

## 2008-09 NSW Budget Overview



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Invigorating Business Representation

## Message from the Director, Membership and Policy

The 2008-09 State Budget could be the right recipe to help NSW businesses cope with the pressing economic challenges facing NSW.

Whilst economic and employment growth exceeded budget forecasts in 2007-08, we are all aware that growth will slow in coming months.

Rising interest rates, petrol prices, a rising currency, drought and international equity market volatility will take their toll. We have already seen falls in business confidence, housing finance and retail trade.

Fortunately the NSW Budget is in a strong position due to increases in GST revenues and stronger than expected economic and employment growth during the past year.

NSW Business Chamber believes this Budget passes the test – delivering record infrastructure spending, a \$1.9 billion cut to payroll tax and continued budget surpluses.

Having campaigned for NSW to cut the payroll tax rate for many years, the decision of Premier Iemma to honour the commitment he made in 2006 to the NSW Business Chamber Council to cut payroll tax is particularly gratifying.

The decision to index the payroll tax threshold to Sydney CPI will help the NSW payroll tax system to stay competitive.

When combined with the 30% reduction in workers compensation costs over the past two years for which NSW Business Chamber actively lobbied, businesses in NSW have seen a reduction in government taxes and charges linked to employment, and will see savings of close to \$800 million this year alone.

Whilst government debt increases in the medium term, it should be noted that electricity assets are off-budget and as such, the balance sheet will improve as the assets are realised.

Importantly the Government has contained expenses growth to 4.2% in nominal terms in 2008-09. Central to the Government's strategy is containment of wages growth to 2.5% and this approach is supported by NSW Business Chamber. Increases in wages over and above 2.5% will be linked to productivity.


The \$57.6 billion infrastructure program continues the infrastructure strategy unveiled by Premier Iemma before the election. In keeping with arguments put forward by the NSW Business Chamber, the Government has recognised that it needs to build extra capacity into our public transport network given petrol price increases.

Whilst the Budget itself shows NSW Government finances in a strong position for the short to medium term, the sustainability of the health Budget is a concern. Health costs will continue to accelerate with the ageing of the population and we agree with the NSW Government that resolving issues around vertical fiscal imbalance will be an essential part of "root and branch" tax reform.

The release of the IPART Tax Review on 12 June we hope will provide a road map for tax reform in NSW.

This is a good Budget for NSW business. The 2008-09 NSW Budget Overview is the NSW Business Chamber's assessment of how the Budget will impact your business.

Yours sincerely



**Paul Orton**

Director, Membership and Policy

NSW Business Chamber



# Business taxes & the NSW Economy

## Payroll tax threshold indexation

The Government will introduce annual indexation of the payroll tax threshold from 1 July 2008.

The payroll tax threshold will be indexed annually, from 1 July, based on the movement in the Sydney CPI over the year to the previous March quarter, which will be the most up to date information available.

The threshold applying from 1 July 2008 will be \$623,000, up from \$600,000.

New South Wales will be the only state to annually index the payroll tax threshold.

This measure will provide tax relief to businesses by allowing for the impact of inflation on their wages bill.

This measure will reduce payroll tax revenue by \$34 million in 2008-09 and by \$309 million over the four years to 2011-12.

## Payroll tax rate reduction

The Government will reduce the payroll tax rate from 6% to 5.5% in three stages, starting from 1 January 2009.

The first reduction from 6% to 5.75% will occur from 1 January 2009, followed by a reduction to 5.65% from 1 January 2010, and a further reduction to 5.5% from 1 January 2011.

These lower rates will improve NSW payroll tax competitiveness. The 5.5% rate will place New South Wales around the middle of the range of rates levied in the other states and territories and will improve NSW payroll tax competitiveness with the neighbouring states of Victoria (current rate 4.95%) and Queensland (current rate 4.75%).

The reduction in the payroll tax rate is estimated to reduce payroll tax revenue by \$114 million in 2008-09, rising to \$644 million in 2011-12 when all three stages have been introduced.

Total cost to revenue over the four years 2008-09 to 2011-12 is \$1.6 billion.

## Abolition of transfer duty on non-land business assets

In the 2006-07 Budget, the Government announced it would abolish transfer duty on non-land business assets from 1 July 2012. The Government will now abolish the duty from 1 January 2011, bringing forward the abolition by 18 months. These non-land assets include goodwill, patents, trademarks and other intellectual property (some assets, such as inventory and stock-in-trade, are not dutiable items).

Abolishing duty on non-land business assets will improve economic efficiency by removing this disincentive to move business capital to different ownership structures and investment opportunities.

Abolition of transfer duty on non-land business assets is the last of the taxes New South Wales decided to abolish following consideration of the taxes listed for review in the Intergovernmental Agreement on the Reform of Commonwealth-State Financial Relations (IGA).

## Corporate reconstruction of property trusts

A specific exemption from stamp duty will be provided to allow property trusts to restructure. The Commonwealth has already provided relief from capital gains tax for these restructures and the stamp duty exemption will match this relief. These restructures are to align Australian property trusts with real estate investment trusts in other markets.

## The NSW Economy

The NSW economy has been consistently underperforming vis-à-vis the other States, owing to the resources boom enjoyed by Western Australia and Queensland, and the lower levels of business confidence in NSW.

Table 1 shows that the rate of State Final Demand (that is, expenditure not output) of NSW lagged behind most other States both in 2007 and for the period 1991-2007.

Table 1

State Final Demand Year-ended percentage change		
	2007	1991-2007
NSW	4.5	3.4
Victoria	5.2	4.3
Queensland	7.2	5.4
South Australia	2.7	3.3
Western Australia	9.7	5.4
Tasmania	7.7	3.4

Source: ABS and RBA

However, the Reserve Bank noted in its May Bulletin that the gap between State Final Demand rates is narrowing, with the moderation of growth across all States.

The NSW Treasurer has declared that State Final Demand is robust, considering the challenges from tighter credit markets and consecutive increases in interest rates.

The business tax cuts and efficiency savings outlined in this Budget will go far in boosting NSW State Final Demand and Gross State Product to levels prevailing in other States.



# Fiscal Aggregates

## Budget result

The NSW State Budget result for 2008-09 is expected to be a surplus of \$268 million, under new reporting standards adopted by the NSW Government (AASB Whole of Government and General Government Sector Financial Reporting) that combine both accounting and government finance statistics (GFS) principles. (See Table 1.)

Surpluses averaging \$782 million are forecast for the next four years.

Under the previously used GFS principles the Budget result for 2008-09 is \$737 million.

Under the new standards, the revised Budget result for the 2007-08 is a surplus of \$700 million, compared with the previous fiscal year estimate of \$40 million and the 2007-08 Half-Yearly Budget Review estimate of \$170 million.

Table 2

	2005-06 Actual \$m	2006-07 Actual \$m	2007-08 Budget \$m	2007-08 Revised \$m	2008-09 Estimate \$m	2009-10 Estimate \$m
Budget result - GFS basis	976	881	376	1,036	737	885
Road transport grant adjustment	952	(54)	(336)	(336)	(469)	(93)
Budget result - AASB 1049 basis	1,928	827	40	700	268	792

Source: NSW Treasury Budget Papers

The Budget result excludes any estimated proceeds from the sale of State electricity assets, because Budget figures focus on taxpayer-funded general government sector services, rather than commercial services provided by the Public Trading Enterprise (PTE) sector.

Total State net debt will increase substantially over the period 2008-09 to 2011-12, in order partially to finance a large capital spending program in the PTE sector. Total State net debt will reach \$7.8 billion by June 2012, increasing from 1.4% to 1.7% of Gross State Product (GSP).

However, this capital spending is estimated to raise the value of the State's physical assets from \$189 billion in June 2008 to \$229 billion in June 2012.

Total expenses for 2008-09 are estimated to be \$47.6 billion, an increase of 4.2% from the last fiscal year. Expenses are expected to increase on average by 4.5% per annum over the four years to 2011-12.

The Treasurer highlighted public sector labour costs as a significant cost pressure, with employee expenses (excluding superannuation expenses) climbing \$828 million or 4.1% over the 2007-08 revised estimate.

The NSW Government has committed to limiting future wage increases to 2.5% per annum, in line with the Reserve Bank's inflation target range of 2 to 3%. Any further increases in public sector wages must be offset by productivity savings.

The Treasurer also drew particular attention to rising costs associated with the ageing of the population, reflected in the 7% increase in ageing and disability services in excess of \$2 billion in 2008-09.

Total revenues are expected to reach \$47.9 billion in this fiscal year, an increase of 3.2% from the last fiscal year. Revenues are expected to increase on average by 4.4% per annum over the four years to 2011-12.

Taxation revenue is forecast to increase by an average of 4.1% per annum, driven by moderate growth in the property market and a return to trend

growth for wages and employment.

These factors are offset by \$3.6 billion worth of tax cuts – \$2.2 billion newly announced – in the 2008-09 Budget, including phased cuts in the rate of payroll tax from 6% to 5.5% over three calendar years from 2009, raising the payroll tax threshold from \$600,000 to \$623,000, and indexing the threshold to the annual Sydney consumer price index.

General Purpose Grants from GST revenues are projected to increase by an average of 6.1% per annum, Specific Purpose Grants by 4.8%.

The Fiscal Aggregates and forward estimates in the 2008-09 Budget, notably the thirteenth consecutive surplus, and cuts to business taxation, confirms the NSW Government's medium-term fiscal strategy, designed to:

- > Support expenditure priorities with sustainable aggregate expenditure growth.
- > Maintain a competitive tax regime conducive to business investment.
- > Maintain net debt and other financial liabilities at sustainable levels.



# Budget expenditure measures

## Infrastructure

The NSW Budget has committed to increase capital expenditure over 4 years to \$57.6 billion with a commitment to \$132.9 billion in 2008-09, an increase of 11% to fund transport, roads, health, education and training, housing, and law and order:

### Roads and Transport

In addition to \$1.42 billion for ongoing upgrades to the Pacific, Princess, Hume and Great Western Highways, new Road and Transport infrastructure spending for 2008-09 includes:

- > \$106 million for the North West Metro
- > \$64 million for South West Rail Link
- > \$150 million for Victoria Road upgrade
- > \$220 million for road widening of Great Western Highway at Lawson and Wentworth Falls
- > \$61 million for Cowpasture Road and related road upgrades in Camden, Liverpool and Hoxton Park
- > \$65 million for the M5 East filtration project
- > \$110 million for bus acquisition and upgrades in Sydney and Newcastle

### Ports

Ports infrastructure commitment of \$396.7 in 2008-09 includes

- > \$287.6 million for Port Botany expansion
- > \$34.8 million for Enfield Intermodal Logistics Centre
- > \$33.6 million for Port Kembla including for land acquisition, improved access and facilities
- > \$17.1 million for capital works at Newcastle

## Education and Training

Additional Education & Training infrastructure spending of \$246 million includes:

- > \$148 million for TAFE and school upgrades across the state
- > \$94 million for major technology projects

## Electricity

- > \$3.5 billion capital expenditure program for the electricity sector including upgrades for substations and distribution centres
- > \$537.9 million by TransGrid for expansion and upgrade to high voltage electricity network
- > \$689.5 million for construction of electricity generators including Colongra open cycle gas turbine power station on the Central Coast

## Industrial Relations

\$6 million for employer focused workshops to support small business build capacity related to workplace rights and responsibilities awareness

## State & Regional Development

Regional Business Development and Innovation commitment of \$147.6 million includes:

- > \$44.9 million for regional development focused on business attraction
- > \$22.1 million for Small business development
- > \$36.9 million for science & medical research
- > \$43.7 million for tourism

## Sustainability

Climate Change and Environment commitment of \$192.4 million includes:

- > \$20 million for rebates through the Climate Change Fund
- > \$35 million for water and energy saving projects for business and public facilities
- > \$137.4 million for water entitlement purchases under the Living Murray program and other State Government programs
- > \$886.3 million on the Sydney Water Desalination Project
- > \$139.3 million on recycling projects including Western Sydney Replacement Flows Project
- > \$170.8 million on sewage treatment plants upgrades





NSW Business Chamber represents over 30,000 businesses in NSW and connects over 100,000 businesses across Australia through the State and Territory Chamber Network.

NSW Business Chamber's purpose is to champion the cause and growth of business. Through research, knowledge and policy achievements, we offer solutions that stimulate business growth nationwide and globally.

## Invigorating Business Representation



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