



# TAX FORUM

4-5 October 2011

## STATEMENT OF REFORM PRIORITIES

### PARTICIPANT NAME AND POSITION

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### ORGANISATION



### STATEMENT OF PRIORITIES

On behalf of O'Regan & Partners, I welcome the opportunity to submit this position paper outlining Reform Priorities for discussion at the October Tax Forum in Canberra.

In this paper I have focused on reforms addressing a number of issues particular to rural and regional communities.

#### **QUESTION 1: What are your priority reform directions for the tax and transfer system?**

#### **Summary**

Reform priorities selected address the following questions:

1. Does the tax system provide the right support to Australians to locate to the areas where they are most in demand?
2. From a rural and regional SMEs perspective what reforms are appropriate to maintain business tax revenue and economic growth?
3. Are there ways to further simplify business interactions with the tax system, especially for small business?
4. How might the reform or greater harmonization of State payroll taxes be pursued?

#### **1. Reforms Supporting Relocation of Skilled and Unskilled Australians**

One of the greatest challenges faced by businesses is the recruitment and retention of staff, both skilled and unskilled. Competition for employees is intense, particularly so for small and medium sized enterprises (SMEs). Additionally rural and regional employers must compete with higher salary expectations generated by the booming resource sector, as well as compensating employees for higher living and travel costs associated with such regions.



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Currently the tax system provides little support to those employed or seeking employment in regions outside urban centres.

Presently, zone rebates (ITAA36 s.79A, Zones A & B) for eligible persons working in remote areas are ineffective and inadequate in terms of compensating for increased living and travel costs. The rebate as it currently presents could not be regarded as an incentive to relocate to listed zones.

To address the issues raised above, the following reform options are raised for consideration:

- a) Provide attractive tax incentives to SME employers in rural and regional areas supporting the employment and training of staff. Such measures should complement the objectives of the National Workforce Development Fund (NWDF) and the Australian Government's *Building Australia's Future Workforce* Package, by focusing on the Priority Occupation List as developed by the NWDF.

Non-fiscal incentives in the form of accelerated payroll deductions, zone or profit-linked rebates would enable employers to compete more readily for staff in the employment market. The resultant increase in rural and regional employment would act as a stimulus for growth in struggling sectors, ensuring a more resilient and growing private sector and stronger communities. An example would be in the primary industries sector where currently a lack of employees leads to underutilisation of resources and low productivity. Increased access to farm workers would revitalize the industry.

- b) Provide tax incentives to individuals to locate to rural and regional centres to work for SME's. Such incentives must ensure that relocating individuals will be significantly better off than they would be if remaining in urban areas.

The incentives may be structured as combination of reduced income tax rates, zone rebates and increased Fringe Benefits Tax Remote Area Concessions. The incentives must be directly related to the period of residence in selected areas. Only persons residing in the selected regions should be eligible for the incentive, thereby excluding visiting workers with main residences elsewhere.

## 2. Economic Growth in Rural and Regional Areas.

Economic growth in selected regions must be supported by investment at a local level. Investment in infrastructure is being addressed by the Australian Government, however investment in capital works such as new buildings or structural improvements is also essential.

Currently capital works deductions for all new capital investments stand at 2.5% of cost over forty years. To stimulate growth particularly in rural and regional Australia, the capital works deductions should be reformed to provide considerable incentives for future investment. Consideration should be given to the benefits of accelerated capital works deductions for specific regions to encourage existing business to upgrade facilities and expand, or to encourage new entrants to invest in areas of need.

The use of accelerated capital works deductions in other countries has proven that the measure is an



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effective stimulus. However, the deduction must be adequate to encourage the desired investment but should be capped or have safeguards to ensure appropriate outcomes are achieved. The economic benefits of accelerated capital works deductions would have a flow-on effect throughout the supply chain similar to the impact of the 2008-09 investment allowance tax break.

### **3. Are there ways to further simplify business interactions with the tax system, especially for small business?**

Small business currently struggles with the time and cost associated with tax system compliance relative to their turnover and profitability. Administrative and compliance requirements act as a restraint on the growth and development of small business and there are clearly many opportunities for stream-lining of the tax system and reduction in complexity for small businesses.

The reduction of complexity in the tax system should be addressed in conjunction with a reduction in the complexity and number of state taxes.

### **4. How might the reform or greater harmonization of State payroll taxes be pursued?**

State payroll taxes are a punitive tax which detracts from Federal policy for the growth and development of businesses. In essence, payroll taxes acts as a disincentive for growing businesses and particularly penalises labour intensive enterprises.

State payroll taxes should be overhauled on a number of levels. Firstly, the threshold levels are unreasonably low given current average salary levels in Australia and should be reviewed significantly upwards. Secondly, payroll tax rates should be equalised throughout Australian states. Thirdly, new and growing businesses in selected regions should be exempted from the payroll tax in the first three to five years of business, at a time when cash flow pressures are heightened, growth is restricted by cash flow and the risk of business insolvency is highest.

### **QUESTION 2 : How are your proposals financed over the short and longer term?**

#### **Funding Sources include:**

1. Savings from a revision of the zone rebate eligibility requirements to exclude individuals who visit regions for work purposes but maintain a main residence elsewhere.
2. Tax incentives for SMEs to hire additional employees, both skilled and unskilled would:
  - a) result in savings in transfer payments by encouraging a move away from reliance on such transfer payments and greater participation in the workforce.
  - b) stimulate growth within the private sector leading to increased SMEs tax revenue and increased personal tax revenue from employees.
3. Consideration should be given to a revision of consumption tax rates as a means of funding other tax reforms. While Goods and Services Tax is not mentioned in the discussion paper, there is merit in reviewing the rate at which the tax is levied on major luxury items. Such reform has to potential to play a significant role in funding further Australian economic growth.



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## LIST OF ATTACHMENTS

Feel free to attach supporting papers if you wish. Please list them here.