

3 May 2013

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

NSW Business Chamber  
 incorporates

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- Australian Business Limited Apprenticeships
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Dear Treasurer

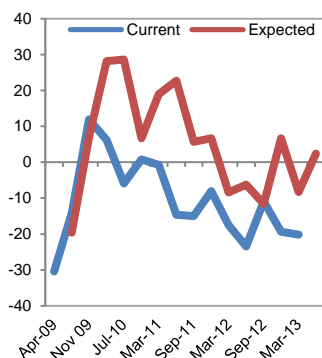
**2013-14 NSW BUDGET – NSW BUSINESS CHAMBER PROPOSALS**

Thank you for inviting the Chamber to provide its views on the upcoming NSW Budget.

The Chamber is disappointed by the Government’s decision to defer – apparently indefinitely – the abolition of mortgage duty on business transactions, unquoted marketable securities duty, and duty on transfers of non-land business assets such as goodwill, patents, trademarks and other intellectual property.

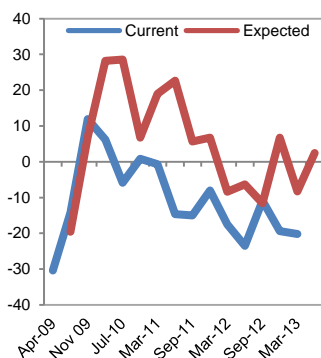
Fiscal consolidation should remain a key focus for the 2013-14 NSW Budget and the Chamber continues to support the Government’s effort to maintain NSW’s AAA credit rating. However, businesses are struggling. The Chamber’s March 2013 Business Conditions Survey shows a continued downward trend in overall business conditions and key indicators such as sales revenue and profit (see Charts 1-3).

**CHART 1  
 BUSINESS CONDITIONS**



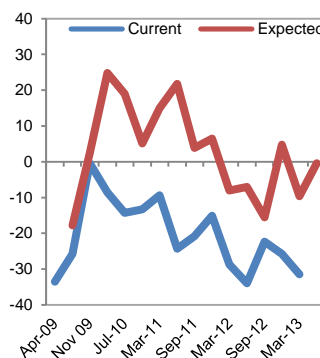
Source: March 2013 NSW Business Conditions Survey

**CHART 2  
 SALES REVENUE**



Source: March 2013 NSW Business Conditions Survey

**CHART 3  
 PROFITS**



Source: March 2013 NSW Business Conditions Survey

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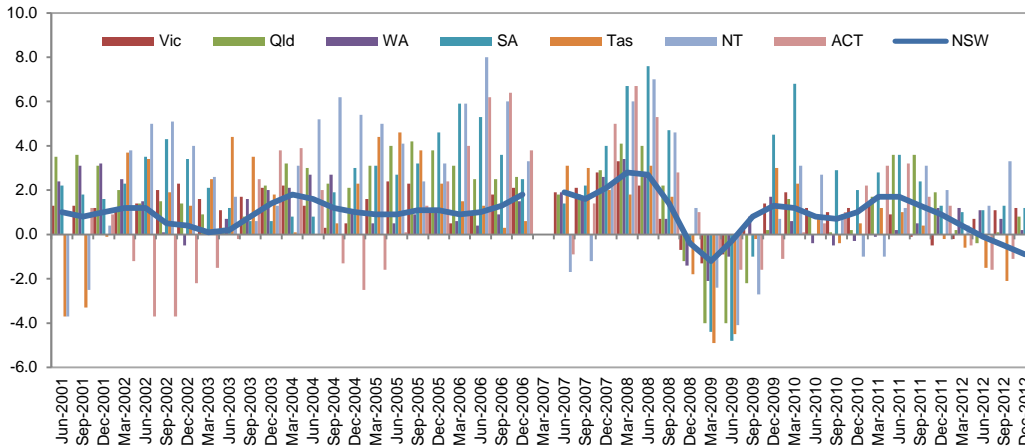
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This is supported by the ABS Business Indicators, which show that business income in NSW fell throughout 2012 and continues to trend downward. Business income in most other States, including Victoria and Queensland, grew strongly and the only State which performed worse was Tasmania (see Chart 4).



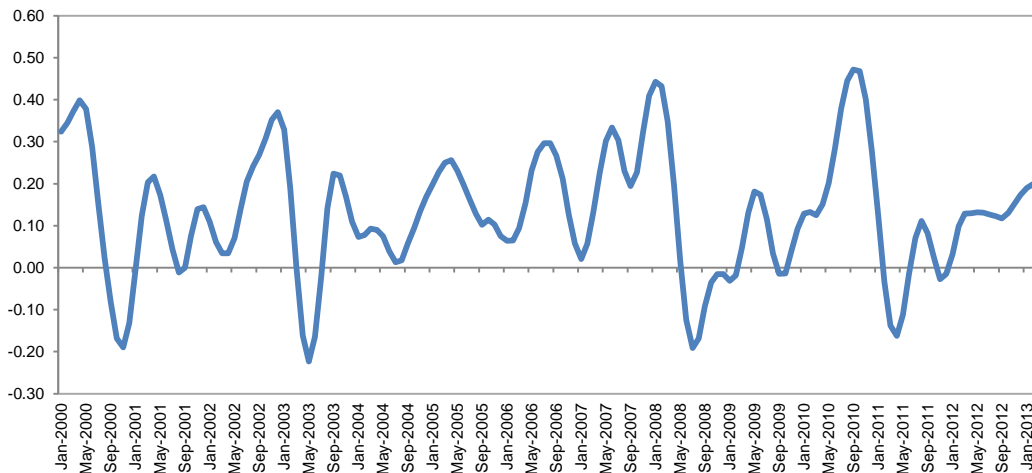
While employment growth in NSW is trending upwards, this follows a period of slow growth in 2011 and does not match the rebound that occurred following a similar slowdown in the wake of the global financial crisis (see Chart 5). The unemployment rate has been trending downwards reaching 5.3% (at a time when unemployment in Australia as a whole is trending upward to 5.5%), but this has been partly due to falls in the participation rate.

**CHART 4**  
**INCOME FROM SALE OF GOODS AND SERVICES - QUARTERLY GROWTH**



Source: ABS Business Indicators, December 2012

**CHART 5**  
**NSW EMPLOYMENT - MONTHLY GROWTH (TREND)**



Source: ABS Labour Force, March 2013

One of the challenges for NSW businesses is that they pay more tax than their competitors in other States. NSW is the second highest taxing jurisdiction behind South Australia according to the Commonwealth Grants Commission (CGC), and fourth highest with respect to taxes on an average business according to the Institute of Public Affairs (see Charts 6 and 7).

Commonwealth Grants Commission figures suggest that in 2011-12 NSW businesses and households paid around \$1.2 billion a year more than they would if NSW applied the average policy of other States. Queensland pays \$1.2 billion less and Victoria is around \$150 million below average.

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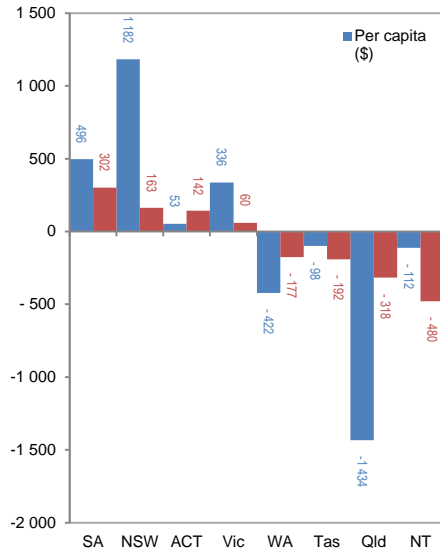
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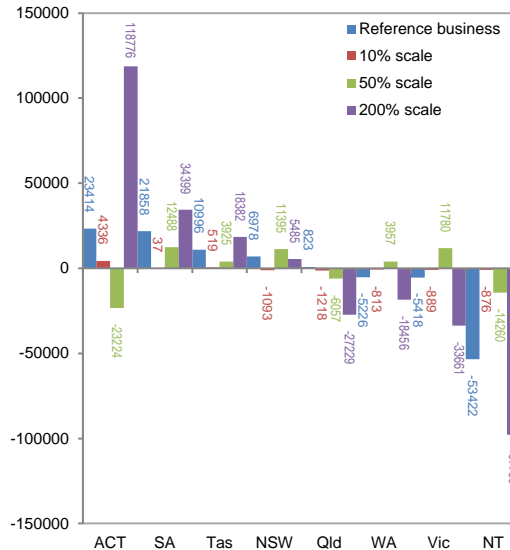
Similarly, the Institute of Public Affairs found that in 2012-13 a typical business in NSW would pay almost \$7,000 more tax than the (unweighted) Australian average and over \$12,000 more than their Victorian counterparts.

**CHART 6  
CGC ASSESSMENT OF ACTUAL STATE TAX RELATIVE TO AVERAGE POLICY (2010-11)**



Source: 2012-13 CGC Update on Relativities

**CHART 7  
IPA ASSESSMENT TAXES PAID BY REFERENCE BUSINESSES (2012-13)**



Source: 2012-13 Institute of Public Affairs Business Tax Calculator

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Cutting overall taxes in NSW to match Queensland would not be fiscally responsible, but a more feasible goal would be to align NSW with Victoria, particularly with respect to providing a more competitive environment for business taxes, and taking action to address competitive disadvantages associated with the cross border regions. In this context, the Chamber has the following proposals:

**1. Reverse the decision to defer the abolition of the remaining IGA taxes**

- These are some of the State’s most inefficient taxes which Victoria and Queensland have already abolished. Their continued deferral adds further costs by denying businesses a stable tax environment in which to make their decisions.
- If nothing else, the Chamber seeks a commitment from the Government that it will reverse its decision to defer these tax cuts if the federal opposition wins the September election and opts not to proceed with the Gonski spending.

**2. Increase the payroll tax threshold by using the underspent Payroll Tax Rebate (Jobs Action Plan).**

- Ahead of last year’s budget the Chamber showed that if the Government had closed the payroll tax rebate scheme to new applicants from 1 July 2012, the revenue saved could have been used to raise the payroll tax threshold incrementally to \$815,000 by 2015-16 while simultaneously saving \$30 million over the same period. [\(link\)](#)

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- While there is now less money in the rebate scheme, the option is still available to Government to close the scheme from 1 July 2013 and raise the payroll tax threshold by as much as it can using the funding that remains.
- Take-up of the payroll tax rebate scheme has been less than 50 per cent of expectations.
  - The Rebate was anticipated to create 25,000 positions per year for four years. However, publicly available data shows the Rebate was claimed for 13,115 positions in the 14 months from July 2011 to October 2012, which translates to 11,241 positions per year on a *pro rata* basis.

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### 3. Simplify the Payroll Tax Rebate (Jobs Action Plan) application process (if the scheme is maintained)

- The requirement for companies to take the relatively simple step of registering their new employees with OSR to receive the rebate is understandable to minimise the risk of claims by businesses that would have increased their employment anyway.
- However, feedback from businesses and the Chamber's own finance team has been that there are significant costs associated with the record keeping required to ensure that the new employee stays with the company for two years (or is replaced within 30 days of leaving) and that full-time equivalent staff remain above the level that they were at when the employee was hired.
- Firstly, the period could easily be shortened as no business would hire an unnecessary employee for even 12 months just to claim a \$4000 dollar rebate.
- Secondly, it is not clear why OSR could not use information on a company's payroll tax liability (perhaps with an allowance for inflation) to test whether a company had maintained its employment levels.
  - The test may not be as accurate, but the small loss of accuracy would be made up for by the reduced regulatory burdens.

### 4. Provide a tax rebate to businesses in cross-border regions to address the higher tax rates in NSW using the underspent Regional Relocation Grant

- The impact of NSW's higher tax rates is particularly problematic for businesses operating near the Queensland and Victorian borders.
  - Businesses operating near the ACT border are less likely to experience such difficulties as the ACT has even higher tax rates than NSW.
- The Government would be best placed to determine the form that such tax relief might take and the quantum that would be affordable in the current budget context, but the IPA study referred to above on the taxes paid by businesses in different States should provide a reference point.

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- This could be funded by closing the Regional Relocation Grant Scheme
  - The Chamber understands the \$188 million Regional Relocation Grant scheme has been heavily underspent, with take-up at less than 7% of what was anticipated.

## 5. Contribute to funding a Western Sydney trial of a partial credit guarantee to help improve small business access to finance

- The Chamber will be releasing a report in June on access to finance for SMEs.
  - The report will be based on work the Chamber has commissioned from Ian Harper at Deloitte Access Economics and Dr Marc Cowling, a UK Professor of Entrepreneurship.
- One of the options that will be put forward is a trial of a partial credit guarantee scheme in Western Sydney based on a UK program called the Small Firms Loan Guarantee (SFLG)
  - Under the SFLG, the UK government guarantees the losses of lenders up to 75% of the principal on loans up to a maximum of £250,000 (capped at 25% across an institution's portfolio) in exchange for charging a fee to borrowers.
  - An evaluation of the SFLG found that the firms in the scheme have generated a positive net economic benefit to the UK economy—for every £1 contributed, there is a £1.05 return to the economy.
- Access to finance is a key concern that has emerged as part of the Too Big to Ignore campaign and past Chamber surveys.
  - Survey evidence collected by the Chamber in July 2012 indicates that problems accessing finance led around 30% of businesses to pass up opportunities in the previous two years.
- Discussion with lenders about the feasibility of such a trial has been positive.
- The Chamber will be seeking a commitment from State and Federal Governments to put forward \$10 million each over two years to cover the trial guarantee.

## 6. Commit to exploring greater cooperation between OSR and the ATO to reduce red-tape and government administration costs

- As part of its 10 Big Ideas campaign the Chamber advocated allowing the ATO to collect payroll tax and other State taxes.
- Careful governance measures would be required to ensure NSW retains control of its revenues, but this could significantly reduce the regulatory burden on businesses and provide administrative savings.
- Consideration could also be given to giving local governments the option of a more centralised revenue collection structure.

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Once again, thank you for the opportunity to make provide input to the 2013-14 Budget. Please contact Tim Hicks of the NSW Business Chamber's Policy unit via email at [tim.hicks@nswbc.com.au](mailto:tim.hicks@nswbc.com.au) or by phone on 02 9458 7259 should you have any queries about this submission.

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Yours sincerely

A handwritten signature in black ink, appearing to read "Stephen Cartwright".

Stephen Cartwright  
Chief Executive

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