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NSW Budget Announcement 2020-21

A review of the NSW Budget's major business implications

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Contents

Executive summary

The NSW Budget for 2020-21 has a strong focus on job creation, as well as introducing the prospect of some major tax reform.

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Partner, Office Chairman NSW

Grant Wardell-Johnson

Lead Tax Partner, Economics & Tax Centre

The NSW Government's budget for 2020-21 projects a deficit of $16 billion to follow a deficit of $6.9 billion for 2019-20, but a return to surplus by 2024-25. There are some sobering figures here, but there is also much to be positive about.

Reform of the stamp duty and land tax regimes is something that KPMG supported in its submission to NSW Treasury's Review of Federal Financial Relations ("FFR review") earlier this year. There is a fine balance between transitioning fairly into a new regime and obtaining the benefits of the reform more quickly. The government's proposed consultation on replacing stamp duty and land tax with a single property tax on an "opt-in" basis for future purchasers is an encouraging starting point. NSW Treasury estimates that this change could inject $11 billion into the NSW economy in the first four years.

The NSW Government's spending pipeline of over $107 billion for transport, health and educational infrastructure is being supplemented by additional maintenance and construction expenditure, which we are pleased to see includes improvements to social housing. The expectation is that these infrastructure projects will directly create jobs and also indirectly support employment by enhancing the state's productivity.

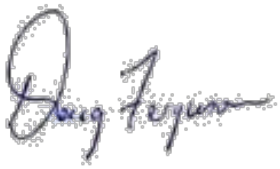
The "Out and About" voucher scheme to encourage greater patronage of hospitality and entertainment venues will generate headlines and perhaps generally lift the mood, as well as injecting some extra cash into businesses that have suffered significantly from the pandemic.

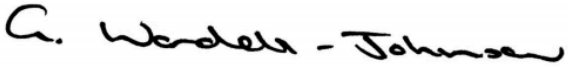
Many employers will welcome the permanent increase to the NSW payroll tax threshold from $1 million to $1.2 million and the temporary (2020-22) cut in the rate by 0.6 of a percentage point. In particular, the increase to the threshold is expected to take more than 3,000 employers out of the payroll tax net. The Jobs Plus program, to run between December 2020 and June 2022, proposes to exclude the wages of newly-hired employees from payroll tax, where the employer's staff numbers increase by 30 or more.

We welcome the targeted grants and assistance packages for women seeking to return to the workforce.

In committing additional funding to mental health programs, the Budget recognises that while NSW has managed the physical health consequences of the pandemic relatively well to date, there may be a long tail of mental health challenges that require management.

In the 12 months since the FFR review commenced, other priorities have grown in importance and that is understandable. In due course, we look forward to the NSW Government's further consideration of the other reform measures that were canvassed in the FFR review.





Doug Ferguson
Partner, Office Chairman NSW

Grant Wardell-Johnson
Lead Tax Partner, Economics & Tax Centre

Economic analysis

The New South Wales economy is expected to weather the coronavirus storm better than the nation as a whole during this financial year.

Brendan Rynne

Chief Economist, Economics & Tax Centre

"The budget contains a good mix of short term economic stability measures and medium to longer term reform opportunities"

The NSW Treasury is predicting a downturn in economic growth for 2020-21 at about half the levels forecast for Australia as per the recent Federal Budget. The fact that NSW has been 'open for business' for all of this financial year (so far) and has managed the spread of coronavirus to a few daily cases and a couple of outbreaks, which were contained very quickly, has meant the local economy has benefited from fewer disruptions to economic activity than other states.

Data from the ABS shows that at the peak of the downturn NSW had lost nearly 9½ percent of its employed workforce (as measured by ATO payroll data), although by the end of October this has since recovered with employment in the state now just around 2½ percentage points lower than at its pre-coronavirus levels.

Unsurprisingly, those living in the Sydney city and Inner South experienced the greatest levels of unemployment at the height of the lockdown, and unfortunately job losses in that area remain substantially higher than the rest of the state. Also, front-line service sector workers, such as those in the accommodation, food, arts and recreation sectors remain most negatively impacted by the procedures put in place by the NSW Government to control the spread of the coronavirus.

Today's budget specifically addresses disproportionate job losses in this region and in these sectors by allocating $100 in vouchers per adult for use in restaurants, visitor sites and tourist attractions at a total estimated cost of half-a-billion dollars. When a similar scheme was introduced in the United Kingdom in August 2020, "Eat out to Help out", bookings data from OpenTable showed a marked increase in the number of people eating out on Mondays, Tuesdays and Wednesdays, the designated days the scheme was in operation.

In addition to the short-term measures aimed at keeping the lights on and the family silverware together, today's Budget incorporates a range of significant reforms aimed at encouraging greater employment in the state and fostering opportunities for home ownership for those that struggle at the margin of being able to afford to purchase a dwelling.

The Treasurer has announced major changes to the rate and threshold of payroll tax. The tax rate will fall from 5.45 percent currently to 4.85 percent for the next two years, while the threshold is permanently lifted from $1 million to $1.2 million.

Another early step in the pathway for significant tax reform in NSW was also included in today's Budget, with the Treasurer announcing the government will commence seeking feedback on a proposal to transform the property tax system, with home buyers potentially given the option of paying an annual property tax instead of paying a lump-sum stamp duty at the time of purchase. Due to the uncertainty associated with this concept we note the financial impact of this reform has not been reflected in the forward estimates of the Budget. Over a long period of time, KPMG modelling indicates that there are considerable economic benefits to reforming property taxes.

Key Insights

- Today's Budget incorporates a mix of short term measures aimed at shoring up the state economy from the impact of the measures implemented by government to stop the spread of the coronavirus, and also pleasingly various reform measures aimed at improving the medium to longer term economic efficiency of the state.
- The voucher scheme being adopted to help the restaurant, tourism and leisure sectors in NSW is a welcome policy response to help these struggling industries, although the cautionary learning from the experience of a similar scheme in the UK is that strict health protocols must be maintained, otherwise there is a heightened risk with the spreading of coronavirus as a result of increased social interactions.

Stamp duty & land tax

Jenny Lee
Partner, Deals, Tax & Legal

"NSW leading the charge on a much-talked about state tax reform"

NSW tax reform replacing transfer duty and land tax with a single property tax and reducing barriers to home ownership and boosting long-term economic growth of NSW.

Property tax reform

Over the years, there have been several reviews, including the recent NSW Review of Federal Financial Relations recommending transfer duty to be replaced with a broad-based land tax. NSW Treasurer Dominic Perrottet announced on 17 November 2020 that the NSW Government's plan for reform would broadly mean the following:

- Home buyers would have a choice between paying a one-off stamp duty bill or an annual property tax and the opt-in would be once only. If a buyer chooses to pay the property tax, even the subsequent owners will be subject to the annual property tax.
- The option to pay stamp duty would remain for more than half of all properties even after 20 years to allow a gradual transition to the new property tax. NSW Government is also considering a retrospective opt-in to the property tax for the buyers who wish to do so to minimise disruption to the property market;
- Incentivise home ownership with lower rates for owner-occupiers compared to residential investment properties and commercial properties. Lower rates will also apply to primary production properties. The new property tax will be applied to an individual property, and not aggregate landholdings;
- The current property owners who are not buying or selling are not affected (i.e. there is no double taxation);
- The current stamp duty concessions provided to first home buyers will be replaced with a new grant;
- Value thresholds will limit the number of properties initially eligible for transition to keep revenue and debt impacts within reasonable levels, but over 80 percent of residential properties should be eligible to opt-in. Whilst other property investors are not able to initially opt-in, this may impact on the investment strategy of real estate funds even in advance of being subject to the property tax reform;
- Protections would apply so that the property tax does not result in rent increases without a tenant's agreement.

The following table outlines indicative, and not final, property tax rates, noting that the exact thresholds and other financial details are subject to public consultation.

Property Type	Subject to stamp duty	Subject to land tax	Potential property tax rate
Owner-occupied residential property	Yes	No	$500 + 0.3% of unimproved land value
Investment residential property	Yes	Yes	$1,500 + 1.0% of unimproved land value
Primary production land (farmland)	Yes	No	$0 + 0.3% of unimproved land value
Commercial property	Yes	Yes	$0 + 2.6% of unimproved land value

The NSW Government consultation paper notes that the proposed tax reform would inject up to $11 billion back into the NSW economy in the first four years. However, over the longer term, it expects that the new property tax should be revenue neutral and collect the same amount of revenue as stamp duty and land tax without the budget risk and unpredictability created by volatility in the property market

Stamp duty & land tax - *continued*

The public consultation is being conducted through the NSW Government website until 15 March 2021 https://www.haveyoursay.nsw.gov.au/nsw-property-tax-proposal

If you would like to discuss contributing to this process, we encourage you to contact us:

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Land tax concession for build-to-rent ("BTR") properties

In New South Wales, any new BTR development that commenced construction on or after 1 July 2020 may be eligible for a land tax concession of up to 50 percent until 2040. Eligible BTR properties are also exempt from foreign investor surcharge duty and land tax.

One of the main criteria is that a significant proportion of the labour force hours spent on the construction of the building need to involve apprentices/trainees, long-term unemployed workers, workers requiring upskilling, workers with barriers to employment, Aboriginal jobseekers and graduates. The Chief Commissioner also need to be satisfied that the building is being used and occupied as a BTR property in accordance with guidelines to be approved by the NSW Treasurer. The guidelines are yet to be provided but may require, amongst other things, minimum lease conditions offered to tenants, minimum scale of a building and the nature of the ownership and management of the building and the land on which the building is situated.

The exempted land tax may be clawed back if the land is subdivided or the ownership of the land is otherwise divided within 15 years. Reassessment will be in respect of the year in which the clawback arises and up to 15 years preceding.

The BTR development concession announced by New South Wales is a welcome change, as the relief measures introduced by Victoria and Queensland for property developers are not as extensive as New South Wales. Other States and Territories are yet to announce any relief measures for BTR developments.

Key Insights

- A once-only choice between paying a one-off stamp duty bill or an annual property tax
- Incentivise home ownership with lower rates for owner-occupiers
- No impact on the current property owners who are not buying or selling
- Replace the current stamp duty concessions with new grants for first home buyers
- Reform to be undertaken in a revenue and debt neutral manner
- Protections for tenants to ensure no rent increase as a result of property tax

Nathan Hamilton

Partner, Deals, Tax & Legal

Payroll tax

$2.8 billion in payroll tax relief to support jobs in NSW.

"Generous payroll tax cuts will no doubt be a welcome relief for NSW businesses and should stimulate much-needed employment in the State"

With a current unemployment rate of 7.5 percent, the NSW Government is investing heavily in measures to stimulate employment. Payroll tax is front and centre with respect to these measures, with an increase to the payroll tax threshold, a temporary reduction in the payroll tax rate, and payroll tax waivers in respect of certain eligible NSW employees.

Increase in the payroll tax threshold

From 1 July 2020, the NSW payroll tax threshold will increase from $1.0 million to $1.2 million. The increase in the payroll tax threshold will mean that an estimated 3,500 employers with group Australia-wide taxable wages of less than $1.2 million will not be required to pay payroll tax in NSW. For employers that exceed the threshold, the increase will result in a greater proportion of NSW wages being payroll tax free.

Businesses that are not required to pay payroll tax in NSW are also eligible for a $1,500 digital voucher that can be used to claim a refund of government fees and charges, providing further relief.

Temporary two-year reduction in the payroll tax rate

A temporary reduction in the NSW payroll tax rate to 4.85 percent will also apply for two years from 1 July 2020 to 30 June 2022. This reduction will apply to all businesses, reflecting a temporary 0.6 percentage point reduction from the current rate of 5.45 percent. This measure alone is expected to cost approximately $2.1 billion over the two financial years.

As this is a retrospective measure, it is expected that refunds will be paid in respect of payroll tax already remitted at the higher rate for the four months to 31 October 2020. This will likely be refunded with the lodgement of the payroll tax annual reconciliation at the end of the financial year, however further details are expected to be released by the Office of State Revenue soon.

Jobs Plus Program

The Jobs Plus Program will provide $250 million in payroll tax relief and other support over a four-year period for businesses that create at least 30 new net jobs in NSW. Whilst the measure would appear to be primarily designed to encourage interstate and foreign businesses to relocate or commence their operations in NSW, the measure is also open to existing NSW business that increase their NSW headcount.

Details are currently limited with respect to the specific requirements and administrative processes surrounding the program, including the manner through which 'new net jobs' is determined. There may be some complexity for some employers, particularly those with large casual workforces and businesses with fluctuating seasonal operations. It is also not currently clear how 'NSW roles' will be defined, and whether there will be any restrictions applicable to businesses operating near the Queensland or Victorian borders.

Key Insights

- All NSW employers will enjoy a level of payroll tax relief from 1 July 2020 on account of a 0.6 percent temporary reduction in the payroll tax rate for two years (a reduction of over 11 percent per year in the tax payable).
- Further savings will be available for businesses on account of an increased $1.2 million payroll tax threshold applicable from 1 July 2020.
- NSW businesses will also be eligible for payroll tax relief under the Job Plus Program where they create at least 30 new roles in NSW. This includes employees that relocate from overseas or interstate.

Other taxes & charges

Jenny Wong
Director, Deals, Tax & Legal

"The NSW Budget measures to reduce taxes and charges will help many local businesses to manage costs and improve cashflow to support a post pandemic recovery."

The NSW Budget provides small and medium sized businesses, which do not pay payroll tax with a $1500 digital voucher for the cost of government fee and charges. Other key budget measures to support NSW businesses include:

- **Out and About** digital voucher program providing $100 worth of digital vouchers to NSW residents to spend on eating out and entertainment activities to encourage people to spend and support local businesses in the hospitality and entertainment industries.
- A **Revitalisation Fund** will be set up, a $15 million partnership between the NSW Government and City of Sydney to help revitalise businesses in the Sydney CBD to promote outdoor entertainment and al fresco dining.
- Extended funding for **Business Connect Program** of $39.3 million to enable businesses to seek advice in navigate the challenges of COVID-19.
- NSW Small Business Commission to be provided $5 million funding to establish new tendering support service under a four-year program providing small businesses with practical tips and assistance to prepare and submit Government tenders.
- The small business rebate program will continue to provide up to $500 to support small business owners and sole traders who buy and install safety equipment.
- A temporary extension to 28 March 2021 of the National Cabinet Mandatory Code of Conduct-SME Commercial Leasing Principles, for retail tenants with an annual turnover of less than $5 million.

Other new taxation measures announced since the NSW 2019-20 Half Yearly Review include:

- Additional insurer's Emergency Services Levy and council contributions are expected to increase revenue by $104.2 million over the four years to 2023-24.
- The freezing of indexation rates for heavy vehicles will lower motor vehicle weight tax revenue by $34.4 million over the four years to 2023-24
- A one-year extension to the rebate for Primary Producers Heavy Vehicle Registration costs, which will lower motor vehicle weight tax revenue by $36.1 in 2020-21.
- In response to COVID-19, payments of a range of gambling taxes and duties were deferred for around six months with extended repayment plans made available at the end of the deferral period

Key Insights

- After a rough trot of bushfires, drought and COVID-19, NSW businesses are winners from the NSW Budget 2020-21 with an announced range of measures to cut taxes and reduce business costs to improve cashflow as they transition into a post pandemic recovery phase.

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