of the Chamber's broader policy agenda. Demonstrating alignment between the Chamber's positive agenda and the priorities of the Government, the submission is structured along the themes identified as priorities for the Government including: building local infrastructure; improving housing affordability; and building a strong economy with an emphasis on more jobs.

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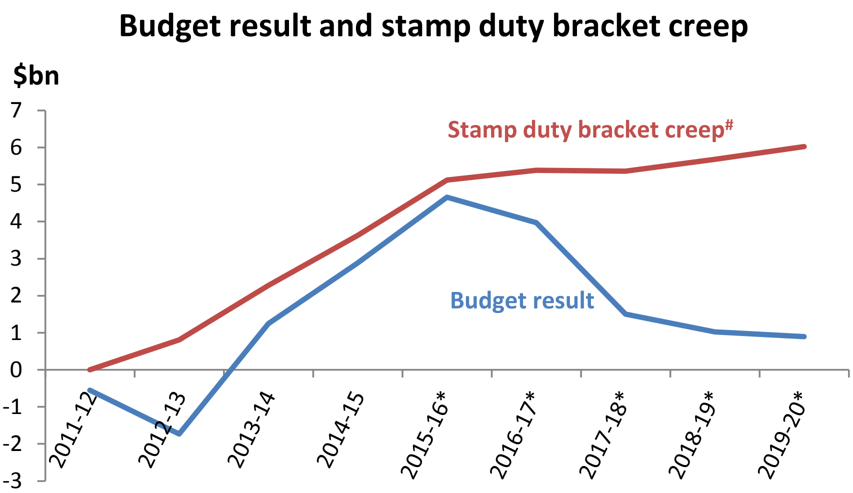
Part 1 — Maintaining the principles of prudent budget management

The Government has been successful in containing expenses growth, including through its public sector reforms which have delivered lasting efficiency gains to the NSW taxpayer. While the lion's share of budget surpluses over recent years can be attributed to growth in transfer duty receipts, the containment of expenses growth has positioned NSW to achieve record surpluses and maintain its triple-A credit rating.

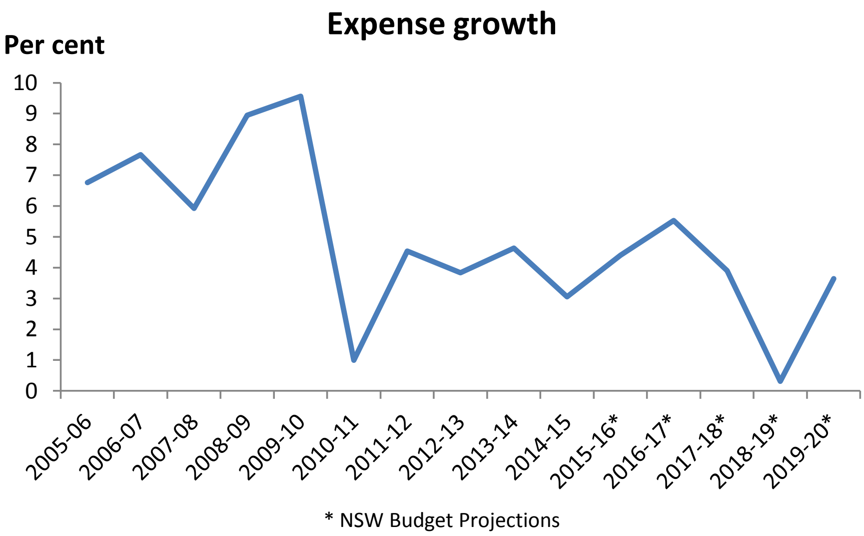
To ensure responsible budget management over the longer term, the Government will need to remain vigilant. Expense minimisation should not be seen as a one-off adjustment but part of an ongoing strategy to ensure a responsible approach to the state's finances.

While expenses growth has been below that of revenue over recent years, this is expected to reverse over the forward estimates due to declining GST transfers from the Commonwealth. Expenses growth is projected to remain within the Government's stated target (of below 5.6 per cent) and to be lower than forecast nominal GSP. However, in the absence of the significant levels of transfer duty growth seen over recent years, which itself would come with significant economic costs, it is conceivable that expenses growth could exceed revenue growth implying a deterioration of the budget position.

The Chamber welcomes expenditure growth below that of nominal Gross State Product (GSP) as the predominant basis for addressing the emerging fiscal gap challenge identified in the 2016 NSW Intergenerational Report. The Government must therefore continue to maintain the principles of prudent budget management to ensure expenses growth is contained (having averaged around 4 per cent since the Coalition was elected in 2011).



* NSW Budget Projections
\# Bracket creep calculated relative to 2011-12 transfer duty receipts



* NSW Budget Projections

Part 2 — Building a stronger economy with more jobs: making NSW the easiest place to start and grow a business

The economic opportunities available to the people of NSW are primarily borne out of the private sector. Ensuring that the right policy settings are in place to support the business community is therefore essential to laying the foundation of a strong and prosperous economy with economic opportunity for all. Part 2 will outline steps that should be taken to ensure NSW's prosperity into the future.

Improving the efficiency of the NSW tax system

Property tax reform

The Chamber has been a strong advocate for the reform of NSW property taxes. The Chamber has pursued this issue because it is important to the state's competiveness as failing to act will result in the accumulation of significant economic costs to our economy, including the business community. But property tax reform is also important in meeting broader objectives such as housing affordability. This section will discuss the efficiency costs of NSW taxes while the housing affordability challenge will be addressed in Part 3 of this submission.

The Chamber's 2016 Thinking Business Report ***Taking on Tax: Reforming NSW Property Taxes*** highlighted that replacing transfer duty and the existing narrow-based land tax with a broad-based land tax would generate a 1 per cent boost to the NSW economy (equivalent to more than $5bn annually); 10,000 new jobs; and more than $1,400 in additional consumption each year for the average household.

While the Chamber has previously advocated for replacing transfer duty (including on real property and other assets) with a broad-based land tax, the urgently needed stake in the ground is about ensuring that transfer duty does not become even more costly than it currently is. Transfer duty rates and thresholds have become frozen in time and while in years gone by a transfer duty liability could be passed off as an annoyance, bracket creep over recent years has reached crisis levels. The problem is encapsulated by two problems:

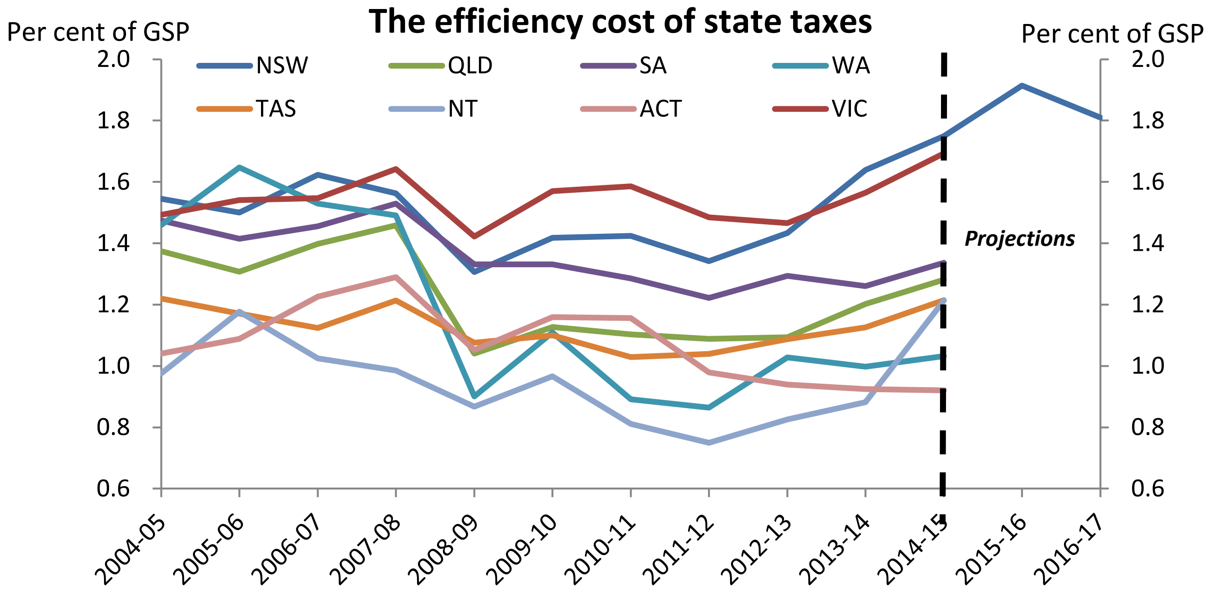
- Transfer duty has a high efficiency cost, estimated to generate 80 cents of welfare losses for every dollar collected (compared with near zero for more efficient taxes);[1] and
- NSW Transfer duty receipts have almost tripled over the past decade and are approaching $10bn.

Together, these effects have resulted in a significant uptick in the efficiency costs of the NSW tax system such that the NSW tax system is now the most inefficient in Australia (Chart below refers).

While increasing transfer duty is affecting other jurisdictions (most notably Victoria), the problem is most profound in NSW. Our state is more reliant on stamp duty than any other jurisdiction and is around twice as reliant as South Australia, Tasmania, the ACT and Queensland; and around three times as reliant as Western Australia and the Northern Territory (Table below refers).

Projections as part of the NSW Intergenerational report indicate that annual transfer duty receipts could rise by $7bn over the next decade which would exacerbate economic inefficiencies by nearly $6bn. Projections also demonstrate how within 30 years transfer duty could come to represent around half of the Government's own-source revenue with receipts growing to be more than six times what they are now.

[1] Box 5.1, 2016 NSW Intergenerational Report.



Source: NSWBC estimation based on ABS and NSW Government data together with KPMG estimates of the average excess burden of major Australian taxes.

Note: the Y-axis is an estimate, presented as a percentage of GSP, of the welfare losses (also known as the excess burden of taxation) associated with state-based taxes. Between 2008-09 and 2016-17, the increase in this measure is equivalent to the estimated welfare losses associated with increasing transfer duty receipts.

Put simply, unless policy settings change, transfer duty is expected to grow at a faster pace than the economy and other taxes which will make the problem an even more profound challenge. That is why the Chamber is currently developing a policy proposal to address this challenge. This includes commissioning further research to explore the concept of a transfer duty freeze whereby policy settings are changed to halt the growth in transfer duty so that the economic costs of transfer duty reduce over time (as transfer duty becomes smaller relative to the economy and other tax sources which continue to grow as normal). It is hoped that this thought leadership could help to identify:

- the fiscal implications of the freeze;
- potential policy adjustments that could be used to give effect to the freeze; and
- alternative revenue sources that are better placed to meet the government's revenue needs over the longer term.

The Chamber recognises that there are significant challenges to implementing reform of this nature. That is why it is important for the Government to make decisions today which make it easier to pursue and embed reform into the future.

Transfer duty receipts by jurisdiction

	2015-16		
Jurisdiction	Transfer Duty ($m)	GSP ($m)	% of GSP
WA	1,356	255,214	0.53%
NT	152	23,648	0.64%
QLD	3,060	314,569	0.97%
ACT	268	36,225	0.74%
NSW	8,887	531,323	1.67%
VIC*	5,028	373,624	1.35%
TAS	181	26,039	0.69%
SA	910	101,096	0.90%

**Land transfer duty as estimated in 2015-16 Budget*

Other taxes

While the Chamber considers growth in transfer duty to be the biggest single challenge in terms of ensuring tax system efficiency, it is noted that there is no shortage of nuisance taxes imposing disproportionate economic costs on the community. This includes close to $1bn collected from both motor vehicle and insurance stamp duties and more than $3bn from other levies and license fees.

The $3bn includes the more than $100m collected through the parking space levy. The Chamber notes that the levy is currently under review. The Sydney Business Chamber (part of the NSW Business Chamber) provided a submission to this review noting that the levy ought to be considered as part of a broader strategy to manage demands on road infrastructure. Given that the levy is a significant revenue measure it is appropriate that, as part of this review, the levy be benchmarked against the principles of good tax policy design. While the Chamber is not opposed to the objective of reducing congestion by discouraging car use in districts where the levy is imposed, closer scrutiny may need to be applied as to whether the levy is effective in achieving this aim.

The Chamber congratulates the Government for demonstrating resolve in tackling other inefficient taxes, including business transfer taxes which were abolished from on 1 July 2016. Similarly the Chamber encourages the Government to continue its reform endeavours by ensuring the Emergency Services Levy is implemented on schedule and as originally announced.

The Chamber also encourages the Government to consider broader reform opportunities in the context of IPART's review of the Local Government rating system. Apart from setting out a set of principles of tax policy that may be relevant to broader reform endeavours (such as considering increasing the role of broad-based land taxes), this review gives consideration to some of the practical implementation challenges. Given the Chamber's broader policy priorities regarding both local government and property tax reform, we consider it important that this review is properly considered. The Chamber made a number of submissions to the IPART draft report which separately sets out our views on the issues raised.

Payroll tax competitiveness

Increasing the payroll tax threshold

One of the biggest impediments to business growth is incurring a payroll tax liability once payrolls exceed $750,000. In practice this means that the typical business employing slightly fewer than 10 employees (at the average full time wage in NSW) must pay a 5.45% premium on the wages of additional employees (or employee hours). As well as this, businesses incur new tax administration costs, which we estimate to be over $10,000 for businesses at the point where they cross the threshold.[2]

If building a strong economy with more jobs is at the core of the Government's agenda, then improving our payroll tax system would be a good place to start.

While businesses must pay payroll tax, its impacts are also profoundly felt by the State's workers. Having to, in effect, pay higher wages and increased staff on-costs makes it relatively less attractive for employers to grow by increasing their labour force. Businesses incurring a payroll tax liability may also lose out to firms operating outside of the payroll tax system (such as those operating in lower tax environments overseas). This is particularly the case in the tradable sector — whereas other taxes, such as the GST, are pliable to the circumstance; payroll tax isn't.

[2] Estimated based on responses to the Chamber's payroll tax survey, **Attachment A** refers.

Member feedback is very clear that payroll tax is impacting on their hiring decisions. Respondents to our ***2016 Red Tape Survey*** indicated that payroll tax was impeding their business' ability to grow and hire new staff:

> *"What is the incentive to employ new people when you just get hit with additional tax? We have to be particularly careful with contractors so they don't get captured by payroll tax - this often means you are missing out on the best sole traders but we can't afford for them to be part of our employment. There is no incentive to grow our business at all at present."*
>
> *"Payroll tax is a major problem and disincentive to employ staff so we employ bare minimum staff to just keep us going and also we have stopped expansion and passed up opportunities to expand as the payroll tax burden made it not worth it."*
>
> *"Payroll tax prevents investing in more employees or capital equipment."*
>
> *"We could hire three more staff but won't because of payroll tax."*

With so many of our members citing concerns with payroll tax, the Chamber proposes that the Government adopt the ambitious target of increasing the payroll tax threshold to $1 million. It would reduce red tape and send a bold message that the Government is committed to making NSW the best place in Australia to start and grow a business. As an absolute minimum the Chamber considers that the threshold should be aggressively increased to $850,000 to match commitments made in other jurisdictions such as Victoria, though this should be viewed as an interim step toward the final target of $1m which should be achieved by the middle of the next term of government.

Moving toward a $1 million payroll tax threshold would enable more businesses to create jobs and economic opportunity. We estimate that 85% of firms' payroll tax savings would be used to expand business operations including through investment and increased labour demand.[3]

The optimal design of payroll tax

Apart from threshold increases, there is also a strong case for improving the competitiveness of other structural features of the payroll tax system (including rates, the reintroduction of indexation and other system changes) to ensure it does not disadvantage NSW relative to other jurisdictions (in Australia and internationally). That said, while payroll tax relief could be delivered through a range of mechanisms, the Chamber's preference is for it to be provided, at least initially, though increases to the payroll tax threshold.

The Chamber was supportive of the Government's decision to increase the threshold to $750,000 as part of the 2013-14 Budget. While this has provided payroll tax relief over recent years (relative to the counterfactual), the removal of indexation means that NSW businesses will be significantly worse off over the longer term. Indeed, at the time it was expected that, despite the increase in the threshold, the removal of indexation would result in increased revenue by 2016-17[4].

Despite the Chamber's preference for threshold increases, we are cognisant of arguments in favour of flattening the payroll tax structure by lowering the threshold. Debate around the optimal design of payroll tax has tended to focus on the principles of tax efficiency in a theoretical sense without having proper regard for some of the practical realities that would follow. For example, the suggestion outlined in the 2013-14 Budget that *"removal of the annual indexation improves the efficiency of the tax"*[5] does not recognise that:

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[3] Estimated based on responses to the Chamber's payroll tax survey, **Attachment A** refers.
[4] Table 6.3, BP2, Budget Papers 2013-14.
[5] Payroll Tax Reform, BP2, Budget Papers 2013-14.

- NSW operates in a competitive environment with other jurisdictions, including those bordering NSW, that have recently increased (or have committed to increase) their payroll tax thresholds; and

- lowering the threshold would increase the ratio of tax administration costs to receipts as many smaller firms would need to engage with the payroll tax system yet will not make significant revenue contributions.

To further explore these issues, the Chamber undertook survey analysis to assess the Chamber's threshold increase proposal. The survey found that (results presented in further detail at **Attachment A**):

- The typical payroll tax-paying respondent incurred around $10,700 in tax administration costs over and above their payroll tax liability. This represents a payroll tax premium of 0.81% over and above the payroll tax rate of 5.45% for businesses with payrolls of between $750,000 and $2,000,000.

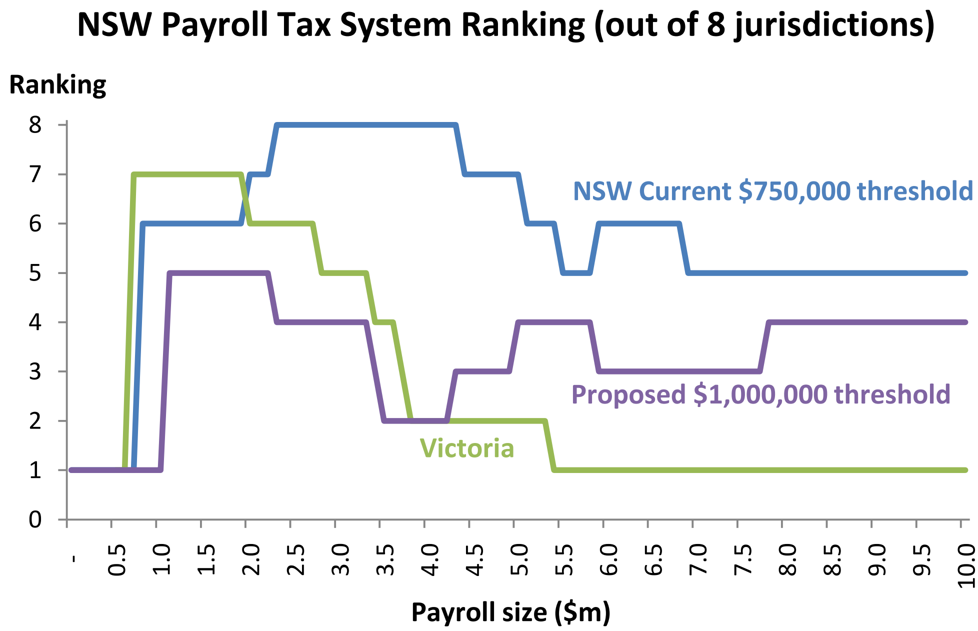
- Respondents just over the payroll tax threshold incurred compliance costs of $10,200, well above their actual payroll tax liabilities.

- Respondents close to the payroll tax threshold or that are fast growing are particularly concerned about the prospect of paying payroll tax. Around 80% of these respondents reported that they would either be more likely to hire more staff, or would do so immediately, if the payroll tax threshold were increased to give them more space within which to grow their payrolls. A staggering 85% of these firms indicated that payroll tax impacted on their decisions about staffing levels.

- If the payroll tax threshold were increased from $750,000 to $1,000,000, 44% of affected firms would likely increase their staffing levels while 85% of payroll tax savings (among firms with payrolls higher than $1,000,000) would be used to expand business operations through increased investment and staffing levels.

The Chamber's payroll tax survey demonstrates that ensuring NSW has an appropriate threshold which increases over time is necessary to ensure the competitiveness of the NSW payroll tax system. NSW cannot make policy in isolation and if our payroll tax system does not evolve over time then it will be a less desirable place to do business as other jurisdictions move to more favourable regimes. Victoria has committed to increasing its payroll tax threshold by $100,000 over four years, while the ACT is increasing theirs to $2 million. There are also strong calls to improve the competitiveness of payroll tax in other jurisdictions including (but not limited to) Western Australia and Queensland.

NSW has the third lowest threshold in the country and is particularly uncompetitive at payrolls of between $2m and $4.5m. While NSW has a more competitive rate than some smaller jurisdictions (such as ACT, Northern Territory and Tasmania), higher thresholds in those jurisdictions mean that NSW only becomes competitive (relative to those jurisdictions) at payrolls beyond around $7m. For larger firms payroll tax competitiveness is primarily determined by the payroll tax rate and so NSW is less competitive than most jurisdictions.



Note: Ranking by size of payroll tax liability excluding rebates and other adjustments
(includes deduction regimes built into NT and QLD systems)

While the competitiveness of the NSW payroll tax system could be improved by lowering the payroll tax rate, the Chamber accepts that doing so in any meaningful manner would have significant revenue costs. Increasing the payroll tax threshold by a significant amount can be achieved within a much smaller funding envelope yet it has the benefit of delivering payroll tax relief to all businesses.

A further benefit of increasing the payroll tax threshold is that it reduces the number of smaller and growing businesses that must engage with the payroll tax system. Feedback from our members indicates that engaging with the Office of State Revenue (OSR) on payroll tax matters is viewed as a significant compliance cost to their business. For example, respondents to our ***2016 Red Tape Survey*** indicated that tax compliance was the second most complex area of compliance (after industrial relations) while feedback from members specified a number of tax administration challenges associated with payroll tax:

> *"We had to reduce size and now we are below their threshold for payroll tax so they don't bother us — almost not looking forward to growing bigger again."*
>
> *"Payroll tax is a nightmare (we have over 100 contractors that we constantly need to monitor). Payroll tax is just another 5% for employing more people! We have spent thousands of dollars to comply.*
>
> *"We have payroll tax and the obligations of monthly reporting and trying to also get this accurate along with trying to match up with ATO and workers comp which all have separate reporting mediums."*
>
> *"Our biggest issue is payroll tax (on principle, but it also adds a layer of compliance)."*

As noted above, payroll tax administration costs imply a payroll tax premium of around 0.81% while businesses on the verge of the payroll tax threshold face the prospect of incurring around $10,200 in administration costs. For this reason the Chamber considers that tax administration costs provide a compelling argument in favour of threshold increases as they reduce the number of business which must engage with the payroll tax system.

Making it easier for businesses to comply with their payroll tax obligations is an obvious way to reduce unnecessary tax administration costs. The Chamber is pleased that OSR is committed to exploring ways in which these costs can be reduced. This will remain a work in progress, however our members' most fundamental concerns with payroll tax remain tied to its rate and threshold structure and cannot be resolved through more efficient administration alone.

The Jobs Action Plan

The Chamber recognises that the Jobs Action Plan rebate reduces the payroll tax liabilities of businesses that can demonstrate they have created a genuine new position. While the rebate could potentially be an elegant way of reducing the impact of payroll tax on labour demand, in practice our members have found it to be burdensome to apply for the rebate or have indicated that, while they have applied for the rebate, it hasn't influenced their hiring decisions. The rebate represents short term relief and for this reason is less likely to sway longer term investments to expand a business (or relocate to NSW).

The Chamber's Business Environment and Economics Committee has given consideration to the design of the Jobs Action Plan. As part of this a number of case studies were collected from businesses that have applied for the rebate. Feedback included:

> *"The administrative cost of applying is significant as the calculation is done monthly and the year-end reconciliations are quite time-consuming. The grant application for us as an entity is so cumbersome due to the lack of consistency in employee numbers from one year to the next that it becomes a non-event for us to apply."*
>
> *"The rebate is so onerous in administration we decided not to access it and are not employing additional staff. A good indicator of administration costs is the number of businesses offering the service of doing the administration for a fee. This would make an interesting KPI for those in the Government promoting the scheme."*

More generally the disincentives to hiring staff associated with paying payroll tax are not linear. Instead, we find that members at the margins of the payroll tax threshold are particularly discouraged from hiring new employees because they must not only pay additional tax but must also take on new tax administration burdens (as noted above). This suggests that the rebate is not necessarily targeted in the spectrum of payrolls where it is most likely to generate new jobs.

At this stage the Chamber does not propose anything specific with regards to redesigning the Jobs Action Plan rebate as presently funded to 2019. However, the Chamber remains sceptical as to whether the rebate approach is the best way of delivering payroll tax relief to hiring businesses. For this reason the Chamber's preference is for funding to be utilised toward threshold increases (in line with the schedule presented above) rather than an extension of the Jobs Action Plan beyond 2019.

Investment in vocational education and apprenticeship reform

Apprenticeship reform

The apprenticeship and traineeship system is a key incubator of the future workforce. While the current model has delivered positive results, feedback from industry and the continued decline in participation indicates reform of the system is not just desirable: it is essential.

The Chamber's ***Laying the Foundations for Apprenticeship Reform***[6] report and submission to the review of the *Apprenticeship and Traineeship Act 2001* (NSW) called for reforms to reshape and strengthen apprenticeships in NSW and nationally. These proposals were developed through consultation with industry, not-for-profit and government stakeholders in western Sydney and the Illawarra: regions where the problem of skills shortages and youth unemployment is especially acute. They should be accepted and implemented as a priority.

[6] See https://www.nswbusinesschamber.com.au/NSWBCWebsite/media/Policy/Thinking%20Business%20Reports/POL-2342-Laying-the-foundations-report_final.pdf.

Perhaps the most significant issue affecting participation in apprenticeships and traineeships is one of perceptions. Parents, educators, young people and, often, careers advisors, lack an awareness of the positive job outcomes that a vocational pathway can lead to and students are overwhelmingly directed toward university. As outlined in the 2015 Australian Jobs Report[7], however, 85.5% of apprentices are in full-time employment six months after completing their training, in comparison with only 68% of bachelor-degree graduates achieving the same result. The NSW Government should work with industry on a public awareness campaign highlighting the success stories of leaders who have started their careers via a vocational pathway, as well as the opportunities that an apprenticeship can offer.

Re-igniting entry-level apprenticeships is another key success factor for lifting engagement in the system overall. The NSW Government should support this by fully funding Certificate II level apprenticeships, regardless of whether the person has used up their "training entitlement" or undertaken other training at the same Australian Qualification Framework (AQF) level as part of a VET in Schools program. There should also be consideration given to investing in a 'kick start' incentive for employers. The incentive would consist of a modest $1,500-$2,000 incentive for an employer commencing an apprentice or trainee in an entry-level Certificate II qualification.

Industry continues to be concerned about the quality, consistency and industry relevance of career advice in school. Secondary school students receive an unbalanced view of post school opportunities: often receiving comprehensive information about university courses but little information on the opportunities and job outcomes vocational pathways can lead to. A more tailored, independent model for careers advice – preferably delivered externally – should be a priority for Government.

Funding for these recommendations and the other reforms outlined in ***Laying the Foundations*** should, in the Chamber's view, be sourced from the assets recycled and cost savings achieved through the OneTAFE reforms.

Machinery of Government changes to bring greater consistency to vocational education and training

Adjusting the administrative arrangements for vocational education and training (VET) would also bring consistency and better coordination for the system overall. An area requiring particularly urgent reform and policy attention is access to, and the quality of vocational education and training delivered within school. Currently, the Minister for Education has portfolio responsibility for VET delivered in school, while the Deputy Premier (and Minister for Skills) is responsible for VET outside school and, confusingly, school-based apprenticeships.

Retaining responsibility for VET in school in the Education portfolio has, in the Chamber's view, negatively affected the opportunities provided secondary students to select a VET pathway; the involvement of industry; and the value placed on VET by educators. Principals, who have significant discretion to allocate their school budget, direct their attentions to ATAR performance, university entry and place a lower priority on alternate pathways which may offer better outcomes for their students.

The Deputy Premier and Minister for Skills should have oversight of the entire VET system. This will support more coherent policy making and better alignment with industry as a result of the deeper connection and understanding the Department of Industry has with business. This machinery of government change would mean making a specific budget allocation for VET in schools, removing the funds from the allocation for Education and shifting it to the budget for Industry. This will support the better targeting of funding and a fairer share for VET.

[7] See https://www.employment.gov.au/news/australian-jobs-2015-handy-guide-labour-market.

Regulation reform

NSW Regulatory Policy

Excessive and bureaucratic regulation is consistently cited as one of the top impediments to business growth and success. Tackling the issue of red tape is not about letting businesses do whatever they want, but rather it is about reducing costs that are unnecessary and can be avoided. With current levels of regulatory burden ranking Australia 77th out of 138 countries (according to the Global Competitiveness Index 2016-17), the Chamber believes that more must be done to ensure it is easier to do business in NSW.

In 2016 the Chamber surveyed its members to gather views on the regulatory challenges facing NSW businesses. From this survey, we estimate that NSW businesses are weighed down by around $10.6bn in compliance costs each year. We cannot expect all of these costs to be removed, but governments can make things better by applying best practice regulation design and getting rid of unnecessary complexity.

The Chamber was pleased to be able to contribute a submission to the Independent Review of the NSW Regulatory Policy Framework (the Independent Review).[8] As part of this submission the Chamber outlined a number of recommendations for consideration, including the need to establish a central oversight body to act as a 'gatekeeper' in assessing new regulatory proposals. The Chamber proposed that this body would be responsible for:

- building the technical and analytical capabilities required to perform robust regulatory impact analysis for deployment across government;
- advising whether an intervention would benefit from a more comprehensive assessment of the costs and benefits;
- supporting agencies in identifying the most appropriate options (the next best alternatives) to which the preferred option should be benchmarked;
- acting as a screening point so that less contentious proposals do not need to be subject to more onerous regulatory impact analysis requirements (according to the principle of proportionality);
- ensuring that regulatory impact analysis is performed consistently (in standard and format) across government;
- supporting public confidence in the robustness of regulation impact analysis by vetting and approving the analysis; and
- providing extra discipline on policy advice and decision-making as agencies would need to satisfy the scrutiny of the central body.

With the final report due in the first half of 2017 the Chamber considers that appropriate funding should be allocated to take forward recommendations and findings from the Independent Review, including funding for a central oversight body.

Funding for such a body and acceptance of the broader recommendations contained within the Chamber's submission to the Independent Review would improve the business environment boosting the economy and creating new jobs.

[8] See http://www.nswbusinesschamber.com.au/getattachment/Issues/Issues/Taxation-and-Regulation/Reducing-the-regulatory-burdens-faced-by-business/161216-Regulation-Framework-Review.pdf.

Service NSW and user centricity

The Chamber welcomes the Government's efforts to drive efficiency gains within the apparatus of Government. The Chamber agrees that there is considerable scope to identify areas of overlap within the bureaucracy, and to ensure that the existing functions of government are delivered in the most cost effective manner. Action in this area will contribute further to the Government's management of expenses and will deliver better value on behalf of the taxpayer.

As with previous pre-Budget submissions the Chamber is a strong advocate for the gains made by Service NSW. The Chamber's ***2016 Red Tape Survey*** identified Service NSW as the best performing government agency (across all tiers of Government) while client facing agencies with functions delivered through Service NSW also demonstrated significant improvements in their performance.

Service NSW is a highly effective reform initiative which reduces the costs of interacting with government by placing the user at the centre of the system. As an investment to improve efficiency, Service NSW is an exemplary model of how this can be achieved.

Despite this, last year the Government shortened opening hours for its Service NSW centres. While the Chamber accepts that some adjustments may be required where centres are poorly utilised, the Chamber has received feedback that recent changes, as well as a lack of locations, has impacted Service NSW's ability to deliver services at the same high standard. The Chamber therefore considers that Service NSW should be appropriately resourced over the longer term.

The Chamber also welcomes pilot initiatives (such as the easy to do business initiative in Parramatta) and would encourage their expansion, including geographically and by identifying further pilot opportunities. Continuing to partner with local governments and with the Commonwealth's Business Simplification Initiative will be essential to maximising the benefits for business.

While the Service NSW model clearly demonstrates commitment towards user-centric policy development, across Government there are still many examples where this approach has not been applied. For example, the *Scrap Metal Industry Act 2016,* clearly drafted to reduce theft of scrap metal but without regard to other costs imposed, now creates an extraordinarily high paperwork and compliance burden on small business. The introduction of these regulations (which do not appear to have been developed in consultation with the key users impacted, scrap metal dealers) did not include any information raising awareness about the need to abide by the federal privacy principles.

Further, while the Chamber is generally supportive of moving government interactions online, the development of online portals must be developed with comprehensive regard for how they will be used. For example, the Chamber has raised concerns that an online portal recently launched by Insurance and Care NSW ("icare") icare has the potential to mislead users into mistakenly believing that they do not have to take out workers compensation insurance.

The new portal created by icare for purchasing workers compensation insurance (launched 28 February 2017) makes assumptions around users understanding and awareness of quite complex technical definitions. The portal asks users (many of whom will be new businesses) to respond to a number of questions in relation to "wages" without providing the necessary background on how "wages" for workers compensation purposes are defined. The portal presumes these businesses will not only undertake the requisite preparatory "due diligence" necessary to answer these initial questions, but will also be aware of the need to perform such due diligence.

Without being informed of, first of all, the fact that the terms used in the portal do not have the same meaning as one would commonly understand them to have, and secondly, where to go to find out what they mean, the portal will inevitably lead to a substantial number of users being misled into choosing the incorrect response thus potentially exposing themselves to penalties for non-compliance.

This result could have been easily avoided by the inclusion of a hyperlink to the relevant resources hosted by the workers compensation regulator (the State Insurance Regulatory Authority), of which icare should have both been aware and included in their scoping exercise for this project.

The Chamber supports further investment by Government, through both intra-agency and industry collaboration to improve and identify best practice by Government in its engagement online.

Competition review, commissioning and contestability

The Chamber is not convinced that the findings and recommendations from the Commonwealth's Competition Policy Review have been actively taken forward by the NSW Government in a transparent manner. In particular the Chamber has not had engagement with the Government on how it is taking forward relevant recommendations including:

- Recommendation 2 regarding human services;
- Recommendation 3 regarding transport cost-reflective pricing;
- Recommendation 8 regarding the review of regulation to remove anticompetitive restrictions;
- Recommendation 9 regarding planning and zoning;
- Recommendation 15 regarding competitive neutrality policy;
- Recommendation 18 regarding procurement; and
- Recommendation 48 regarding competition payments (and raising the prospect of this with the Commonwealth).

It is not the Chamber's contention that nothing is happening to address these recommendations, however it is apparent that there is no overarching agenda or framework given to exploring their relevance within the NSW context.

The Chamber therefore encourages the Government to allocate the required resources so that these can be more actively considered and driven within government (to the extent that they are not already) including with community feedback.

The Chamber was pleased that the 2016-17 Budget allocated funding for the establishment of the Commissioning and Contestability Unit within NSW Treasury. The Chamber notes that the unit has already been active in developing a commissioning and contestability policy for the NSW Government. The development of a framework for getting value for money for the taxpayer is an essential first step, however the Chamber would like to see the unit sufficiently resourced to actively drive and support agencies in identifying opportunities.

Decentralisation

Further to this the Chamber is not aware of any formal updates or progress reports on the Government's Decade of Decentralisation policy. Key initiatives identified and being implemented to further the ***Decade of Decentralisation*** policy include:

- delivery of priority infrastructure to regional NSW;
- proposed reforms to NSW's planning system which will support regional development;

- deliver of infrastructure in mining-affected communities;
- implementation of initiatives to support local decision-making;
- ongoing implementation of the local government reform agenda; and
- government agency decentralisation.

These are important initiatives and the Budget would provide an opportunity update the community on their progress. For example, performance targets and a timeline for implementation, including associated funding, should be included in the Budget.

Addressing Energy Security

Increasing energy prices and concerns about inadequate security of supply have been emerging as a key operating concern for many businesses, particularly those in the manufacturing sector. Gas prices are rapidly increasing and industrial consumers are finding it difficult to access competitive contracts due to inadequate suppliers operating in the NSW market. In addition, electricity prices are also increasing and recent blackout events in SA and the near miss in NSW are affecting broader business confidence in energy security.

Chamber members have indicated that the prospect of sustained energy price increases are already affecting businesses' consideration of future expansion plans and may force these businesses to look outside Australia for manufacturing opportunities.

The Chamber believes the NSW Government must develop a cohesive strategy to address gas shortages in NSW, including initiatives to encourage more gas producers into NSW. As a matter of urgency, the NSW Government should also work with the Federal Government to investigate potential actions to bring additional supply into the domestic market to address current advice of winter gas shortages.

Part 3 — Improving housing affordability

The Chamber acknowledges that there is no single solution to the housing affordability. Aside from having significant social costs, the housing affordability challenge has significant economic costs including through reduced labour mobility and weakened attractiveness as a place to do business. Further, NSW businesses can play a constructive role in addressing the challenge including through the provision of infrastructure and housing supply. Part 3 will identify reforms that should be taken to alleviate the housing affordability challenge.

Reforming NSW property taxes

This submission has noted the efficiency arguments for reforming NSW property taxes. However addressing the housing affordability challenge provides a further compelling reason for reform. While potential adjustments to transfer duty do not offer a silver bullet, reform is essential to ensuring our tax system does not exacerbate the problem.

Transfer duty represents a sizable hurdle for homebuyers looking to enter the housing market. For example, to purchase a house priced at the Sydney median a prospective purchaser would need to save around $50,000 before they could start saving for their first dollar of deposit. To illustrate the challenge, the Chamber has gathered a number of examples where the transfer duty liability on the exact same home has increased significantly over only a matter of years:

- Baulkham Hills (4 bedroom house) – **$54,240** in 2015 compared with $18,215 in 2008;
- Annandale (3 bedroom house) –**$91,640** in 2016 compared with $29,690 in 2010; and
- Revesby (3 bedroom house) – **$35,315** in 2016 compared with $15,965 in 2003.

This is not just a Sydney-centric challenge. While NSW regions may offer an attractive alternative from a housing affordability perspective, they too have experienced considerable growth in property prices (and therefore the transfer duty payable upon purchase). Further, transfer duty represents an additional barrier to urban residents looking to relocate, denying our regions the much sought after skills and economic opportunity that they require.

But the impact of transfer duty on housing affordability should not be viewed solely through the ‘upfront cost’ lens. The most compelling argument for reducing transfer duty is that it creates impediments for people looking to move as their housing needs change over time. This includes the young family looking to upsize from a smaller apartment into a bigger home (freeing up housing stock for first homebuyers) and the ‘empty nesters’ looking to downsize (freeing up housing stock for families that need more space). Reducing transfer duty as an impediment to mobility would improve the efficiency of the market and improve housing affordability.

The Government has rightly pointed to the benefits of increasing the supply of housing. While urban infill and green-field developments have the effect of boosting supply, so does optimising the allocation of the housing stock. To illustrate, the 2011 Census reveals that the average NSW household has 2.6 people living in it and 3 bedrooms. If equalised so that each household had one person per bedroom, this would be equivalent to building a new city bigger than the size of Wollongong and Newcastle combined. While it is not suggested that reducing or getting rid of transfer duty would fully achieve this, it illustrates the scope of how reducing impediments to mobility could be highly effective.

As noted earlier, the Chamber is commissioning further research to explore the concept of a transfer duty freeze with a view to reducing transfer duty’s contribution to the housing affordability challenge.

While structural changes are necessary, there are a number of immediate steps that could be taken to offer interim relief until more substantive reform initiatives are developed.

For example, new houses are subject to one of the highest tax takes with a range of government charges, GST and transfer duty applied. Transfer duty is currently levied on each transaction associated with land which means when land is sold to a developer transfer duty applies. The purchase by a builder from a developer triggers a further transfer duty tax take and again when a builder sells to a home purchaser. An immediate step that could be taken to address this is an input tax credit to ensure we don't have a tax calculated on previous taxes and charges. If transfer duty is to be levied it should be applied once and should certainly not be levied on top of previously applied transfer duty, taxes and government charges.

Further, the Chamber also notes contemporary discussion around the prospect of scaling up first homebuyer transfer duty relief, as well as the recent announcement by the Victorian Government to reduce the transfer duty burden on first homebuyers.

While these measures could target particular 'pinch-points' in the housing market, they do not fundamentally change the transfer duty challenge that NSW faces. Indeed, complexities associated with the tax incidence of transfer duty means that poorly targeted relief could actually benefit the wrong side of the transaction. For this reason the Chamber favours structural reform to the transfer duty system over the longer term and would welcome targeted relief measures so long as they are accompanied with a commitment to address transfer duty bracket-creep.

Red tape reduction and planning reform

With the Department of Planning and Environment identified in the Business Chamber's ***2016 Red Tape Survey*** as being the most complex regulator to deal with, more needs to be done to simplify the planning and development process.

The Chamber is encouraged by the proposed reforms to the *Environmental Planning and Assessment Act 1979* which are targeted towards addressing delays in development assessment by councils and believes these reforms should be prioritised.

In particular, proposals within the reform package to standardise development control plans, provide incentives for proponents addressing objections prior to DA lodgement and increasing the number of DA assessments processed by staff or local planning panels will assist in simplifying the process of development and in unlocking land supply.

The Chamber is also supportive of looking to other jurisdictions to innovative and entrepreneurial activity within the land use planning system. As an example, the Queensland Government's State Development Areas[9] provide defined areas of land for industry, infrastructure corridors and major public works that promote economic development. With the State Government controlling developments and approvals in these areas, the Chamber is aware of businesses, frustrated with the overly complex planning frameworks within NSW, relocating to Queensland to take advantage of these development areas. Opportunities to establish similar development areas within NSW should also be pursued as a priority through the Planning Act review process.

[9] See http://www.statedevelopment.qld.gov.au/coordinator-general/state-development-areas.html.

Part 4 — Infrastructure

The Government's infrastructure agenda has been a considerable success, solidified by its asset recycling commitments taken to the last election. However the state has a considerable pipeline of much needed infrastructure projects and this work must continue. Part 4 will examine areas where the Chamber considers further attention is warranted, including with regards to regional projects and looking beyond asset recycling as a means of financing our infrastructure needs.

Regional projects

Rebuilding NSW

The Chamber believes there is scope for the NSW Government to advance the identification, planning and delivery of the $6 billion of investment earmarked for regional infrastructure projects as part of the Rebuilding NSW Plan.

Since the announcement by the NSW Government to lease 49% of the electricity network assets and reinvest the proceeds into new infrastructure, there remains uncertainty about which projects in regional NSW will be funded. This is in stark contrast to metropolitan NSW which has seen projects identified and significant progress made with project planning. The November 2014 update to the State Infrastructure Strategy (SIS) identified specific projects in the Sydney region and yet only identified broad funding programs for regional NSW. Since the release of the SIS, little further detail has been provided about which regional projects will be funded through these programs. While more than $4 billion is allocated to regional transport projects under the Rebuilding NSW Program, the 2016-17 Budget showed that only $300 million has so far been committed to actual projects. Our regionally-based members have expressed strong concerns about this lack of clarity.

This absence of detail comes despite a significant consultation process undertaken with regional NSW by Department of Premier & Cabinet in 2014. Based on feedback from the Government, the reasons for this appear to be two-fold. The Chamber raised the issue in its 2016 pre-Budget submission with the then Treasurer Berejiklian and was informed that the Government was waiting until all three leases had been finalised to confirm the total amount of funds available before announcing further detail on regional infrastructure projects. In addition, the Government has indicated that it needs a stronger evidence base before it commits to specific projects to be funded by the assigned $6 billion.

The proposed $6 billion infrastructure spend provides a real opportunity to provide infrastructure that will support regional communities and provide stimulus to regional economies. The NSW Government needs to ensure it selects projects that achieve these outcomes at least cost. The Chamber has continually advocated for public infrastructure investment to be based on a robust evidence base to ensure the right projects are selected, and therefore supports the NSW Government in seeking further evidence and undertaking greater diligence to inform the development of its project list.

However, the Chamber believes the Government should ensure it has allocated sufficient resources so that regional infrastructure projects are identified and progressed at a rate on par with metropolitan projects. The Government's project assessment processes must be designed in a way that is relevant for regional circumstances. Regional infrastructure projects may generate different economic benefits to metropolitan projects and therefore assessment processes must take these differences into account so that the best projects for regional NSW and the state at large are selected. The Government should also provide further clarity to regional stakeholders about the selection process and associated project timing to give greater certainty to regional businesses and residents.

Regional Economic Centre Infrastructure

The lower cost base and tangible competitive benefits of regions offer important competitive advantages that can provide enduring economic and employment outcomes for decades to come if the investment is made in appropriate connecting infrastructure. To help provide the required level of investment in infrastructure and regional development initiatives, we see a need for a new, clearer definition for State and Australian Government funding and infrastructure priorities recognising the value of Regional Economic Centres, like the Illawarra and the Hunter.

Currently, uncertainty exists over which parts of the State are classified as regional and, therefore, eligible for funding for state and federal funding initiatives. A new definition should be established, one which recognises the significance of Regional Economic Centres (Illawarra and the Hunter), in supporting business investment and the capacity to generate much needed employment opportunities for New South Wales.

Regional Economic Centres, offer a lower cost base and present productivity benefits compared to many businesses operating in high cost locations. The competitive advantages of these centres need to be harnessed to provide the next wave of investment and jobs growth.

It is essential that all levels of government seize the potential of regional Australia to drive state and national productivity. To propel continued economic development within the region, the Chamber has identified the following priorities for investment in regional economic centres:

- **Investment in inter/intra-region road and rail infrastructure** — Enhanced transport connectivity will boost productivity, reduce freight costs, improve safety, reduce congestion and maximise the potential of existing freight infrastructure;

- **Decentralisation of state and federal government administration** — Reduced cost of living for employees, lifestyle and reduced operating costs for government agencies;

- **More opportunities for local businesses to deliver government projects and initiatives** — Greater focus on local procurement and content to deliver New South Wales Government programs and services;

- **Investment in regional health care and support services** — To maintain quality health care for the region's growing population it is essential that health infrastructure across the region be upgraded;

- **Education and Research** — Expanded and innovative trades training opportunities and investment in advanced research to provide more youth employment opportunities and build on the competitive advantages of region centres; and

- **Infrastructure to support growth of tourism/business events** — Growing popularity of regions for tourism destination including business events requires a substantial investment to support growth and in building capacity.

Fast tracking localised infrastructure

Matching infrastructure with new developments

New housing and commercial developments – whether greenfield or infill – must be accompanied by supporting infrastructure. Too often the delivery of transport infrastructure and services lags behind new developments which impacts upon the liveability in these areas, undermines access to employment and education opportunities, and reduces affordability of housing in those areas which are accessible due to adequate local infrastructure.

For example, the Government's announcement of the Sydney Metro West will help to support the proposed redevelopment of White Bay into an innovation precinct by providing a major public transport link from both Parramatta and the Sydney CBD. This will give prospective tenants the confidence that they can attract the best skills.

To achieve this outcome across Sydney, land use and transport planning must be fully integrated. The Chamber supports the establishment of the Greater Sydney Commission (GSC) to, amongst other things, drive this integration. The Government should require that any new major developments are announced with a clear transport strategy in place. With significant increases in regional infrastructure expected over the next 5-10 years, ensuring there are governance mechanisms, similar to the GSC, in place to align transport and land use planning in regions should also be made a priority.

Ensuring an infrastructure legacy through procurement

NSW's substantial infrastructure pipeline provides a once-in-a-generation opportunity to ensure these projects create a lasting legacy for our workers and businesses. The Chamber supports the Infrastructure Skills Legacy Program which will set targets for select large construction projects to ensure these projects pave the way for skilling our workers and increasing the representation of young people, Aboriginal and Torres Strait Islander people and women in the construction industry.

The Chamber believes there is scope to ensure a similar legacy is created to grow and develop competitive local industry capability. Procurement processes must be appropriately structured to provide competitive local SMEs with adequate opportunity to be involved as this would not only benefit the businesses themselves, but also strengthen NSW's industry capability and create additional jobs. This means that procurement sections cannot only be focused on purchase price alone. While the Chamber is acutely aware of the need to ensure taxpayers receive value for money in the procurement of goods and services, an approach that simply selects the cheapest purchase price fails to acknowledge the 'whole of life' costs in the delivery of public goods and services and the potential benefits that can be achieved from local investment over the longer term.

Beyond asset recycling

Alternative Infrastructure Funding Opportunities

The recycling of assets will provide a substantial boost to the stock of NSW's infrastructure investment. However, these opportunities are not always available nor are they the only way that NSW can fund projects to reduce its infrastructure deficit. With NSW's population forecast to grow to almost 10 million people by 2036, significant investment in infrastructure will be continually required to ensure NSW remains a productive and liveable state. The Government should therefore consider opportunities for increased use of user-pays and value capture, as well as alternative approaches to leveraging the state's balance sheet (including taking advantage of a low interest rate environment to invest in viable infrastructure projects), to ensure our infrastructure needs are met.

On this point, the Chamber has previously supported the Local Infrastructure Renewal Scheme (LIRS) which provided $567m in interest subsidies to NSW Councils to help unlock $823.0m in local infrastructure projects. The projects delivered through the scheme included roads and bridges, airports, water and sewerage, sports facilities and enabling infrastructure for housing projects.

The 2016-17 budget, while announcing no further rounds of the LIRS did announce the creation of a new TCorp loan facility that would allow eligible councils to access potential savings of up to $600m. In addition, the $365m Stronger Communities Fund was also created to assist councils to invest in infrastructure to grow or support their community.

The Chamber notes however that the threshold to access these funds by council related to their assessment under the Fit for the Future analysis of councils or their agreement to move forward with a council merger proposal. With Government having recently announced changes to its policy and approach towards the amalgamation of councils, clarification around access to (and the projects to be funded through) the TCorp facility and the Stronger Communities Fund should be put forward.

Attachment A – Payroll tax survey

Between 24 February and 9 March 2017, NSW Business Chamber members were invited to participate in a survey about payroll tax. There were 638 businesses that responded to the survey including respondents that currently pay payroll tax as well as those that are payroll tax-exempt.

Of the sample, 396 respondents indicated that they paid payroll tax in NSW. The demographics (including industry, size and location) of payroll tax-paying respondents are indicated in Tables 7-10 below.

This attachment presents the results of the survey. Further analysis of the survey's results and implications for payroll tax design are provided in the submission.

Impact of payroll tax on staffing levels

Respondents that pay payroll tax as well as those close to the threshold, or that are fast growing, were asked how payroll tax affects staffing levels (including hours and hiring decisions). Respondents were asked how they would react if the payroll tax threshold were increased from $750,000 to $1,000,000.[10]

Among all respondents, 44% indicated their inclination to increase staffing levels if the threshold were increased. Among these, 36% of payroll tax-paying respondents indicated that they would increase staffing levels while 80% of respondents close to the threshold or that are fast growing indicated that they would hire more staff immediately or were more likely to hire staff (Tables 1-3 refer).

Table 1 — Impact of payroll tax on affected firms* (n=303) *"What is the most likely impact on staffing levels (hours and/or number of staff) if the NSW payroll tax threshold were increased from $750,000 to $1,000,000"*	
#Likely decrease in staffing levels	3.6%
#Likely no change in staffing levels	52.8%
#Likely increase in staffing levels	43.6%
**Affected firms include those that pay payroll tax, those close to the threshold (payrolls more than $500,000) and fast growing businesses. #Composite of responses by payroll tax-paying and non-payroll tax paying firms (responses in Tables 1 and 2 refer).*	

Table 2 — Impact on payroll tax-paying firms (n=249) *"What is the most likely impact on staffing levels (hours and/or number of staff) if the NSW payroll tax threshold were increased from $750,000 to $1,000,000"*	
My business would decrease staffing levels	4.4%
My business would increase staffing levels	35.7%
My business would not change staffing levels as payroll tax is not a significant factor in our staffing decisions	59.8%

Table 3 — Impact on fast growing firms or those close to threshold* (n=54) *"What is the most likely impact on staffing levels (hours and/or number of staff) if the NSW payroll tax threshold were increased from $750,000 to $1,000,000"*	
Would be more likely to hire more staff	68.5%
Would hire more staff immediately	11.1%
Would not be any more likely to hire more staff	20.4%
**Includes firms with payrolls more than $500,000, and those self-indicating as fast growing and likely to pay payroll tax in the near future.*	

[10] This framing was selected to assess the impacts of payroll tax at the margin, as well as to ascertain the extent to which the Chamber's proposal to increase the payroll tax threshold to $1m would impact on decision-making.

Payroll tax administration costs

Payroll tax-paying respondents were given the opportunity to quantify the administrative costs associated with payroll tax. These businesses were asked how much their business would save in tax administration costs if they no longer had to engage with the payroll tax system (excluding the cost of the tax itself).[11]

Among all respondents that indicated a figure, the average reported cost of engaging with the payroll tax system was $10,696 using a 25% trimmed mean to remove outliers reporting exorbitant and unrepresentative cost levels (Table 4 refers). When converting reported costs into an implied payroll tax premium, tax administration costs represented a premium of around 0.81% for businesses with payrolls between $750,000 and $2,000,000 (using 25% trimmed mean).

While total costs were higher for firms with larger payrolls (which reported costs of $18,783), a particular concern is the $10,212 in costs reported by firms with payrolls between $750,000 and $850,000 (both figures using 25% trimmed mean). This is concerning because it suggests that firms close to the payroll tax threshold incur significant tax administration costs the moment they must start engaging with the payroll tax system (leading to the particularly extraordinary outcome whereby firms incur tax administration costs significantly higher than their actual payroll tax liabilities).

This provides a plausible explanation for why a staggering 85.2% of firms that are either fast growing or close to threshold indicated that they have either decided not to hire staff or were less inclined to hire staff to avoid going over the payroll tax threshold (Table 5 refers).

Table 4 — Reported payroll tax administration costs

"Please give your best estimate of the amount by which your business' annual administrative costs would reduce if it no longer had to pay payroll tax (excluding the cost of the tax itself)"

#Payrolls between $750,000 – $850,000	$10,212	n=33
#Payrolls between $750,000 – $2,000,000	$8,314	n=95
#Payrolls more than $2,000,000	$18,783	n=60
*#Implied premium: $750,000 – $2,000,000	$0.81	n=95

**Average of premiums calculated for each respondent (ratio of reported compliance costs to payroll size). Payroll size based on the midpoint of the reported range (see Table 8 for ranges used). #Average calculated using a 25% trimmed mean to remove outliers reporting exorbitant and unrepresentative cost levels.*

Table 5 — Impact on fast growing firms or those close to threshold* (n=54)

"In thinking about the prospect of paying payroll tax, which of the following best describes its impact on your business' hiring decisions?"

Limited impact (having to start paying payroll tax would not impact any decision to increase staffing levels).	14.8%
Moderate impact (less inclined to increase staffing levels as it may push our payroll above the threshold).	61.1%
High impact (have decided not to hire extra staff because of payroll tax).	24.1%

**Includes firms with payrolls more than $500,000, and those self-indicating as fast growing and likely to pay payroll tax in the near future.*

[11] This framing was selected so as not to include sunk costs (such as accountant fees or system costs) that would be incurred irrespective of whether the business paid payroll tax.

Use of payroll tax savings

Respondents with payrolls above $1,000,000 were asked what they would do with payroll tax savings associated with an increase in the threshold (from $750,000 to $1,000,000).[12] These businesses were asked how they would allocate the corresponding reduction in their payroll tax liabilities according to the following options: reinvest into the business' increase staffing levels; increase dividends; and other.

According to respondents, a staggering 85.1% of savings would be used to expand the business (including through increased investment and labour demand). Of this, 26.1% would be used to hire new staff or increase the hours of existing staff. Only 8.7% indicated that they would use the savings to increase dividends (payments to business owners).

Table 6 — How payroll tax savings are used* (n=120) *"How would your business spend a $13,625 payroll tax saving?"*	
Reinvest into the business (e.g. inventories, assets or capital expenditure)	59.0%
Increase staffing levels (e.g. increased hours or hiring new staff)	26.1%
Increase dividends (payments to business owners)	8.7%
Other	6.3%
**Per cent of total savings allocated to each option by respondents.*	

Demographics of payroll tax-paying respondents

The demographics of payroll tax-paying respondents are detailed in Tables 7-10 below.

Table 7 — Employment size ranges for respondents identifying as payroll-tax paying businesses (n=396)	
1 to 4	9.8%
5 to 20	27.8%
21 to 50	26.5%
51 to 100	15.4%
101 to 200	8.8%
More than 200	11.1%
Not sure	0.5%

Table 8 — Turnover for respondents identifying as payroll-tax paying businesses (n=396)	
$0 to $250,000	2.5%
$250,001 to $500,000	5.3%
$500,001 to $1 million	10.4%
$1.0 million to $2.0 million	14.4%
$2.0 million to $5.0 million	19.7%
$5.0 million to $10.0 million	15.7%
$10.0 million to $20.0 million	9.3%
More than $20.0 million	16.4%
Other nominated amount	6.3%

[12] This framing was selected to give insight as to the first-round effects associated with increasing the threshold.

Table 9 — Industry for respondents identifying as payroll-tax paying businesses (n=396)	
Accommodation and Food Services	6.3%
Business Services	14.6%
Construction	5.8%
Financial and Insurance Services	3.3%
Manufacturing	19.9%
Retail and Wholesale Trade	10.6%
Other Industries	39.4%

Table 10 — Region for respondents identifying as payroll-tax paying businesses (n=C107)	
Capital Far South	3.5%
Central Coast	6.1%
Western NSW	4.3%
Eastern Sydney	24.2%
Hunter	7.8%
Illawarra	2.5%
Mid North Coast	7.3%
Murray	7.6%
New England North West	7.8%
Northern Rivers	4.5%
Riverina	9.1%
Western Sydney	14.6%
Interstate	0.5%