New South Wales Budget Announcement 2021-22

A review of the New South Wales Budget's major business implications

June 2021

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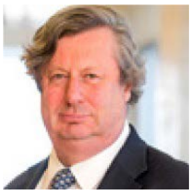
Contents

Executive summary

The NSW Government has reinforced that as the state emerges from the pandemic, building a stronger economy will require reform to lift productivity growth. The Budget's focus is about accelerating the recovery and transforming the state. This was strongly supported by the 2021-22 NSW Intergenerational Report[1] and NSW Productivity Commissioner's White Paper 2021[2].

Doug Ferguson

Partner, Office Chairman NSW



Grant Wardell-Johnson

Lead Tax Partner,
Economics & Tax Centre

The Budget has revealed a projected operating balance deficit of $7.9 billion for 2020-21, which is $8 billion smaller than it forecast only last November. The forecast deficit for 2021-22 is $8.6 billion, with an expectation that the operating balance will return to surplus in 2024-25.

This improvement in state finances has provided the government with additional scope to invest in physical infrastructure. The government's capital spending program for the period of the forward estimates now stands at $108 billion, of which transport stands to be by far the largest beneficiary ($71 billon).

The public health consequences of the pandemic are likely to remain with us for some time and we welcome the government's proposed total capital expenditure in health care infrastructure of more than $10 billion over the forward estimates.

In its submission to NSW Treasury's Review of Federal Financial Relations in early 2020, KPMG supported both Electric Vehicle (EV) reforms and the property tax reform which will phase out inefficient stamp duty and land tax. The "Progress Paper", launched on 10 June 2021, reflected stakeholders' and the community's detailed feedback, which provided strong support for the proposed changes.

The proposed replacement of stamp duty and land tax with a single property tax on an opt-in basis for future purchasers aims to balance fairness across the community with the timing of realisation of the benefits for productivity and the state's finances. There is an opportunity for further public comment which is open until the end of July 2021.

The Budget allocates $500 million over the forward estimates to the development of further infrastructure for charging EVs and to promoting their adoption through stamp duty concessions and grants for purchasers. This is a significant ramp-up in the government's support for this technology.

Otherwise the Budget papers do not include any significant new revenue measures for the forward estimates period.

New South Wales has started on the path to reform of its tax revenue base. We hope that the forecast improvement in government finances will allow scope for consideration of further tax reform measures in due course.

Doug Ferguson
Partner, Office Chairman NSW

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

[1] 2021-22 NSW Intergenerational Report | NSW Treasury

[2] White Paper | Commissioner for Productivity (nsw.gov.au)

Economic analysis

The New South Wales economy has bounced back faster and stronger than all previous expectations, enabling a return to Budget surplus in 2024-25.

Brendan Rynne
Chief Economist

The underlying economic premise of this budget is one of turning the corner and focusing on a more prosperous and progressive future. Themes of productivity reform, investment, embracing technology and preparing for the return of open borders and international engagement are found throughout the Budget Papers; a welcome example of constructive policy thinking which we hope will engender competitive tension with other jurisdictions and see numerous States adopt similar plans.

That is not to say the New South Wales Government does not have fiscal and economic challenges ahead of it. We note that the State's net debt position is more than doubling in next four years, while growth in employee expenses will now see public sector wages on a per capita basis in New South Wales overtake Victoria by the end of the forward estimates period.

The New South Wales Government philosophical position on several key policy settings, including taxation arrangements for electric vehicles, payroll taxes and stamp duty reforms, is relatively progressive in terms of its peers. These differences will mean New South Wales will become more attractive for businesses to expand operations there. While it might be argued these changes only impact cost structures at the margin; it is at the margin that businesses decide if, when and where they will make incremental investments.

One of the interesting features of the State Budget papers is the expectation that the New South Wales economy will, in effect, experience a growth pause in 2022-23, with real GSP forecast to expand by only 1 percent in that year (as compared to 3¼ percent in the year before and after). There are a few hints in the budget papers as to the cause of this softness, including "the extension to *HomeBuilder* … will provide further support for the residential construction industry into 2022"[3] and "the end of tax incentives will become a constraint on investment growth after 2022-23"[4]. Simply, the current suite of Commonwealth and State fiscal stimulus measures is expected to drag residential and business investment forward, and in the absence of any additional stimulus packages aimed at lifting economic activity in 2022-23, economic growth in that year will be weaker as a consequence.

Infrastructure spending of $108.5 billion over the next four years will assist in bolstering any short-term economic weakness, but more importantly will also contribute to the longer-term productivity platform for the State. The investments in creating more efficient transport networks, enabling better functioning health systems, improvements to early years education and enabling higher female participation in the workforce are all positive medium-to-longer term productivity-enhancing reforms.

The key now for the NSW Government is to ensure these good policy intentions are implemented effectively and with some urgency, which will ensure strong outcomes delivered for the people of NSW.

Key Insights

- Strong economic recovery in the State is allowing operating deficits to be lower and return to surplus faster than anticipated.
- Key policy reforms in electric vehicles and property taxes show the NSW Government in a more progressive light than its peers.

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[3] Budget Paper No.1, 2-10
[4] Budget Paper No.1, 2-11

Tax reform

The NSW Government expects to receive $9.3 billion from transfer duty in 2020-21, representing an increase of $1 billion from the forecast in the 2020-21 half-yearly review. This highlights the volatility in this element of the tax base.

Jenny Lee

Partner, Indirect Taxes

Mark Latham

Director, Indirect Taxes

Transfer duty

With government revenue projected to increase by 7.7 per cent in 2020-21 to be $87.6 billion, $3 billion (3.5 per cent) higher than forecast at the 2020-21 Half-Yearly Review in February, the Treasurer arguably has reason to be cheerful. However, one source of revenue supporting that outcome is more revealing. Against a backdrop of tax reform consultation that proposes to replace transfer duty, a key contributor to NSW's revenue position appears to be an increase of $1 billion in transfer duty in just the second half of the financial year.

In November 2020 the government released a Consultation Paper that proposed a phased approach to transition away from the current stamp duty and land tax, with one aim being to boost home ownership. The Property Tax Progress Paper, which outlines the findings from consultation, was released on 10 June 2021. Work is ongoing on certain substantive features, and the final consultation period to 31 July 2021 is seeking feedback on the proposed framework, including rate structures, protections and choice. This will input to the government's fiscal strategy, tax thresholds and staging/timing of introduction.

The NSW Government has been consulting closely with the Federal Government to ensure that productivity reforms are not adversely impacted by the potential to reduce the state's share of GST revenues. The finalisation of these discussions will be crucial for all states' and territories' ability to fund major productivity reforms.

Electric vehicle incentive

From 1 September 2021, electric vehicles (EV) and hydrogen fuel cell vehicles (FCEVs) under $78,000 will be exempt from motor vehicle duty. Furthermore, the government will make available a rebate of $3,000 for the first 25,000 purchases of new battery and FCEVs priced below $68,750. The government plans to introduce a road user charge of 2.5 cents per km to commence from the earlier of 1 July 2027, or the time when EVs make up 30 per cent of all new vehicle sales, whichever comes first.

New levy on property value uplift

The government has introduced a bill on 22 June to change the way in which it taxes property value uplift which results from the government's infrastructure spending or rezoning of land. The proposed change would see certain property developers paying the additional levy following approval of their projects. KPMG will provide more information on this legislation in due course.

Key Insights

- The government will require determination in successfully reforming transfer duty and land tax, particularly having regard to the positive impact transfer duty has had on government finances in 2020-21.
- Property developers should consider the potential impact of the government's proposal for value uplift capture.

Summary of key expenditure/revenue items

The table below shows the value over the financial years ending 2021 to 2025 of new measures annouced since the 2020-21 half-yearly review. The NSW budget papers list the expenditure by cluster and this summary is not an exhaustive list of all expenditure items.

Key expenditure items	$billions
Transport – including road infrastructure resilience following the NSW Bushfire Inquiry recommendations, the More Trains, More Services program, various Restart NSW and highway projects	7.1
Education – includes additional permanent teaching spaces and schools, program to retain high performing teachers, continuation of Free Preschool program	4.2
Planning, Industry and Environment – includes the Electricity Infrastructure Roadmap to attract private investment, Zero and Low Emission Vehicle Reform, implement the Waste and Sustainable Materials Strategy	2.3
Premier and Cabinet – includes investment in the new City of Bradfield, rejuvenation of the State's visitor economy, implementation of initiatives under the Entrepreneurship and Innovation Ecosystem action plan	2.1
Health – includes COVID-19 response, hospital redevelopments and palliative care	1.6

Key revenue items	$millions
Extension of levy on point to point transport services	154
Response to NSW Bushfire Inquiry - Insurers' Emergency Services Levy and councils' contribution	148

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