



NSW Business Chamber Payroll Tax Proposal

Payroll tax reform is needed

The NSW Business Chamber recommends that the NSW Government take steps in this year's State Budget to reform the payroll tax system in NSW. Payroll taxes are higher in NSW than they are in Victoria and Queensland, and this disparity places NSW businesses at a competitive disadvantage.

But Government finances are tight in the short term

The NSW Government needs to remain committed to the delivery of significant reform of the payroll tax system in the long-term. However, we also recognise that current fiscal constraints mean that there is limited capacity to finance tax reform in this year's Budget. For this reason, ***the proposal being put forward by the NSW Business Chamber is broadly budget neutral***, and we estimate that these changes will actually save the Government more than \$35 million over the forward estimates.

Savings should be found by closing the Payroll Tax Rebate Scheme

We recommend financing our proposal by closing the Payroll Tax Rebate Scheme (PTRS) to new applications from 1 July 2012. Feedback from our members has overwhelmingly indicated that the current scheme is ineffective and is not providing employers with any significant incentive to take on additional staff. We understand that take-up has been running at around 50 per cent of the expected rate; assuming this remains the case we estimate that closure of the scheme to new entrants from 1 July will free up around \$310 million from the initial \$400 million commitment.

Payroll tax reform should focus on the threshold and not the headline rate

These savings could then be reallocated to provide relief through broader payroll tax reform. We believe that the Government should focus on delivering further increases to the threshold rather than looking to reduce the rate, as the threshold provides the biggest benefit to smaller businesses, and also reduces the administrative burden for the Government and a number of small businesses by removing them from the payroll tax system altogether.

Indexation should also be retained

We believe that an increase in the threshold should be coupled with the maintenance of threshold indexation. This will ensure that the real value of the threshold is not eroded by inflation over time.



Our proposal

The NSW Business Chamber therefore proposes that the NSW Government close the Payroll Tax Rebate Scheme, and use the savings to finance “CPI Plus” indexation of the threshold over the forward estimates, before returning to normal threshold indexation from 2016-17 onwards. We believe that such an approach would be an effective way of supporting NSW jobs growth during the current challenging economic times.

Specifically, we propose that the payroll tax threshold be set at the following levels over the next four years:

	Expected threshold under current government policy	Proposed threshold
2011-12	\$678,000	No change
2012-13	\$697,730	\$725,000
2013-14	\$718,034	\$755,000
2014-15	\$738,929	\$785,000
2015-16	\$760,431	\$815,000

We estimate that this proposal will have the following impact on the NSW Budget over the forward estimates:

(\$ millions)	2012-13	2013-14	2014-15	2015-16
Payroll tax collected under <i>current</i> policy	7,148	7,574	8,002	8,418
Payroll tax collected under <i>proposed</i> policy	7,105	7,514	7,925	8,325
Change in payroll tax revenue	-43	-60	-77	-94
Offsetting saving – close payroll tax rebate	44	102	79	87
Net change in budget position	1	42	2	-7

In summary, we believe this recommendation should be given serious consideration by the Government because it will:

- Improve the Government’s fiscal position over the forward estimates;
- Improve the competitiveness of the payroll tax system relative to Victoria and Queensland;
- Simplify the payroll tax system and reduce the number of businesses paying this tax; and
- Support jobs growth, particularly in businesses at the lower end of the payroll tax scale.

Should you have any questions about this proposal please contact Mr Paul Orton, Director of Policy, on (02) 9458 7462.