LEGISLATIVE ASSEMBLY FOR THE
AUSTRALIAN CAPITAL TERRITORY

STANDING COMMITTEE ON PUBLIC ACCOUNTS AND ADMINISTRATION

(Reference: Inquiry into Payroll Tax Amendment Bill 2025)

Members:

MR J MILLIGAN (Chair)
MS F CARRICK (Deputy Chair)
MS C TOUGH

TRANSCRIPT OF EVIDENCE

CANBERRA

MONDAY, 3 NOVEMBER 2025

Secretary to the committee:
Ms S Milne (Ph: 6205 0435)

By authority of the Legislative Assembly for the Australian Capital Territory

Submissions, answers to questions on notice and other documents, including requests for clarification of the transcript of evidence, relevant to this inquiry that have been authorised for publication by the committee may be obtained from the Legislative Assembly website.

WITNESSES

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Amended 20 May 2013

The committee met at 2.01 pm.

BOWLES, DR DEVIN, Chief Executive Officer, ACTCOSS
PRIERGAARD, MR JACOB, Senior Policy Adviser, ACTCOSS

THE CHAIR: Good afternoon, and welcome to this public hearing of the Standing Committee on Public Accounts and Administration inquiry into the Payroll Tax Amendment Bill 2025.

Today, the committee will hear from ACTCOSS, Chartered Accountants Australia and New Zealand, the Canberra Business Chamber, Master Builders Association, the Recruitment, Consulting and Staffing Association, and the Treasurer, Mr Steel, and officials.

The committee wishes to acknowledge the traditional custodians of the land that we are meeting on, the Ngunnawal people. We wish to acknowledge and respect their continuing culture and the contribution they make to the life of this city and this region. We would also like to acknowledge and welcome other Aboriginal and Torres Strait Islander people who may be attending today's event.

This hearing is a legal proceeding of the Assembly and has the same standing as the proceedings of the Assembly itself; therefore, today's evidence attracts parliamentary privilege. The giving of false or misleading evidence is a serious matter and may be regarded as contempt of the Assembly.

This hearing is being recorded and transcribed by Hansard and will be published. The proceedings are also being broadcast and webstreamed live. When taking a question today, if you cannot answer the question and you would like to take it on notice, please state that you will take that question on notice, so that Hansard are able to accurately record the question that is taken on notice; you can provide the answer back to our committee secretary.

I welcome Dr Bowles and Mr Priergaard. Please note that, as witnesses, you are protected by parliamentary privilege and are bound by its obligations. You must tell the truth. Giving false or misleading evidence will be treated as a serious matter and may be considered contempt of the Assembly.

Would you like to make an opening statement?

Mr Priergaard: I will read the opening statement.

THE CHAIR: Go ahead.

Mr Priergaard: We have approached this proposed tax change with a view to understanding the likely impact on low income and disadvantaged Canberrans, for whom we advocate, rather than the broader question of how it impacts the ACT economy, which is beyond our expertise.

The current level of debt recorded in the most recent ACT budget suggests reform of fiscal settings is needed to deliver a more sustainable budget moving forward. It is critical that changes made to those fiscal settings do not deliver an undue burden on those who can least afford to pay.

In general, ACTCOSS is supportive of seeking further revenue for the ACT, given the current budgetary pressures, and we support levying that revenue from those who can most afford to pay. Businesses with national payrolls of more than $150 million can afford to pay more—certainly, more than individuals on the lower end of the income spectrum.

As discussed in our submission, the risks for low income and disadvantaged Canberrans remains relatively low from using payroll tax as a means to increase revenue. The typical response to an increase in payroll tax is for businesses to find ways to avoid it or minimise the loss of profit. They can do this by moving to a lower tax jurisdiction, increasing prices or shedding staff.

The affected large corporations in the supermarket and retail sector that are most likely to be interacting with disadvantaged people are unlikely to move to another jurisdiction when their business relies on consumer foot traffic. They may increase prices. However, this is mitigated by the presence of comparatively strong competition for groceries in the ACT and by the ACT being a small jurisdiction that makes up a very small percentage of the wage bill of the affected corporations.

The risk to vulnerable or disadvantaged people in the ACT is then mostly confined to a scenario in which businesses impacted by this tax change respond by cutting entry-level or junior staff to boost productivity and maintain profits. However, this is already occurring, as we see in the prevalence of self-service check-outs. We do not think that this change will accelerate this far beyond what is already happening. We find it unlikely then that this tax increase will have a negative impact on people experiencing disadvantage and therefore recommend that the Legislative Assembly proceed with the bill.

THE CHAIR: In your submission you said that a fair and progressive tax system is one that does not overly burden those who are least able to afford it. Can you elaborate a little bit more on that?

Dr Bowles: Across Australian society, tax can be generated from a range of sources. This includes not only individuals but also companies—corporations. It is very clear that, in Australia, the wealth gap is on a basic upward trajectory, and more and more people in the ACT are experiencing poverty.

It is also clear that states and territories across most of Australia are finding raising sufficient revenue difficult, as evidenced by the fact that, with the exception of WA, deficits are pretty widespread. In that situation, it is reasonable for state or territory governments to look to increase income, and it is important that they increase their income in a way that maintains or even increases equity in the society. That means taxing people and corporations with more money proportionately more.

The overall benefits of this are significant economically because that keeps people out of poverty traps, basically, and stops families being in a situation in which their poverty prevents them from making the full contribution to Australian society and, indeed, the

Australian economy, that they would otherwise like to.

For instance, a family whose children do not benefit from the educational system in the way that they otherwise might because of poverty are likely to set up a situation in which those children are less able to contribute to the ACT economy over the next 60 years. We understand the need to increase taxes, and we want those increases to come from people that can pay for them.

THE CHAIR: The government's submission gives some analysis of the payroll tax, noting that the economic impact of the tax falls on households and both wage earners and consumers. I guess that is referring to any increase in taxes that businesses receive—that they will probably pass that on, through their product or service. Do you see that there will be potentially an increase in the price of products or services, or do you think it will impact particularly people in society that ACTCOSS is representing most of the time? Do you think it may have an impact on them, potentially?

Dr Bowles: Virtually any tax increase could have flow-on effects for those people. We think the risks in this situation are relatively low. Those very large corporations are mostly here either because they require foot traffic, like Woolies—Woolies is not likely to close shop within the ACT and hope that everyone travels to Woolies in Queanbeyan—or because of the proximity to the federal government. Both of those sorts of businesses are unlikely to be able to just shift interstate.

Also, for most of those businesses, because such a small fraction of their payroll is based in the ACT, we think that this increase, while it is significant for the ACT fraction of the business, will be insignificant overall because of how small the ACT is. This means that, to the extent that their business decisions are made nationally, this change is unlikely to affect their thinking much. We think that the head office in Sydney or Melbourne will barely notice this—not enough to drive national policy.

One particular area of concern is around groceries. Certainly, across Australia, there is insufficient competition in that market. In the ACT, we are fortunate to have a better degree of competition, including from smaller businesses, which would not be affected; therefore, we think that the flow-on effect through groceries will not be as bad as it might otherwise be.

MS CARRICK: You talked about "bunching" in your submission. Do you think that having the rate at a $1.75 million wage bill—lowering the threshold—will cause businesses to try and stick below that threshold; therefore, it will reduce their interest in growing and employing people?

Mr Priergaard: I think it is unlikely to be a significant issue in the ACT, given that the legislation focuses on businesses with a national payroll of $150 million. The design of the legislation, in focusing on national payroll, makes it difficult for them to bunch below the ACT-specific threshold, because they would then need to adjust their national payroll levels, to bunch below the $150 million threshold in order to avoid taxation that is ACT specific.

MS CARRICK: One submission talked about the concern regarding the complexity of introducing it halfway through a year. Given that it is for bigger businesses, with those additional costs, is your view the same—that the additional complexities in managing it will not feed through to higher prices?

Dr Bowles: There are, I am sure, complexities, but businesses of that size are well placed to be able to administer those changes. When you think about the complexity of supply chains for almost all of those businesses, this really pales in comparison. It is an order of magnitude less hard to manage.

MS TOUGH: In your submission, you acknowledge the fiscal challenges that we are facing here in the ACT in order to deliver the types of services that are important for vulnerable Canberrans. You touched on them in your opening statement as well. You acknowledged that we have a really narrow tax base, with own-source revenue largely made up of property taxes and payroll taxes. In your view, have the changes been developed to avoid impacting the most vulnerable members of our community?

Dr Bowles: These changes do seem to have been developed to minimise the impact on more vulnerable members of the ACT community, yes.

MS TOUGH: With these changes, along with the broader changes in this year's budget, do you think that the government is delivering a progressive set of changes in terms of revenue? Could the progressiveness of them be improved over time?

Dr Bowles: It is important to consider taxation and income sourcing as well as expenditure when evaluating them for how progressive they are holistically. It is partly about how progressive the income sources are and how progressive the expenditure is. I think that many of the adjustments to income for the government, including this one, seem to have been focused on being progressive and not disadvantaging people at the lower end of the income hierarchy.

I think there is progress that could be made overall. For instance, as the face of hardship in the ACT is changing, with more people in the second income quintile facing real poverty challenges, some of the historic measures that the ACT government has taken to assist people in genuine need are no longer as fit for purpose as they once were.

With the targeted assistance strategy, for instance, which was developed over a decade ago, in very different financial times, we think that there is an opportunity to usefully re-look at that, and there are other similar considerations which might be made.

MS CLAY: Thank you both for coming in. It is interesting to me that this inquiry only got six submissions. This does not appear to be an enormously contentious tax change. I have taken your submission to be broadly supportive, and you have done a good job of pointing out the financial needs for the ACT government.

You mentioned that there is a small chance of behaviour change, but you did not think it was very high. The Treasury submission said they did not model it because they did not think it was likely to happen, and the Canberra Business Chamber also—unusually—said they did not think it was likely that a lot of multinationals would suddenly change their behaviour. Is this a tax that might not change behaviour, in the way you are looking at it?

Dr Bowles: Yes, we think there is a pretty good chance that it will not shift the dial on behaviour much at all. One of the risks of this sort of tax, if we were a much larger jurisdiction, would be policies which sought to shed staff. I think that this change, especially in the ACT, being as small as it is, will not shift the dial on a movement that most large corporations are already undertaking as rapidly as possible. We can see increased self-service and automation at many of the businesses that would fall under this increase. That is happening irrespective of this change, before it was even widely discussed.

It is also important to note that AI and technology changes in general are driving change in the way that, especially, large corporations are employing people. We think the tiny ripple that this legislation might cause is inconsequential compared to the tsunami of technological and social change which is already underway.

MS CLAY: I would say the fact that this inquiry got six submissions certainly backs that up—that it does seem inconsequential. This tax, by addressing such high-payroll corporations, is only hitting the really big end of town. Most of those corporations make national decisions, don't they? With supermarket prices—food nationally—they are not going to make little changes in the ACT based on this.

Dr Bowles: In particular, we have focused on how it would affect staffing policy. We are not experts in that area, but, to the extent that we understand it, we think those changes are being driven nationally or internationally, not so much at an individual ACT outlet level.

MS CLAY: This tax, in part, came about because there was a health levy that was going to be a direct tax on households—a $250 health levy on all households. Does this tax look like it will have a much smaller or negligible impact on vulnerable Canberrans, if you compare it to the other option that was on the table, because it was in the budget—that $250 health levy?

Dr Bowles: It looks like it will have a relatively small impact, as we said, on people on lower incomes or experiencing other forms of financial vulnerability. Our concern with the health levy, as it previously existed, was that it would be passed to renters. I know that the ACT government has led the way nationally in terms of limiting rent increases, but in the current context where there are still rental shortages, we were concerned that those protections would not be sufficient to protect many renters. In particular, we worried that, to the extent that it would be incumbent on renters to challenge things, they would not be protected in the current rental environment. That was our concern.

We also note that there is some level of increase that is possible, even under the current legislation, and that in fact much of a health levy would not fit within that, under that ceiling. We did have concerns about that.

MS CLAY: In a world in which the government does need to raise revenue in order to pay for services—and we have had a lot of conversations about that over the last 4½ years—are there other areas where ACTCOSS thinks government is getting it right on tax or where we should be raising more tax, or areas where you think it would be regressive if we went there?

Dr Bowles: I think that property taxes are useful. On the whole, the ACT government is shifting away from stamp duty towards what, in effect, are taxes on property. In principle, that is absolutely good. Please do not understand my previous answer as stating that ACTCOSS is against property taxes. We just want them structured in a progressive way. If the sort of levy that was being discussed previously had been more progressive in nature, our concerns about how much of it would have been passed on to renters would have been diminished. Property taxes are certainly a very reasonable way for the ACT government to raise revenue in a progressive way when it has the settings right.

THE CHAIR: We have come to the end of this session. On behalf of the committee and our visiting member, thank you for attending today. There were no questions taken on notice. Thank you.

MANSELL, MR KEN, Senior Tax Advocate, Chartered Accountants Australia and New Zealand

THE CHAIR: We welcome Mr Ken Mansell from Chartered Accountants Australia and New Zealand. Please note that, as a witness, you are protected by parliamentary privilege and bound by its obligations. You must tell the truth. Giving false or misleading evidence will be treated as a serious matter and may be considered contempt of the Assembly.

If you like, you can start with an opening statement, and then we will give each member five minutes to ask as many questions as they like. Would you like to start with a statement?

Mr Mansell: Thanks for the opportunity to put in a submission on behalf of our 140,000 members worldwide, and 100,000 around Australia. Specifically, we have 2,500 in the ACT and more than half of them work in businesses that can be subject to payroll tax; they are not working for a government entity. So just under a couple of thousand members are interested in this. We had feedback from a few members on this, which is why we put in the submission. The submission is short. I hope you enjoyed a short submission! It covers two issues that we wanted to raise.

The big one is the first one that the members wanted to raise. Often, as 30 June gets close, they will prepare budgets and they will plan pricing for next year. They will be planning that based on what they think the costs will be, and we know that things change at 30 June. The SG rate has gone up. Things are always moving. They build it into a cost-plus model. They know that they want to make a profit of whatever it is and they do not know what the costs are. They want to remain competitive. The real problem when there is a change in the middle of the year is that they may have locked in prices and they get only a short period of time before 30 June, which we have seen before with the ACT government. Things change a few days before.

It really is a challenge for the members who may have started or almost completed the contractual process for their clients or are doing the accounting, the budgeting, for them. That is the challenge. We recently heard that the budget will be two weeks earlier. My members are very happy. Anything that happens in that budget will give them another two weeks to actually build things into their budgets and their costing. The members were concerned that, if it happens in the middle of the year—the middle of the tax year—they will have a challenge. They have already set prices, they have already signed contracts, they have already done their budgeting, and now there may be a price increase. That is the big issue that the members raised: can you stop making changes in the middle of the year; can you make them at the start of the year, and can you make them with as much run-up as you can so that they can prepare their budgeting and their pricing.

You will see there are complexities in the bill that normally would not exist for a payroll tax change. Normally it would be the rate changes from blah to blah, but, because it is in the middle of the year, there is a series of complexities. You have rules regarding allowances and how we calculate the payroll tax. As I am sure you are aware, companies of this size will be able to manage those complexities, but it is the challenge of having already done the budgeting and then saying, “We now need to change our budget, because we need to find a certain percentage more to cover those costs, or we budget an amount."

I will go to the second thing that we had in the submission. I want to fill out the debate. There is a discussion about whether large companies will move Woolworths to the border. I do not think anyone is going to say that, but I think we are missing how payroll tax actually works. In 2010, we got all the states together and we harmonised our payroll tax rules. Instead of having to work out how many days I worked in Queanbeyan and how many days I worked in Canberra, we said that it is too hard for employees. Every state agreed that we are going to have a tie-breaker rule.

If you significantly work in two jurisdictions, the first tie-breaker rule is where your principal place of residence is. The quick example I put is about a large company—across Australia—that is looking for a new regional manager for southern New South Wales and the ACT. They get two applications. They get one from Conder and they get one from Tralee. They are just as good as each other, but there is a three-and-a-bit per cent difference between the payroll tax. They are doing the same job and they work in the same places. Their head office might be in Canberra, but they travel to the other store sites. Immediately, the question is: is $6,000 enough—because that is the difference between the two—for me to say, "Should I employ someone who is working across the border?"

We are not economists; we are accountants. You can ask me: "How much do you think it will be?" I have not done those numbers. I am a tax nerd. I have just been listening to people talk about it. It is not about where the shop is; it is about where they work. In the ACT, Tweed Heads, Albury-Wodonga and those sorts of places, as soon as you start working across the border, the question that the payroll system asks is not "Where did you work" or "Where is your office?"; the payroll system is built to ask, "Where is their home? Where is their permanent place of residence?" We wanted to educate the debate here. It is not about where the building is.

Are there going to be lots of people? We know lots of people who live and work across borders. I do not have the numbers to assist you with what you are probably going to ask me now—I am just trying to lead the question before you ask it: "How many will there be?" I have just been listening to the discussion and realising it is about understanding the nuance of how the payroll tax system works. It is not just the ACT. That is the system used in every single jurisdiction when we harmonised payroll tax back in 2010. That is all we have. It was not a long submission.

THE CHAIR: It is very useful. Thank you. Obviously, implementing a new tax regime or change halfway through a financial year would be a bit of a burden and could create some issues in business. I had a business before politics and had to do the quarterly BAS and everything else. That would certainly throw that out of kilter.

Mr Mansell: You visit your accountant, who is running this stuff, once a year, towards 30 June, and then when you do the tax return in maybe April or May—15 May or something like that. Then you have to have another meeting, to fix the systems, in the middle of the year.

THE CHAIR: It does not come cheap either.

Mr Mansell: If it is a chartered accountant, every dollar spent—

THE CHAIR: They are your best friends when you need them.

Mr Mansell: I do like CPAs as well, Ms Carrick!

THE CHAIR: Would your clients be more inclined to support this if it came into effect at the 2025-26 financial year?

Mr Mansell: That was the request that we got from the members who raised these issues with us. That is the reason we started the submission. They said, "Can we just have it start on 30 June, and can we have a lead-up to 30 June, knowing what it will be?" They would be happier with the amount.

THE CHAIR: The amount is what they are willing to—

Mr Mansell: They did not give any comments on the amount, and CA does not have a position on what the ideal payroll tax rate is.

THE CHAIR: An implementation date was recommended. It would make sense in every other case to have a change or a system introduced at the start of the financial year, not in the middle of the year.

Mr Mansell: Our systems are built to manage those changes but not in the middle of the year.

MS CARRICK: I am interested in the whole idea of "place of residence". Say, there is a business that has shops across Australia and they organise all the payroll tax. If you have somebody working in Tralee and somebody working in Majura, the cost for someone in Tralee would be 3.3 per cent lower, but is that paid to the New South Wales government?

Mr Mansell: It is paid to the New South Wales government, so you actually lose all the tax. In that example, if they decided not to employ someone from the ACT, you are not actually losing 3.3 per cent; the New South Wales government is gaining all the payroll tax at their lower rate of quite a bit, and we are giving up all our payroll tax.

MS CARRICK: Does anybody monitor it? There is an existing difference, so is there any data about how much payroll tax we are losing from people living in New South Wales and working here?

Mr Mansell: It is not that they live in New South Wales and work here. They have to work across the border. If I am working at Bunnings at Tuggeranong—my favourite site—but I live in Tralee, I will still be taxed in the ACT. I am working across two jurisdictions. Once I have a substantial workload in both jurisdictions—not just driving across to pick up the mail—I then go to the tie-breaker test and it all goes one way. As soon as I am in the tie-breaker test, it does not split between the two. I do not know how many people work across the border. I do not have that data, unfortunately.

MS CARRICK: Thanks for clarifying that. We have just heard from ACTCOSS that they think the impact, such as higher prices or a reduction in labour, will be marginal. What are your views about the increase in payroll tax being passed through to the higher prices at the shop and reducing the number of staff?

Mr Mansell: Unlike the brilliant ACTCOSS people, who have the economics team behind them, this is not for us. We sound like we are economists, but we are accountants, and we know what we are. But we do know. I work in tax policy. The incidence of payroll tax is generally about consumer or employee. On a theoretical level, if you read the text on payroll taxes, it is not the business that ends up paying the payroll tax. The theory is that it is passed down to either lower wages or higher prices. That is the theory that you get from the tax and transfer unit at the ANU if you ask them about the incidence of payroll tax.

MS CARRICK: So, basically, for you it comes down to a preference to defer it to 1 July 2026?

Mr Mansell: We love certainty and we hate complexity, members. You have worked in the area. Everyone thinks we want complexity so that we can give more advice. No. We want it simple, and that would be the simplest model.

MS CARRICK: Thank you.

MS TOUGH: I am not sure that you will be able to answer this. Considering that most of the businesses likely to be impacted are the larger nationwide retailers and supermarkets and most of their staff are on-the-ground retail staff, not retail managers as such—obviously there are—would it be fair to say that the overall number of people who would be employed in that cross-border situation would be negligible, given the number of staff in these businesses?

Mr Mansell: I do not have the numbers, but you have to remember that it is not the number; it is the salary. I would just say that you would expect the higher paid staff to work across broader areas and you would expect the lower paid staff to work at a single site. In the analysis, if an economist were to take it, you would not just look at the number of people but also look at the salaries of those people, and that would give you the answer as to what it would be. CA does not have a position on whether it would be material. We heard the discussion. It is not taking into account the reality of the situation, which is why we thought we would raise it as a technical point.

MS TOUGH: I did not think you could answer my question.

Mr Mansell: I am sorry.

MS TOUGH: I was wondering whether you factored in the choice of business, but that goes more to the economist side of things. I appreciate that.

Mr Mansell: We are here to help; we are not here to—

MS TOUGH: What you said is really helpful and clarified some things, so thank you.

MS CLAY: You said you spoke to your members and you got some answers. How did you speak to your members, and how many people got back to you?

Mr Mansell: We have a regional email that goes out to people. Anything that comes up goes in there. All the changes were. Some of them responded to that email. The second thing is that we run tax training for our members. They come to our site or we go to their site. We raised it there, and that is where they raised it. I personally know of four. They spoke to me. I do not get those messages; I work in the tax advocacy group. I am not the regional manager for the ACT, so I can only speak to my own stuff. One of them was forwarded to me from the regional manager, but, as soon as we had a few, that is when I started. I would not say it is a wealth of thousands. We have only 1,200 members working in a business that would incur payroll tax, because they are not working for the government.

MS CLAY: It is a small number of people, and we are talking about a small number of chartered accountants whose clients would be affected by this: corporations with $150 million or more for payroll tax.

Mr Mansell: It is $150 million in salary and wages. But there are big builders in the ACT that will fall within this and do not have anyone across the border. Every dollar will be paid by an ACT entity to an ACT entity. The advisors to them would have said, "We need to redo our budgeting. We will have to redo our budgeting sometime in December because this change happened and our budgeting is now no longer accurate."

MS CLAY: I take the point that people do not like to go to their accountant more often than they need to. When you are talking about a business with a payroll in excess of $150 million, I reckon they would be talking to their accountants pretty often and doing their budgets pretty often. These are quite big companies; these are not the small businesses that James and I ran, where you maybe did this stuff once a year.

Mr Mansell: They will have internal functions that will do all that stuff for them. Those internal functions, which will have chartered accountants in them, are redoing the same work—whether they go to their account or whether the finance manager has to redo all the budget work that they did. I agree. When I worked for large listed companies, the finance manager would have said, "I now need to pull all the budgets that I had for the second half of the year and fix them because there is a change in the middle of the year."

MS CLAY: When government make tax changes, they usually make them quite rapidly. I gather they do this intentionally. A lot of us have argued about how late the budget is handed down. A lot of us have tried to push for having it earlier, for a lot of organisations. In a normal budget, the budget comes down, new taxes come in on 1 July, and there is not usually a long lag time. This has probably had a much longer lead-in time than others, because the legislation was tabled.

Mr Mansell: They have the time to do it, but, if it were done before 30 June, they would not have to do the budgeting twice. That is what I am saying. They have the time now. They have already booked in the time to do this, because it is likely to pass. They have probably already booked in the time—"I have to get this done before 31 December."

MS CLAY: So is it more a request: "Next time, make it come in immediately?"

Mr Mansell: Our preferred option is a long lead time. When it is an anti-avoidance provision, we all accept that they generally drop those: "As of 7 o'clock tonight, if you do this transaction, we have got you." But, when it is not an anti-avoidance provision—and this is not; this is merely a change in rate—then there does not seem to be a reason it needs to come in so quickly, so we can adjust our systems. That is the general policy. We understand that governments will drop anti-avoidance provisions overnight. You will see it in budget papers: "As of this time, on this date, it starts." But, for the ones that are not anti-avoidance provisions, they normally say they will start from 1 July.

THE CHAIR: One thing we have not addressed yet is the entities that are not paying payroll tax, but, with the drop in the threshold, they would now. They will potentially be brought into it. They will have a whole new system to set up, and they will need to do that before 1 January, if it were to come in then, compared to next financial year.

Mr Mansell: Yes.

THE CHAIR: Do you have any idea on the number of entities out there, roughly, that would be first introduced?

Mr Mansell: I do not. At CA, we do not have a position on what the ideal threshold or rate is. We understand the limited tax bases in the states and the territories. We do not currently have a position on what we think the best tax thing is, other than completely understanding how hard it is.

MS CLAY: I think this is one you will not be able to answer, but that is okay. Treasury looked at whether this will cause behaviour change, or will this, for instance, in your situation of the cross-border regional manager and having one who lives in either New South Wales or the ACT—which I imagine is a fairly narrow decision for the ACT community, but you have not modelled it. It is okay; you do not know. Treasury said that it would have a negligible impact. They have looked at it and decided that it did not have a big impact. You said that you had it flagged by some members, but you have not been swamped. I am trying to gauge how significant this concern really is.

Mr Mansell: The members raised the first issue. They raised the issue regarding the timing and the challenge it would cause.

MS CLAY: The complexity.

Mr Mansell: The members did not raise the second issue, which is what Treasury would have modelled. No member came to me and said, "There's an issue," regarding the second one. We just heard the debate and we thought the debate was missing the actual way the payroll tax system works, so we wanted to get that on the record.

MS CLAY: Thank you so much for educating your politicians. I appreciate it.

Mr Mansell: I understand you have a broad breadth of things to cover beyond my little tax nerd world. You are welcome to join me in the tax nerd world any time you want. It is on the corner of Barry Drive. We always talk tax.

MS TOUGH: Could I clarify: lowering the threshold for everyone to 1.75 per cent does not come in until 1 July.

MS CARRICK: Yes.

MS TOUGH: And 1 January is the top threshold—

Mr Mansell: It is the perfect time for a change, and we have had a whole year, so members can consider the effect it will have on their clients.

MS TOUGH: The top one is coming in January.

MS CARRICK: Do you see any bunching when thresholds change and businesses try to sit under thresholds so they do not have to pay the higher rate?

Mr Mansell: Experience is the easiest. Even the Productivity Commission, when it was looking at the change to corporate tax rates and changing rates, acknowledged that there is always bunching when you have a threshold at a rate that people intentionally try to avoid, but the larger you get the less bunching you get. When you are talking about over a billion dollars in turnover, there is no bunching. There is the $75,000 GST threshold, and you will have people who intentionally stay just below $75,000 because they do not want to register for the GST. It is kind of in the middle. Again, I have no stats on it, but we know that bunching does occur, but it is more likely to occur at lower thresholds than higher thresholds.

THE CHAIR: Is there anything else that you would like to raise? Do you have any other concerns with this bill?

Mr Mansell: Thank you for your efforts.

THE CHAIR: Thank you for yours—keeping those businesses—

Mr Mansell: It is a pleasure. Now I will hand over to someone who knows what he is doing! I have always loved the Canberra Business Chamber.

THE CHAIR: On behalf of the committee and our visiting guest, thank you very much for attending today. As I understand it, no questions were taken on notice, so you are certainly off the hook on that one. Thank you.

Short suspension

HARFORD, MR GREG, Chief Executive, Canberra Business Chamber

THE CHAIR: We now welcome Mr Harford, who is appearing today on behalf of the Canberra Business Chamber. Please note that, as a witness, you are protected by parliamentary privilege and bound by its obligations. You must tell the truth. Giving false or misleading evidence will be taken as a serious matter and may be considered contempt of the Assembly. Would you like to start off with an opening statement?

Mr Harford: Yes, if I may. Thank you very much for the opportunity to appear here today. Payroll tax is, of course, a subject near and dear to the hearts of many businesses. I guess you have read our submission but, overall, we are opposed to the changes that are coming in. We are particularly opposed to the new 8.75 per cent payroll tax on large firms and we oppose the lowering of the payroll tax threshold for smaller firms as well.

Payroll tax is a tax on jobs and it acts as a disincentive to employ people. I know there will be economic analysis that shows that people do continue to be employed notwithstanding the existence of payroll tax, and I am certainly not wanting to suggest that a jump from a high rate of payroll tax to an even a higher rate of payroll tax is going to suddenly lead to a mass exodus of jobs from the ACT. That is not going to happen. But I think the concern is what it means for the competitiveness of the ACT over time. What you will find is that, as businesses are looking to locate their people and make business decisions, we will be less competitive and feature less highly in decision-making processes as a result of the change.

We have seen from our quick survey of those members above the surcharge threshold that three-quarters of them say they are going to charge higher prices to their customers; three-quarters of them are saying it is going to reduce the profitability of their businesses; and half of them are saying that there is going to be a gradual shift in jobs from the ACT to elsewhere.

There are, broadly, two things that I want to say. First, on page 2 of our submission we have a chart that visually shows where the levels of payroll tax sit. So, if you are looking to establish a business or establish a branch of a business or are looking to relocate people, you will be looking at these sorts of numbers and saying, "Does this impact my choices?" We would argue that it does. But I think it is also really important to note that, while the 8.75 per cent rate that is going to come in from January, or is proposed to come in from January, only affects the largest firms, it is those largest firms that disproportionately employ the largest number of Canberrans. So there are, we think, risks in the long term to Canberra's competitiveness as a place to do business.

We are of course very close—excruciatingly close—to New South Wales. I think it is worth noting that, when the New South Wales government launched its jobs precinct in South Jerrabomberra maybe 18 months ago now, it was marketing that as a great place to do business, because it is really close to politicians up on the hill here in Canberra and it is really easy and cheaper to do business there. I think there are others who will look to leverage our pain as they move forward.

That is our submission. Thank you very much for the opportunity. I am very happy to take questions and have a chat.

THE CHAIR: Excellent. Thank you, Mr Harford. In your submission, you talk about issues that we face with business moving interstate or employing residents from interstate to avoid the rising cost of business here. I take it that is based on feedback that you have received directly from businesses.

Mr Harford: Absolutely. We had quite a lot of unsolicited feedback from our members on this issue. We went out and surveyed members, and the feedback from that survey is reflected here. One of the great misconceptions about payroll tax is, as is often suggested, that big firms can afford it and therefore they will pay it. It is true that an extra $100,000 or $200,000 on the payroll of a firm that is turning over $150 million plus a year is not material. But the decisions on where those people are employed are not typically being made in a corporate office where the payroll is being produced; they are being made on the ground by business unit managers who have P&L accountabilities to meet, and they will look to do that in the most efficient way.

THE CHAIR: Is there a significant number of businesses out there as part of the members of the Business Chamber that will hit that lower threshold now and that will need to start paying payroll tax or make that consideration on whether to expand or whether to reduce?

Mr Harford: Our membership is very diverse, and we certainly have a number of members above the large threshold where the surcharges will kick in but we also have a number of members who will be in that sort of $1.75 million to $2 million payroll who will suddenly find that they are having to pay payroll tax as a result of the changes. That is not good for them. It is not good for their business. Yes, they will have had 12 months to have planned for it, but it is still ultimately not a good thing when it comes to encouraging people to locate their teams here.

THE CHAIR: Yes, it is definitely something they need to consider going forward—whether they expand the business, they keep it where it is or they drop below that payroll threshold. What sort of impact would that potentially have on the economy here and also business employment opportunities if a business decides not to grow because of a government tax?

Mr Harford: I think the potential impact is that economic activity moves elsewhere. It could put a lid on some economic activity overall. There will be people who are just incentivised to kind of carry on as they are without looking to expand, because it becomes too hard and too complex and people are fearful of the liabilities that they will potentially incur.

I think the other problem with it, too, is the signal that it sends. The ACT has always prided itself on having the highest threshold for payroll tax and you do not have to pay payroll tax until you hit that $2 million threshold—and that is a good thing. But, once we start ratcheting that down, coupled with some very high rates, it does start to undermine the narrative that the ACT is a great place to do business.

THE CHAIR: How do our rates compare with our neighbours in New South Wales, but even as close as Victoria? How do they compare?

Mr Harford: We are quite a lot higher. Our headline rate is just over six per cent now.

New South Wales is about five and a half, from memory. But, in country Victoria, if you had the ability to go and disperse your teams throughout the country and perhaps have people working from home, you are paying 1.1 per cent or something. It is chalk and cheese when you are making decisions.

MS CARRICK: The ACT government submission says that there are 340 entities paying $150 million or more. Out of those 340, what sorts of entities are we looking at?

Mr Harford: They will be large firms. They will be large consulting firms, large airlines, large banks and large retail chains. They are definitely large businesses.

MS CARRICK: I am just thinking about the impact on low-income people when we pass on costs. ACTCOSS were just here, and they did not seem to think it would make a great difference because for, say, the big retail businesses or supermarkets, there is competition and you might have the passing through of costs, but then you have the pressures of competition in the market offsetting it a bit, I guess.

Mr Harford: You have those competitive pressures now in retail. You actually have quite a strongly competitive retail market across a number of sectors. But what you are seeing here is a cost that will hit all large retailers by the same amount. So I think it is reasonable to assume that there will be some sort of pricing impact and that that will flow through to consumers, including low-income ones. How big that impact is, I would not want to overstate that, but it will definitely add to some sort of pressure on frontline pricing, I would have thought.

MS CARRICK: Then, with the bunching around the threshold, have you seen the experience of people bunching around the 1.75 now?

Mr Harford: Yes; there is definitely a bunching impact that goes on. There was some research done by an economics consultancy relatively recently about the South Australian experience, where they moved their threshold up—going in the opposite direction to the ACT, of course. That clearly showed that there was a jump in the number of businesses from the lower threshold up into the new threshold.

MS CARRICK: So that leads to people, businesses, not trying to grow above the threshold. What is your view on that impacting on staffing? Do you think that this relatively minor change will have much impact on jobs?

Mr Harford: I am not holding out that the changes are going to lead to mass job cuts here in the ACT—that is simply not the case—but it will reduce growth in jobs over time, I would respectfully suggest, and over time could lead to reductions in job numbers as well. I think it is important to remember that, as businesses expand, particularly in the services sector, the conversation often is not, "Do we have people here in the ACT or do we have them in New South Wales?" It is, "Do we have them here in Australia or do we have them offshore in another location where it is much, much cheaper to employ people?" A payroll tax at 8.75 per cent is just a further issue for the competitiveness of the ACT overall.

MS CARRICK: There is a 3.3 per cent difference with New South Wales. I think the ACT submission had it at $40 million or $44 million a year. How much further can you then you push that? Payroll tax is a big revenue item in the ACT budget. So I guess it is going to be difficult to keep using payroll tax as a source to increase revenue.

Mr Harford: I would suggest that payroll tax is one of the worst taxes you can use to raise revenue. It is easy to structure your business to avoid it by having people outside the ACT. It is inefficient because it is not widespread. It is highly variable. There are all sorts of rules that need to be applied. It creates all sorts of disparities for businesses that operate beyond one jurisdiction. It is not a good tax. Generally, lower and flatter taxes are better.

MS TOUGH: Thanks for coming in. You raised in your submission a concern that large firms are going to choose not to operate in the ACT, which implies that there is a variety of businesses that are fitting within this higher threshold that are not operating here currently. Have you heard from any of these businesses to help with the submission?

Mr Harford: I have not had any direct feedback from businesses that are not already operating here in the ACT. I have had this conversation with our members. But there is certainly a number of firms looking at what they do in Australia, and I have had feedback directly from one that payroll tax is a factor that goes into the consideration of where they have people.

MS TOUGH: Whether they stay in Australia and where in Australia they are operating?

Mr Harford: That is right, or whether they come to Australia.

MS TOUGH: We have just been talking about New South Wales and Victoria and other jurisdictions with payroll tax. Does the Business Chamber advise smaller members of the relevant advantage of being based in the ACT—that, yes, we are dropping our threshold and, instead of being the highest it is going to be the second highest, but smaller businesses are still paying less payroll tax here than if they were in New South Wales?

Mr Harford: That is true. For the smaller end of town, that is absolutely right. We still have some good payroll tax settings for those businesses with a wage bill of less than what is now $1.7 million.

MS TOUGH: Yes. I think you said that New South Wales threshold sits at $1.2 million.

Mr Harford: Yes, I believe that is right—or something like that. So there are still advantages there from a payroll tax point of view. There are potentially other things that businesses will consider, though, because it is not just payroll tax which is the issue. They will also be looking at the cost of rents, the cost of rates, the availability of labour, whether they can house their people and whether they can get talent. There is a whole range of things that go into a business decision.

MS TOUGH: The submission included some feedback about the broader payroll changes—both lowering the threshold and this new bit at the top. Specifically on the change that will bring in the top new threshold for the businesses over $150 million, can you let us know if any of those businesses provided feedback in your survey?

Mr Harford: Yes, they did.

MS TOUGH: A significant number?

Mr Harford: There was a reasonable number. I am sorry I do not have that number at the top of my head. But we certainly had good feedback from people in that group.

MS TOUGH: Thank you.

MS CLAY: It is great that you did a survey of your members. How many responses did you get, if that is something you can tell me?

Mr Harford: From memory, it was something in the order of 65 responses. So it was not massive, but it was a decent chunk.

MS CLAY: Yes. I would have thought that there would be more people that you represent who would be worried about the changing threshold for small business than those worried about the payroll increase that we are looking at.

Mr Harford: Certainly in terms of numbers, there are more businesses impacted by the change and the $2 million threshold than there are at the top. But the impacts at the top end obviously are very significant.

MS CLAY: Were the approximately 60 responses about the payroll tax change we are talking about now?

Mr Harford: We asked questions of people at the lower end of the payroll tax threshold, or people doing the payroll tax in terms of the bottom—

MS CLAY: Yes; the changes that have already passed.

Mr Harford: But also those at the top end. There are issues about both.

MS CLAY: How many people responded to the $200 million payroll tax—to the one we are actually talking about today—from those survey responses that you have received.

Mr Harford: Sorry, off hand, I cannot recall that number but it was a reasonable size of the survey. There were maybe 20 firms there or something in that order.

MS CLAY: The Treasury have said that they do not think this will have much of a behavioural impact or change. They do not think this payroll tax change will lead to any differences. That is probably the primary evidence the committee has heard so far. You have said that you do not think there will be a mass exodus of jobs but there might be a subtle incentive to operate elsewhere.

Mr Harford: I think that is right. It is certainly true to say that tomorrow or 2 January there is not going to be massive upheaval as a result of this. My concern is more about the long-term implications of this—that you will see less growth here in the ACT and fewer jobs here potentially.

MS CLAY: You have talked a lot about not necessarily people wanting to practise their businesses in another state, but whether or not they are in or out of Australia. I would have thought AI and the ability to have people working in different countries at cheaper labour rates and automation would have a bigger impact on business decisions than a marginal payroll tax in one small jurisdiction in a country.

Mr Harford: It is certainly true that those conversations are being had by businesses all the time. There are a whole lot of factors that get taken into account. But I think the point is that, if you are business that turns over a billion dollars a year on payroll and you are based out of Singapore or Shanghai or somewhere, yes, the amount of money that you will be paying to the ACT government as a result of this change is not that significant in the context of your billion dollar turnover probably. But the decision on where those people are employed is not being made at some corporate office located offshore; it is being made much closer to the ground. There will be a business unit manager, a country manager, a territory manager or something like that who has responsibility for hitting their budget targets, and they will be looking at the costs, as all businesses do, and they will be looking at what they can do to trim their costs year on year but also over time.

MS CLAY: I understand that, but I would have thought bigger impacts would be reducing labour altogether through AI or automation or through cheaper labour rates in Singapore or wherever.

Mr Harford: We are not necessarily seeing that with ACT businesses but there are a number of ACT firms that outsource significant chunks of work to offshore jurisdictions, and that is true even more so of some of the bigger utility firms around Australia.

MS CLAY: Do you think that if businesses think it is in their economic interests to practise here, do you think they are looking at the fact that the ACT has the highest economic growth and the highest retail growth in those sorts of business decisions? Would they have a bigger impact on their—

Mr Harford: They will be factoring a range of things into account. They will be looking at where their customers are. They will be looking at who their customers are and the disposable income of those customers. Some of those are the federal government; some of those are individual consumers. They will be looking at the availability of labour here in the ACT—of skilled labour and people with the right skills to do the work that needs to be done. There are Canberra businesses that are really passionate about being here in Canberra, because they are founded by Canberrans, and people like the fact that they are here. But, at the end of the day, people have to make economically rational decisions.

MS CLAY: Sure. You mentioned that you do not much like this as a tax source. Tell me what tax source you would suggest for the billion-dollar structural deficit.

Mr Harford: I am afraid I cannot necessarily give you advice on that. There are certainly challenges for the government's fiscal position. I absolutely understand that. I think part of our feedback on the budget overall was—and I relate it back to a business decision—that, if you are a business and you are facing a significant shortfall in terms of your revenue, you have two options: you can charge more or you can reduce your costs. We would like to see perhaps a little more focus on how government can look to keep its costs in check, look to do things more efficiently and look to whether it can partner with the private sector to deliver some stuff. I do not know; there is a range of things there that you could do. I guess I would come back to the point that you are better off with lower, flatter taxes generally in order to garner revenue rather than create economic distortion through high taxes.

THE CHAIR: Does that lead to the positive growth mindset that you mentioned in your submission—what can the government do to help grow the economy and grow employment but also grow the revenue source without actually increasing payroll tax?

Mr Harford: That is right. If you can get the growth right, if you can get more people employed here, there will be more firms paying payroll tax at its current level. That is easy to say. It is hard to do it in the short term—I understand that—but we really do need to look at how we can be attractive as a destination for businesses. There are a number of good things about doing business here in the ACT but there are also some disadvantages. We are in a really competitive world globally. Our view is that we are better off positioning ourselves as a place where business really wants to be, and I can tell you the optics of an 8.75 per cent payroll tax, even if it is targeted at only extremely large businesses, is not good.

THE CHAIR: Is there anything else that you would like to raise in relation to this bill going forward?

Mr Harford: The only other thing I would say, just to sort of pick up on that last point more broadly, is that we do want Canberra to grow. We want the economy to grow. We want to grow the pie. At the end of the day, it is good for government if there is a bigger pie that it can slice. One of the real issues we see is that, at the moment, yes, we have had a long period of growth, but we are not really delivering to the potential and we are not maximising the opportunities that we could through a combination of policy settings on a range of things, and we would recommend that that it does not proceed.

THE CHAIR: On behalf of the committee, thank you very much for attending. As I understand, there have been no questions taken on notice; so you are off the hook in that sense.

Short Suspension

HARRIS, MR SCOTT, Director, Workplace Relations and Policy, Master Builders ACT

THE CHAIR: I welcome Mr Scott Harris, from the Master Builders Association of the ACT. Please note that, as a witness, you are protected by parliamentary privilege and are bound by its obligations. You must tell the truth. Giving false or misleading evidence will be treated as a serious matter and may be considered contempt of the Assembly.

Would you like to start by making an opening statement, before we go to questions?

Mr Harris: I have come along today to talk to the committee about the piece of legislation that is going through at the moment. I will not give an opening statement, Chair. It is a reasonably straightforward and simple thing that we are talking about. I want to try to get our points across and address the committee's concerns about this legislation from the Master Builders point of view, and why we have made the suggestion, in backing up the Canberra Business Council, of either pausing this legislation going through or having some other methodology to protect businesses in the ACT.

THE CHAIR: Mr Harford mentioned towards the end of his evidence that he would like to see the government work on measures to try and support business, and to support business to grow, to develop, going forward, to create more employment and to bolster the economy. Obviously, this is a tax on business, and it is called a tax on employment.

What could the government be doing differently, instead of introducing a tax, in order to work with business to bolster employment and the economic situation, and create and strengthen revenue sources? Obviously, the government is looking for a revenue source. How could supporting business increase the revenue source?

Mr Harris: You have raised quite a few points there.

THE CHAIR: I am rolling them all into one for you.

Mr Harris: Overall, from the Master Builders point of view, this is just one aspect of what it means to run a business. From the point of view of Master Builders, and our small and medium-size businesses, all we have seen lately is an overall increase in taxes. I agree with the government; they need the money to provide services to the community. I would still advocate that, if you do not have the businesses, you do not have jobs, and you do not have money going around in the economy on a circular path.

What could a potential fix be? There is not just one fix; there are multiple things that need tweaking—not wholesale slaughtering or throwing out of the window, but tweaking to make it more palatable and encouraging for small and medium-size businesses. With large businesses, yes, there are some major projects going on in Canberra that we want to see for the future. It is the small and medium-size businesses where most of the employment is. Those are the ones that need to be encouraged to come and work here, and grow, so that they take on additional tradespeople and other services, and grow the community around themselves. That leads us back to the last part, which is to increase our housing supply, which means we can attract and bring more people to Canberra, which means there will be an increase in revenue.

Yes, I agree that we have 30,000 houses, from the Treasurer's commentary, that we have to put in place. But there are a lot of little things, including the payroll tax, that are stopping those projects going ahead full steam—a different lot of taxes, the availability of people, and trying to get BAs and DAs through the process. On that side of it, payroll tax is just one disincentive.

THE CHAIR: You mentioned business approvals and development approvals. Over the years—I have been here since 2016—it seems to be taking longer and longer to get these approvals. That impacts business. It impacts the ability to employ people and move on. Should the government be focused on providing some sort of guarantee that they will go through these applications within a statutory timeframe, in order to contribute to further growth in a more appropriate manner?

Mr Harris: I will answer that in two parts. One part is that, yes, we have been working with the ACT government on trying to improve the process, put the applications through and get them through quicker, and developing quicker channels on the approval process—different types going through. As is normal, with a lot of things, it does take time to get through. We have been talking with the government about trying to make it quicker and easier for them to get through, to increase those production lines, the building lines and what comes out at the other end.

I will give some credit where it is due. They have seen it, and they are trying to do something. What it all comes down to is: are we going to get there?

MS CARRICK: You mentioned the mid-range. How many builders would be in that upper area—the $150 million turnover?

Mr Harris: We would class that as tier 1s, which are national employers who come into town to do the major projects. Some of our tier 2s and tier 3s are starting to fall into that bracket, once they get around Australia, and when they bring in the national wages underneath one umbrella. Their brackets start creeping up now, at the same time. There is Hindmarsh and Seymour Whyte—those people who are already in the top bracket area, because of their size around Australia. A lot of them are trying to downsize the major operations and give them to the subcontractors, the smaller people, as contractors to do the work. Some of the major projects cannot do that, and we do not have the specialist skills in a lot of areas. They are looking at whether they try to tender for those types of arrangements. More of that part is starting to creep up. The tier 1s were the only ones, originally. Now some of the tier 2 and tier 3 builders are coming into that same bracket.

MS CARRICK: At the lower end, dropping it from $2 million to $1.75 million turnover, would there be many builders that are under the threshold of $1.75 million?

Mr Harris: A lot of our subcontractors, what we class as resi 1s, commercial 1s, which are our small, single operators, sole traders, partnership-type ones, may fall into that bracket area. But $1.75 million in the building and construction game these days is not a high threshold anymore.

MS CARRICK: Would they try and "bunch", to stay under it?

Mr Harris: I will not answer the question, on that side.

MS CARRICK: What is your view about prices being passed through, for the cost of housing?

Mr Harris: If the payroll tax goes up in any form, along with all taxes going up, it has to flow on, and it will flow on to the consumer. The consumer will be the one, the end one, who will have to pay the increases. That applies to any type of increase, which does affect the cost of living. As we have been saying in several of our media statements, even the cost of building a house now has increased dramatically over a period of time. If you put those costs up, somebody has to pay for it, and it will be the consumer, in the end.

MS CARRICK: What about the small builders trying to reduce costs—labour costs?

Mr Harris: I will be very honest on that one: it is happening now. I do the workplace relations for Master Builders in the ACT, and I have regular phone calls from employers asking, "How do we downsize? How do we make people redundant?" It is usually the low end—the unskilled, the apprentices—who are the first ones on the chopping block because of not bringing in the revenue to generate within the business. They are usually the first ones let go. I am hearing that more and more. Leading up to Christmas is not a good time to have that type of thing coming through. This will just be another one of those pressures on business operations.

MS CARRICK: Another topic that comes up all the time is moving across the border. There is apparently a 3.3 per cent lower rate in New South Wales. Do businesses bother with that or not?

Mr Harris: The simple answer is yes. They look at all costs. As I said, this is just one of the costs for the whole thing, in running a business. We look at workers comp, we look at insurances to go with it, payroll tax, business operations, and employing people. It all adds up.

Will this force people to jump across the border straightaway? No. Probably 12 months, 18 months or two years down the track, when you are starting to look at your bottom line, it comes into the calculations. I do have builders who are crossing the border to set up their operations, just to decrease the overall cost, not just on payroll, but on everything.

MS TOUGH: Thank you for coming in, Mr Harris. I asked the Business Chamber earlier whether they had heard from businesses in the over $150 million bracket. I am wondering about the number of businesses in that threshold that you might have heard from.

Mr Harris: I took the question to what we have every quarter; we have sector meetings where all our major players are invited to come and talk to us about what is happening in the industry. That was just one of the multiple questions I put to them on work health and safety, and other taxes. We asked about the payroll tax, and they said, "It's going to be another cost to us. We'll have to work it out when it does come in—what's going to be the impact on the business then." At the moment they know it is coming, but until it actually hits the balance sheet, they will not make a decision, until they see it.

MS TOUGH: In that group of people, are there businesses earning over the $150 million?

Mr Harris: Hindmarsh is an example, the people doing the light rail. Seymour Whyte are doing the other side of it, the aquatic centre and those ones. They will all be in that bracket.

MS TOUGH: On that tier 1 group of businesses, what is the biggest factor keeping them in the ACT? There is direct government spending. You mentioned the aquatic centre and light rail. Obviously, payroll comes into it. While there is that direct investment, are they—

Mr Harris: It is a tender, and it is a very lucrative tender, with what is being paid for them to do the work. As a tier 1, you put up your hand for one. You try to use the smaller people to do the work underneath, but your payroll and everything else goes up because of that, as an example. You go where you have the work.

MS TOUGH: While there is work—

Mr Harris: While there is work here, they will stay here. If there is no work here, they will look elsewhere. We are getting people turning up from Newcastle and the Wollongong area at the moment, moving down here to Canberra to work, because the pipeline up there has dried up. They are coming into the area from there.

MS CLAY: We have spoken about a lot of different businesses. You talked about businesses moving over the border. You were probably talking about those smaller businesses. This inquiry is about a bill that is for payroll tax that will affect businesses with $150 million-plus. Do you think that bill is likely to have any impact—

THE CHAIR: And the $1.75 million threshold as well.

Mr Harris: That is where I would go, Ms Clay—

MS CLAY: No, that is already passed. The $1.75 million threshold is already law. This committee inquiry is looking at the—

MS TOUGH: Just the big one.

MS CLAY: $150 million payroll tax. The $1.75 million may affect people, but that has already been passed.

Mr Harris: With a lot of that, potentially—and I cannot speak to their business model and everything else—they will look at whether it is worthwhile setting up an office in Canberra and moving people here for that. If it affects the bottom line that much, they need to make those types of decisions. I cannot speak to what their boardrooms are going to say on those particular ones, but it will be one of the calculations as to what they do.

MS CLAY: You mentioned, Hindmarsh. We are talking about people tendering for major ACT government projects and any major commonwealth projects. Do you think it is likely that they will choose not to run those major projects because of a marginal tax?

Mr Harris: I cannot say what their part is, but it will be one of the considerations in the process of running the tender.

MS CLAY: Treasury have looked at this tax and they have said that it will have no real impact on behaviour change. The Canberra Business Chamber, similar to you, said, "There won't be a mass exodus of jobs, but there might be a subtle incentive to operate elsewhere." We talked about all the business choices that you make when you are looking at those major contracts.

Mr Harris: It is the same opinion on that, Ms Clay. It will be part of the bottom line when they deal with the balance sheets, as to whether or not they put in the tender for the operations. If they move operations to here, how many people are going to be on the ground or do you outsource from there, at the same time?

MS CLAY: What are the major component costs for somebody who is operating that tier 1 major construction ACT government project?

Mr Harris: Labour is 50 per cent plus on your costing.

MS CLAY: Yes, that is the whole labour, though, that is not one per cent of payroll.

Mr Harris: It is across the whole labour force—nationally. If you have major projects running in other states and territories, you are above the $150 million threshold, so you are going to be paying the tax.

MS CLAY: Do you think it is likely that somebody would choose not to do a major pipeline of government work because of that?

Mr Harris: I cannot say what their incentives will be or what the business decision will be, but it will be one of the things in the calculations on their balance sheet.

MS CLAY: Did any of those tier 1 companies tell you that this was a big problem for them?

Mr Harris: As I said before, Ms Clay, they will come into consideration when it comes in, and they will look at it then and at that particular time.

MS CLAY: So they have not really engaged with it yet?

Mr Harris: No, because it is not in at the moment. It is something that is coming.

MS CLAY: They are not telling you that they are worried about it; they will engage with—

Mr Harris: They are worried about every cost that is coming. They are worried about future costs and current costs. It is in the calculation.

MS CLAY: The committee only got six submissions to this inquiry, so it does not seem to be a hugely contentious tax change, and there is limited evidence. We are trying to put together what evidence the committee has about what the impact will be. Is there any more tangible evidence that you have heard about or been given in that $150 million plus area?

Mr Harris: No, I have not, from that side; other than it is going to come into the calculations in the future, when it comes in.

THE CHAIR: Do you have any other areas of concern about this bill, or what the government could be doing to help incentivise business?

Mr Harris: As I said a moment ago, Chair, it is just one part of how to make business more attractive. Why come and work and live in Canberra, on those parts? If you just keep putting little parts of taxes on it, it will make it harder to justify, "Why should I do it?".

If we can make it more incentivised for business to work here and be a part of the community, you will draw more people here, outside the public service. We are talking about the private sector here, to go with it, because the private sector is where the money is getting generated to go with it. If you can generate more in those areas by making it more attractive to be here, by changing the dynamics, changing what is going to be built here, the housing to go with it from there, and increasing the workforce size, you will generate income for the government.

THE CHAIR: Of course. For any entity that is looking at reaching that next payroll bracket, they would need to consider whether or not they will keep their operations here or move over the border. If an entity that decides to move over the border pays in excess of $150 million just in employees' salary, that would be a huge loss to the ACT economy.

Mr Harris: Yes. It is potentially a huge loss, if it goes down that path. I cannot second-guess what their decisions are. If I was looking at my balance sheet and I started seeing costs going up in certain areas, I would be starting to look at how I could decrease those costs by streamlining the processes.

THE CHAIR: Cost of living is going through the roof. As I understand, products and services are going up as well. Is now the right time to be introducing an increase in the tax? Do you do that when the economy is going well, not when the economy is struggling?

Mr Harris: I would ask the committee not to look at this in isolation. I would look at what it means to run a business overall, and go from there. It should not be treated in isolation; it should be treated as a whole package across multiple things. I am not against increasing revenue to buy the services, but it has to have the generation coming back in, to make it possible and right for them to do that.

MS CARRICK: For the big tier 1 companies earning over $150 million, what are the main contracts that are coming through the pipeline? There is the convention centre, the lyric theatre, the aquatic centre and light rail. These are big government projects. What are the big private sector projects?

Mr Harris: The only ones that we are aware of at the moment, because we have conversations about what potentially is coming along, is the University of New South Wales refit. The Monaro Highway is still going through. That is a government-type job. There is not much in the private sector coming through on commercial and civil activities. There is some redevelopment in the development areas, in properties, but there is not a great deal there, either.

The biggest one will relate to the missing middle, if we can get that moving, and get the building going on there. A lot of people are thinking about it. A lot of people on big blocks are looking at subdividing, but they are now starting to second-guess that, because of the feasibility of actually subdividing and building a house, and the cost of reselling that. A lot of people are having those conversations.

MS CARRICK: Like smaller developers—basically, the cost of subdividing and building a second one, and the resale value?

Mr Harris: It is not weighing up, from a cost point of view, for a return on investment. We are hearing that more and more. That is what I mean when I say there is the whole gamut, when you are looking at it, not just one part, with payroll tax.

THE CHAIR: Is there anything else that you want to add before we conclude this session?

Mr Harris: It would probably have been better if you had called all the employers in together; you would have got a rounder response from us all, coming through.

THE CHAIR: Employers?

Mr Harris: Employer groups. Canberra Business, ourselves and the recruiting and consultancy group who are appearing after us. You could have dealt with all three of us in one hit, talking on the same topic.

THE CHAIR: We did reach out to a number of groups and organisations, of course, and we went with who responded. I will take that feedback and—

Mr Harris: Ms Andrews will have a lot to say about it, because she deals with a lot more of those labour hire type companies.

THE CHAIR: They are a big component of this, aren't they? On behalf of the committee and our visiting member, we would like to thank you for coming along today. I understand that there were no questions taken on notice. Thank you very much.

Mr Harris: I thank the committee for the opportunity to talk to you today.

ANDREWS, MS LILY, Advocacy and Professional Standards Manager, Recruitment Consulting and Staffing Association

THE CHAIR: Welcome Ms Lily Andrews from the Recruitment Consulting and Staffing Association. Now, just a couple of notes here that you are appearing as a witness so you are protected by the parliamentary privilege and bound by its obligations. You must tell the truth. Giving false or misleading evidence will be treated as a serious matter and may be considered contempt of the Assembly. Hopefully that does not put you off at all. Would you like to start with an opening statement?

Ms Andrews: Thank you, Chair. I will give a brief opening statement. For today I will be referring to the Recruitment Consulting and Staffing Association by its abbreviation RCSA. We are the peak body for the staffing and recruitment sector across Australia and New Zealand. I note that Scott, before me, mentioned that I have a lot to say about this, which I definitely do.

I will keep my opening statements brief, but the recruitment and staffing sector is really impacted by this in a way that I think other businesses are not, in that payroll tax is a direct cost to our businesses. A lot of our businesses, as mentioned in our submission, work on annual contractual arrangements and we are currently in the middle of those contracts. An increase, a one per cent increase for those businesses, would be essentially absorbed by all of those businesses. There is very little remit for those businesses to go back to their clients and try to renegotiate the terms of those contracts, as I am sure you can all understand.

So I am really here on behalf of them to advocate for an extension for this bill to be introduced to parliament, noting that the implementation date of 1 January is coming up very soon. I know the committee is not due to report until the end of November and then that pushes us into the Christmas period, which we really feel is not an adequate amount of time to advise business of this change.

THE CHAIR: Thank you very much. What sort of impact will this have that you have heard from members if it was to be implemented from 1 January, instead of what has been suggested by other witnesses, to be delayed until the 1 July next year?

Ms Andrews: If I can give a little bit of context around this, we—RCSA, along with the property council and the business chamber—in the last financial year, being 2024-25, engaged with Treasury and the ACT Revenue Office where there was a last minute payroll tax increase of one per cent and we successfully advocated for a three month rebate for our members. So it was taken by government that there would be substantial impact and impost to the staffing and recruitment sector by this—what we call a last minute tax, by virtue of the fact that they—within their business models, it is very difficult if they have contracts, which, as I said, are negotiated in the months leading up to the financial year.

If you put a tax on 1 July, their ability to renegotiate is null and so you are just eroding their bottom line. A lot of these staffing and recruitment companies operate on really razor thin margins, and so an increase, as I said before, of this size to payroll tax is significant in the impact to their business.

What it would mean for businesses in the ACT, but businesses across Australia—staffing recruitment companies can have an internal team of 10 to 15 people. So think recruitment consultants and other operational employees, but they can have hundreds of unhired employees, which is their deployed workforce. Thus, you are looking at a business which might have a wage bill of over $150 million, but in actuality, the size of the internal business is very, very small. They have the ability to be very dynamic, by virtue of them being small.

I had a call on Friday from one of our members who is part of an umbrella company, but they are one arm of that company, and thus they fall within the over $150 million wage bill. They just said it will be cheaper for us to close our ACT office and move everybody into New South Wales, those being the internal staff, and just deploy people across the border into the ACT. With my internal business, which will be heavily impacted, it is easier for me to just pick that up and move it across the border or just let people go internally.

As I mentioned in my submission, the erosion to the bottom line means that these businesses look internally. They look internally and they say, "Okay, what if I have—if I am losing 30 per cent of my profits, what am I going to do? I am going to let Canberrans go from their jobs because we cannot afford to sustain this business in Canberra anymore." And that is the direct impact of this bill on our members' businesses. They have been very engaged on this. As I said, they are not your typical businesses with hundreds and hundreds of staff and these huge operating entities, by virtue of the fact that all of their on-hired workforce is captured in this wage bill. I would like to really make that clear.

MS CARRICK: So, Ms Andrews, if that is the case that they can move the workforce to New South Wales, or use a New South Wales labour force, presumably there is still some good contracts in the ACT. There is a lot of big government contracts that they would be keen to participate in.

Ms Andrews: Yes.

MS CARRICK: So, would they be tempted to use—still bid for big ACT government or commonwealth government contracts and use a labour force from New South Wales as opposed to Canberra?

Ms Andrews: Do you mean their internal staff or their on-hired staff? Because you can operate—

MS CARRICK: Well, I guess I am talking their on-hired staff.

Ms Andrews: You can operate from New South Wales. What I am saying is the operating entity, in these instances where they are going to be operating in the ACT, or they are going to move their operating entity across the border into New South Wales, and then, moreover, if you have your pick of staff who can maybe work across the border, or you are looking at people who you can deploy and you are in New South Wales and you have one work site which is right across the border in Canberra, or you have an equivalent site, say it is an IT site, in New South Wales, and as has been mentioned by all those who came before me in this committee, your wage—your bill for that worker doing equivalent work but across the border in New South Wales is going to be 3.5 per cent less when it comes to this payroll tax.

I think from a business perspective you can see where they choose to deploy those workers and that means that the ACT might lose out on this skilled workforce if you are looking at a position where you can deploy someone right across the border in New South Wales, or in the ACT, because it is going to be a better deliver to your business if you have put that worker in New South Wales.

MS CARRICK: So this is not like building a house where you actually have to physically be there. I guess your line of work and the labour hire, they can do it online from other places and they can just sort of fly in when they need to fly in.

Ms Andrews: Well, yes, they can be deployed as need be. Obviously with the labour force, it really depends on where the workforce is needed. Sometimes jobs are online, sometimes they are hybrid, sometimes you need a lot of people for one project that needs to scale up and then it needs to scale down, and that is the nature of the on-hired workforce. But if you are looking at job mobility and businesses moving workers around and employers, I think this puts a lot of that into, kind of, question when you are looking at where you could place people and where those placements would be best for your business.

MS TOUGH: Thanks for putting in this submission and being part of this today. With the timing change of 1 January, obviously it is halfway through the year and it said that businesses are not—it is not the greatest outcome, I guess, is what you are saying.

Ms Andrews: Yes.

MS TOUGH: It is difficult for the government as well to bring in something halfway through the year like this. How do you think the revenue office could better assist in ensuring Canberra businesses are notified about the changes to the payroll tax given that it is halfway through the year?

Ms Andrews: How could they notify businesses?

MS TOUGH: Yes, how can they make sure people are aware of it and educate and get businesses involved in knowing what is happening?

Ms Andrews: I mean to my mind the ACT Revenue Office would have some sort of catalogue of which businesses would be the ones going over this threshold. From our perspective it is not really—I mean, our businesses who will be affected, they are aware of this change because we have made them aware of this change, but they are also the types of businesses who are quite engaged in these things because it is so impactful when these things come out.

We have known about this since the budget last year, so they have had six months to kind of get their head around the fact that this might be coming into effect. So to our mind it is not so much an educational piece, whilst we feel as though there could be more done to educate, always. But it is really just that if you are standing there and you are a labour hire company and you are speaking to your client, it is very difficult for them that they might have five weeks to attempt to renegotiate the next six months of their business. So that is what we are trying to get across, that it is the timing issue for them, when in other ways—for other businesses it is just an on-cost.

I mean, there will be businesses within my membership based organisation where you are just creating new contracts and within those contracts it is built in. Obviously those costs are passed on to the client. But when you are negotiating contracts for an extended period of time, which the bigger ones generally are, the ones that are placed on volume, and those are the bigger businesses who are captured by this because they are the ones with the ability to deploy these really large workforces, and when you are on these really tight margins, you do not have the ability to go back to your client and say, "Listen, I need to bump up and down a per cent because the government has said this." They just say, "Well, you know, too bad. That is the cost of doing business."

MS TOUGH: Yes. You mentioned potentially moving the head office across the border, but people still working in the ACT. If you are moving the head office across the border but you are still deploying everyone into the ACT, would that not kind of be, I guess, in a bit of bad faith when you are still actually sending all your workers into the ACT?

Ms Andrews: Well, what I mean by that is if you—it is your internal business, right? So we are talking about business investment and if it is going to be better for you marginally to have a few, which is your internal workforce, and for you to set up a business and you are looking at—as Scott was speaking to before, you are looking at the bottom line, how can you reduce your wage bill?

If you can reduce your wage bill by moving your 15 people in your head office across the border, then businesses are going to do that at this stage. I think those workers are going to be deployed from where they are going to be deployed, whether your head office is in the ACT or in New South Wales. But in terms of business investment, you know what happens if your head office is in the city. You get clients there and that is where things kind of generate and you have a footprint there and that is where your business gets bigger and bigger and removing that from Canberra, that is what we are talking about when we are saying it is disincentivising business investment.

MS TOUGH: Yes, I am just thinking being, I guess, labour hire and the type of businesses your members are, the head office themselves would be quite small, most of the payroll are people that are out being deployed in other businesses?

Ms Andrews: Yes.

MS TOUGH: Yes. Then those employees, if they were not working for your members, they would be being directly employed by employers who would be paying the payroll tax here anyway. Like, if they were not being employed by a labour hire, chances are they are being employed directly by these businesses that are using the services of the businesses you represent.

Ms Andrews: So what I am saying is that the labour hire company might move to New South Wales, but I think the impact that that would have on their on-hired workforce would stay the same. The on-hired workforce, to our mind, will still be deployed where they are being deployed, whether that is in Canberra or whether that is in New South Wales. But if you are looking to deploy someone and you have two equivalent businesses across the border, from an on-hired perspective, whether your business is in the ACT or you have moved it to New South Wales and you can get a lower payroll tax rate by placing them just over the border in New South Wales, I am saying that that is going to become a lot starker with the implementation of this new tax.

MS CLAY: We got schooled by the Chartered Accountants so we just need to get some really clear information. The deployed workforce, not your internal companies, but the deployed workforce who work in the ACT, will they pay ACT payroll tax?

Ms Andrews: Well, again, it depends on every single situation. I will defer to the accountants because they know best, but if they work primarily in the ACT they will pay payroll tax.

MS CLAY: In the ACT.

Ms Andrews: Yes. I am not saying that our businesses are trying to circumvent 100 per cent of their on-hired workforce by moving all of their workers out of the ACT. That will not happen. There are so many people within Canberra who work in Canberra, who live in Canberra, who love it here, who love to work for the government. But I am saying, of the people who are transient and who you might place in border towns, you might choose now to place them in New South Wales. For your internal staff, for whom you will pay payroll tax and for whom you are investing in your recruitment business, you might move your head office across the border. But for the on-hired workforce, if they are currently working in a way where they pay payroll tax in the ACT, it does not matter where the head office is, you are right, because they will still be liable to pay payroll tax in the ACT if their work arrangement denotes that they do so.

MS CLAY: I would have thought the bigger impact on the available workforce to the ACT and how much payroll tax the ACT is collecting is how many jobs are available in the ACT. And I would have thought that most labour hire firms would be placing their deployed workforce in the most lucrative places, which is probably likely to be where there is a whole lot of government contracts, right?

Ms Andrews: I would agree with you. I would say that people want to place jobs where the most lucrative contracts are. But with the implementation of this tax, are you making those government contracts less lucrative because the cost of business is going up?

MS CLAY: Sure. You put some great information in your submission and your opening statement about the timing of the change. Can you tell me, you said that previously a three-month transition helped?

Ms Andrews: Yes.

MS CLAY: We are getting a bit of—you are partly telling us that this payroll tax will affect behaviour and might change decisions about where people work, but you have also said that a three-month transition would help. Tell me how a three-month transition will help.

Ms Andrews: As stated before, part of the problem, part of the concern for our members, is that with these 12-month contracts, which generally run from 1 July to 1 July, they have negotiated that contract for a period of 2025 into 1 July 2026. If there is going to be a change come 1 January 2026, where you are looking at losing one per cent of your profit margin, giving businesses three months to potentially renegotiate those terms or to not have to take on the erosion of the profit for that three month period will be appreciated by business, noting how late this payroll tax increase has come into play.

MS CLAY: Yes, sure. If it passes, it will certainly come into play very close to when it commences. It has come in with a much longer lead time than we usually get for payroll tax changes. Typically payroll tax changes—a lot of the tax changes, the government hands them down in the budget and then they start a couple of weeks later. So there is probably a pretty good—I mean you would not probably be renegotiating a contract based on draft legislation, but there is a pretty big lead time already.

Ms Andrews: But this was not signalled in the pre-budget papers. It was just announced on 1 July.

MS CLAY: Yes, fair. I think you have made a really good case for why your particular industry at that $150 million payroll tax—you have, I guess, smaller businesses who have that level of payroll tax than in any other industry that we have heard about so far. You have been really clear about that. So if there is any exception made, do you think maybe it would be an exception for this one industry that would be needed?

Ms Andrews: If there was an exception made to the payroll tax surcharge?

MS CLAY: So a three month, or a timing, or if any—do you think there is a case to say that maybe some industries need different treatment?

Ms Andrews: Definitely. I would definitely make that case, and I hope that I have assisted to make that case today because I think that, as we all know from policy, it affects different types of businesses completely differently.

If I can illuminate to the point that I tried to mention before about how labour hire companies can be actually quite small businesses but they are not captured by any sort of small business incentive. Through COVID we had members who had five internal workers, but they might have 200 people on their books, and they did not get any of that help from government. It is a very, very particular type of business structure where on paper it looks like you are running an enormous business by virtue of your wage bill, but in actuality you are actually quite a small—you could be like a small mum and dad kind of operator operating on really small margins.

MS CLAY: Yes, you look like a big corporation based on payroll tax, but actually you would be a small/medium.

Ms Andrews: We are not. Yes.

MS CLAY: Yes, small/medium based on any other ATO assessment.

Ms Andrews: Yes.

MS CLAY: Yes. You got us there. Thank you.

THE CHAIR: Yes, it is interesting when you talk about the recruitment agencies and how they operate because they could be part of a bigger chain like Workforce Express—Workforce Express, I think it is, and a few other places. Anyway, do you know, do they operate their own entity obviously, and with what employment they create they pay their taxes based on their entity, but does the broader company have any sort of involvement with that or affect their taxes that they pay?

Ms Andrews: Can you rephrase that, sorry?

THE CHAIR: So there is a lot of workforce companies out there for work for hire. I assume they all operate as separate entities in this case and would pay the appropriate tax based on what is going through their books and not part of the national chain?

Ms Andrews: Do you mean if they are grouped?

THE CHAIR: Yes. Well, you have the national group, but you have entities that have been set up, different companies obviously that run under that one banner, that run under that one workforce. I guess they are all treated in silo to one another in terms of how many people that they send out there to the workplace.

Ms Andrews: Depending on their business structure—I mean, I know that we have members who have grouped businesses and within that there are different brands, and those pay payroll tax on behalf of the grouping entity, but if they are a solo entity, as you have said, then yes, the taxable wages are applied just to those businesses.

THE CHAIR: Just those entities?

Ms Andrews: Yes.

MS CARRICK: So with big contracts, there would be—it says something about thousands of people out there, the on-hired workers placed with clients. In the ACT, is that primarily commonwealth government, ACT government, or private sector? Like, where would the split sort of lie between those three, or are there any others where all the people are placed?

Ms Andrews: Our members primarily do professional services, so I am not across what is happening in horticulture and those kind of labour markets, so I cannot speak to that because we do not have really many members who place there and I do not want to misrepresent that workforce. Noting that I cannot give you definitive numbers, if you would like, I am more than happy to go and come back with the split, but I would say that there would be an equal number of on-hired workers out there placed with private employees, as there is commonwealth employees but also state government employees.

As noted, and as you can understand, those numbers really fluctuate and change, depending on the market and depending on projects. So you see what is happening in the government departments when they have big things coming up, or at an election time when they go into caretaker, people get dropped. That is what happens with the on-hired workforce, it moves where the market moves and as people need a bigger workforce, they take it up, and as those jobs finish, they deploy them elsewhere where they are needed.

THE CHAIR: Is there anything else that you wanted to cover in relation to this bill before we conclude this session?

Ms Andrews: Nothing else, but I very, very much appreciate your time. I looked at the other submissions and I realised that mine was quite long and long-winded, so I apologise for that and I appreciate you reading it.

THE CHAIR: No, do not apologise. It is good that you have taken the time to put in for this inquiry, which we greatly appreciate because it provides evidence for us and it certainly makes our job easier when we have content to review and develop a report from, so we appreciate that. On behalf of the committee and our visiting guest, we want to thank you for attending. As I understand, there were no questions taken on notice, so you are off the hook in that sense, but once again, thank you, and have a good afternoon.

Short Suspension.

STEEL, MR CHRIS, Treasurer, Minister for Planning and Sustainable Development, Minister for Heritage and Minister for Transport
CAMPBELL, MR RUSS, Under Treasurer, Chief Minister, Treasury and Economic Development Directorate
HOLMES, MS LISA, Acting Executive Group Manager; Commissioner; Revenue Management; Economic, Revenue and Insurance, Chief Minister, Treasury and Economic Development Directorate
PIRIE, MR MITCH, Executive Group Manager, Economic and Financial, Chief Minister, Treasury and Economic Development Directorate

THE CHAIR: We welcome officials from the ACT government's Treasury department. We welcome Minister Steel to our inquiry into the Payroll Tax Amendment Bill that has been brought forward. As witnesses, you are protected by parliamentary privilege and bound by its obligations. You must tell the truth. Giving false or misleading evidence will be treated as a serious matter and may be considered contempt of the Assembly.

Mr Steel: I am happy to go straight to questions.

THE CHAIR: Very good. Thank you. Today we have heard from quite a few witnesses, and most of their feedback has been concerns around the new rate that will come into effect from 1 January instead of the end of the financial year. I have been in business a lot myself and, typically, these sorts of things are introduced at the beginning of each financial year. It is easier for us to calculate and plan going forward. Minister, could you give us a brief explanation as to why you chose 1 January instead of the end of this financial year?

Mr Steel: Yes. Ordinarily, a change would be made from 1 July. We accept that it is not ideal. The purpose of the bill is to allow for a half-yearly effect and give businesses time to implement the change within this financial year, but not from 1 July this financial year. If we had done it from 1 July, we would have heard quite negative feedback from businesses about their budgeting. I appreciate that they probably do that for some months before the new financial year and would not necessarily have had time to take that into account when doing their budgets for the new financial year. This is giving them five to six months to make the change, which has to be legislated because a half-yearly effect is not currently permitted under the Payroll Tax Act. This will mean that businesses need to adjust halfway through the year.

We think that businesses with a payroll of over $150 million will be able to do that. They have the accounting expertise on hand to make any adjustments that are required. They have had enough notice to make that change. The purpose of this was to give them enough notice, while also recognising that the agreement that we had struck with the Greens in the Assembly was to implement it this financial year, in order to make sure that there was revenue flowing to government this financial year in light of the agreement that had been struck to not charge a $250 health levy on property owners and reduce it to $100. This has effectively plugged the gap, but in a way that is not immediate and gives businesses time to adjust.

THE CHAIR: When was the bill introduced? It was barely this financial year. What was the date?

Mr Steel: It was on 3 September, but in July it was announced that the change would be made.

THE CHAIR: It was not the previous financial year. I was referring to it coming into effect at the financial year of 2025-26, not 2024-25.

Mr Steel: I understand that. Often tax changes are announced and introduced weeks later. We gave time for businesses to adjust—five to six months—to make this change. I appreciate that it is mid budget cycle for the businesses, but they are large businesses that we think can make that adjustment and have the resources to do that.

THE CHAIR: Has there ever been a precedent set before where the ACT government has changed a rate mid financial year and put it in place? It typically comes in at the beginning of each new financial year.

Mr Steel: Other charges are made at different times of the year. We can potentially take it on notice.

Mr Pirie: Yes. There are certainly instruments that—

THE CHAIR: I am happy for you to take it on notice, if you want.

Mr Steel: There are other instruments that take effect at different times.

Mr Pirie: I have read and acknowledge the privilege statement. I am aware that the bill itself was modelled on New South Wales's experience a number of years ago. They introduced a part-year payroll tax measure. That informed the design of this bill.

MS CARRICK: And how did it go?

Mr Pirie: [inaudible] I believe.

THE CHAIR: Has there been any modelling done in terms of revenue that we have brought in from 1 January, until the end of that financial year, potentially?

Mr Pirie: The estimate of the revenue that will be generated from 1 January to the end of the financial year is $17 million.

MS CARRICK: I understand that there is the complexity around introducing it halfway through the year and that big organisations have the systems in place to deal with that. One witness said they set contracts for their labour hire for the 12-month period and they cannot easily change those contracts; they are stuck with them and they have to absorb the extra one per cent. Have you thought about them not being able to renegotiate contracts for a half-year payroll change?

Mr Steel: We would expect that these very large businesses would have the ability to absorb those sorts of costs, which would be relatively minimal compared to their overall payroll. In relation to the change, regardless of the half-year impact, there is certainly additional cost, but, compared to their overall payroll—businesses with a payroll of over $150 million—it is a fairly small proportion.

THE CHAIR: Just because they can absorb it does not mean it is fair.

Mr Steel: We have given them notice. Every business will be different. Some businesses may have those contracts in place. Some may have flexibility within those contracts to renegotiate prices and adjust costs.

MS CARRICK: Some witnesses talked about the additional one per cent being passed through to the consumer. I guess that is for retail, housing and a whole range of businesses that have a $150 million turnover. Have you had any views on the cost being passed through to the consumer, and the cost of living?

Mr Steel: It is something that we will need to monitor closely. We certainly recognise that a very high payroll tax rate, even higher than what we are proposing, would potentially start to have an impact on prices, but part of it may be absorbed within the business, noting that these are businesses that often operate right across Australia and the ACT is only a small portion of their overall market. Whether they adjust prices so that they have differential pricing here is yet to be determined. I do not know whether Treasury officials want to comment on the economic impacts more broadly, but I do not think it is clear that it will have an immediate impact on prices. It has a similar incidence to GST. That is a point that Saul Eslake made in the review of Tasmania's finances—that it has a slightly narrower scope than the GST, but there is largely similar incidence, so we expect it to have a similar impact.

MS CARRICK: We asked a witness about the big contracts that were coming through. They said the tier 1 construction firms are the ones that hit the $150 million turnover, in comparison to the smaller construction developers. I asked about the big projects coming through the pipeline. There are the government ones—the pool, the convention centre, the lyric theatre and what have you—but big private sector projects coming through the pipeline were not clear. Is it the case that the costs are passed on to the ACT government for these projects? When clients win the big construction contracts that are funded by the ACT government, the ACT government will basically pay the costs of the bidder, and whoever is awarded the contract will embed that additional payroll tax into the cost of the contract. It will be paid to them and then passed back to the ACT government. It is a bit cyclical.

Mr Steel: They may be charged payroll tax on the way through as well. The point to make is that tax is only one part of the broad range of costs associated with doing business. We would still expect large construction firms to want to do business here in the ACT, because we have a growing population and there is continued investment in the pipeline of infrastructure, both public civil works and private civil works, as well as private investment in housing. Tier 1 companies have been involved in that, but there is also a range of local businesses involved in that market, some of which are quite large local businesses.

We think there will still be an advantage to do business here and it will be competitive, and we will still attract firms from interstate who already do the drive-in, drive-out work in the ACT. They bring in a workforce, often from interstate, to conduct work here in the ACT, whether that is for the government or for private purposes. We think there is a competitive market. Taxes are only one cost, and there will still be a lot of interest in doing work in the ACT.

MS CARRICK: Companies will work where they make money, so they will come here and make money.

Mr Steel: Yes.

MS CARRICK: Have you done any modelling of how much ACT government contracts are a part of the $17 million, in the $44 million—the forecast that you have made?

Mr Steel: I do not believe so.

Mr Pirie: No, we have not modelled the economic incidence of the tax—how it transmits through the economy. We have not done that.

MS CARRICK: Or how much of that $17 million in the first year will be from ACT government contracts? I am making the point that there are a lot of big ACT government projects, and the payroll costs will just get passed back to the ACT government, anyway.

Mr Steel: We are collecting the tax from them as well. This will largely be paid by the large supermarket chains and retailers. It will largely be paid by the large consultancy firms. The construction industry, no doubt, will be in there as well. But we are talking about large national businesses, and there is a real benefit for them in operating in the ACT and a real advantage in having people working here in the ACT. We think this will not have a significant impact, but we will monitor that closely.

Whilst the decision was taken after the budget, and it was not necessarily factored into the economic figures in the budget papers, Treasury can comment on what they think the broader economic impact would be in terms of what was presented.

Mr Campbell: One of the other elements that we should not lose sight of is the amount of money that is being spent by the commonwealth government. Their national security precinct is a huge spend. There are some of the repairs and recastings around the National Gallery. There are a lot of big non-ACT projects that will still draw in some of these larger firms, particularly in the next few years.

In terms of the modelling exercise, we do not go through contract bottom-up modelling. It is usually an extension of what we have seen historically, from a particular industry profile of spending. We will run a revenue forecast upon that basis. In terms of the impact on businesses, even in the construction sector, for instance, a lot of the ACT spend, the $1.1 million through to $1.6 million, is smaller Canberra businesses providing repairs and maintenance for local schools and so on. It is not just the large, singular projects that we are talking about.

Mr Pirie: It is worth noting as well, in the context of our economic forecasts, with the economic parameters that are in the budget—inflation, GSP growth and things of that nature—the dollars we are talking about here, from this measure, $17 million in 2025-

26, and $41 million in 2026-27, are very small in the context of the overall ACT economy, which is a $50 billion economy. Any effect on growth rates would be expected to be immaterial for our key economic forecasts.

MS TOUGH: Sticking with the theme of being midway through the financial year, what is the government doing to be able to manage getting information about the changes out to taxpayers and making the accounting process for the tax change easier for those affected?

Mr Steel: I will hand over to the Revenue Commissioner to talk to that communication aspect.

Ms Holmes: I have read and understood the privilege statement. We have had information on our website, the ACT Revenue Office website, for a little while now, in terms of highlighting the bill and saying, "If it passes, these are the rates." We have already been actively providing that information. That is specifically on the payroll pages of our website.

We are also doing changes to our system. Companies basically self-report. There is a portal that we have, into which they put their information. We are making changes to that portal. When it comes to 30 June, they need to provide information on wages for both the first and second half of the financial year. The system will then automatically do the calculations for them, using the different rates. There are things that we are doing proactively, from a communications perspective, as well as the actual calculations in the system to assist companies.

MS TOUGH: What is the usual lead-in time for changes to payroll tax? Obviously, this has been an under-six-month lead-in time. Usually, when the budget is announced, are the changes for that financial year or the following financial year? Is it a 12-month—

Mr Steel: I think there has been a 12-month lead-in time with the previous system of payroll tax surcharges that were introduced.

Mr Campbell: We can double-check that.

Mr Steel: We can take that on notice.

Mr Campbell: Generally speaking, payroll tax has often been a 12-month period. Sometimes it has been different, for some of the surcharge changes. For other tax bases, it can be from a few weeks ahead, from when you are in the budget month, to the end of June. It depends on the tax base that we are talking about.

Mr Steel: It is important to note that this group of taxpayers are existing payroll taxpayers. We are simply updating the rates that apply to those existing payers. There may be some new ones that are enrolling for the first time, because they are only doing work in the ACT for the first time.

MS TOUGH: That is what I wanted to check. There is usually that 12-month lead-in. This bill is drafted in such a way that it has introduced a midyear change. Is it the intention to go back to the usual cycle of announcing—

Mr Steel: The government is not proposing any further changes at this stage. We are not planning any further changes to payroll tax. If they were proposed, we would consider the implementation timeframe. I think we agree that it is not ideal to have it commence partway through the year, but it plugged a revenue shortfall, and it was important to make sure that we could continue to deliver health services, in particular, for this financial year, where there was significant pressure on the system.

MS TOUGH: On a different track, "bunching" has come up a few times this afternoon. I want to explore businesses bunching under the payroll tax threshold. Can you explain the implications of the threshold and whether or not Treasury believes it is likely to affect decision-making of businesses growing either to the already legislated change of $1.75 million starting next year, or this higher change, starting in January?

Mr Steel: The bill is not changing the payroll tax-free threshold. It is applying to businesses with a payroll of over $150 million and changing the rate for that top end of businesses that are paying payroll tax. Some other changes were made in the budget, and there will be a full year before they are implemented, from 1 July next year. That is broadly consistent with the Henry tax review directions and our own review of taxation that was undertaken by Ted Quinlan around broadening the tax base by lowering the threshold, and at the same time reducing the rate of payroll tax. We will be reducing the payroll tax rate from 1 July next year for businesses with a payroll under $20 million. We will also be broadening the base.

In terms of the bunching issue, we had, I think, the highest payroll tax threshold in the country, at $2 million. We do not expect, for the high end, for the businesses with a wage bill of $150 million or over, there will be significant bunching around that threshold. It is not something that they would be contemplating, given that it is probably such an insignificant part of their overall payroll costs.

For the lower end, though, there is a possibility of bunching. The comparison has been made, probably erroneously, between us and South Australia. Bunching has occurred in South Australia. They have a very different system of payroll where an enrolled payroll taxpayer that has a wages bill over $1.5 million has to pay payroll tax from any wages over $600,000. That is a very different system to what we have, where no business pays anything until it reaches what will now be $1.75 million. We expect there to be quite a different level of bunching compared to South Australia.

To the extent that there was any bunching—and Treasury officials can comment on that—for businesses trying to go under the $2 million threshold that has existed in the ACT, some of those businesses would now be captured once it comes down to $1.75 million. To some extent, it will eliminate that bunching effect. I do not know whether we have any advice about the extent to which there has been bunching around the $2 million threshold.

Mr Campbell: We do not have any data on that. The other thing to think about with bunching is that there are so many other factors in play in terms of how you structure a business in respect of company tax as well. So it would be foolish for a business to only contemplate a change from one jurisdiction when you actually have your national impact that you are trying to deal with as well with company tax. I think it is always possible in concept but, in practice, they are big changes to make if you were going to do something like that to your own business structure.

Mr Pirie: I would just add that that is quite consistent. Commonwealth Treasury did a quite a comprehensive study, a few years back now, that looked across the country—so not just one jurisdiction—and they found very limited evidence of bunching around the thresholds, which would be consistent with the argument that there are a myriad of factors that would influence a firm's decision around investment and employment.

Mr Steel: The other point to make is that up to 30 per cent of the cost to businesses that are being brought within the payroll tax net would in effect be borne by the federal government by reductions in company tax.

MS TOUGH: Thank you.

MS CLAY: How much more does this raise than the health levy?

Mr Steel: As it was originally proposed in the budget or as it currently is proposed?

MS CLAY: Yes, the one that we have here.

Mr Pirie: This measure raises, across the forward estimates—so 2025-26 through to 2028-29—an additional $30,700,000.

MS CLAY: Excellent. How much does the $100 health levy raise in the one year that it is in?

Mr Pirie: This year?

MS CLAY: Yes.

Mr Pirie: It was originally $50 million but it has been cut by $29 million—so $21 million. I might get the team to come back and double-check that number, but I am pretty certain.

MS CLAY: You can check the transcript and fix it if it is wrong. Do not take it on notice.

Mr Steel: It was slightly below where we were expecting on a net basis for this financial year. But in future financial years that will be made up.

MS CLAY: This inquiry has only got six submissions. Two were pretty supportive—yours and ACTCOSS's; two did not like it—the Master Builders Association and the Business Chamber; and two, on my assessment—and I do not mean to misquote our witnesses; they are all on transcript—were mostly talking about the timing. The MBA and the Chamber of Business said that they did not think there would be a mass exodus of jobs but that there might be a subtle incentive to operate elsewhere. They sort of suggested that this was bad for business but they did not really have a lot of evidence, and the MBA did not seem to have been contacted by anybody who would actually be affected by the tax. They were mostly talking about smaller businesses. Treasury's economic impact assessment is that this will not really affect behaviour change.

Mr Campbell: I think—to be a little bit cautious about implications of behavioural change—at some point it does impact. Our assessment, on our best advice at this stage, is that we do not think it is a material factor in that way. But, whenever we think about tax changes and advice to government, we will be thinking about all the other things and changes that are occurring at the time as well to give proper context to the projections. But, from what we have seen in the submissions, it is not surprising to us that some of the claims will be made around it.

But, as we have said in our submission, there are a lot of different things that go into both location decisions and business structuring decisions about whether you go under or over a threshold. There are also factors as simple as the ACT government having strong views about the local development policy, which we now have in our procurement values, and preferencing small and local businesses. So, if you are a large business thinking, "I am going to move, suddenly," you have to think about all the implications that might flow from that in terms of procurement with the ACT government as well. Does that trigger a particular point? You cannot say that definitively. But it is again another factor that businesses would take into account.

MS CLAY: The other impact that it could have, that would not be a great impact, would be if it is passed on in consumer prices, particularly if it did so on things like supermarket goods. ACTCOSS gave us quite a good spiel about progressive taxation. They seemed quite comfortable with this one. They seemed to think it was quite progressive. I have heard—Treasurer, you have mentioned it but I have heard it mentioned before—that this is a bit like the GST on food. I am finding that one harder to understand. GST is 10 per cent of the price of food; whereas, this is one per cent of one component cost to payroll tax in $150 million-plus payroll tax for a multibillion-dollar corporation. Our advisers suggested that GST was maybe 20 to 50 times more important than this tax in terms of prices.

Mr Steel: I think the GST would have a much larger effect. I will hand over to someone that used to work on GST policy in the commonwealth.

Mr Campbell: Yes, and I might have modelled it. That is true. The GST is a retail point, a sale tax. It goes, by design, straight through to prices. I do not want to labour the point about going back to the GST but, at that time, the GST replaced the wholesale sales tax, which was an embedded tax on business inputs, effectively, and it cascaded through the economy. The way the WST worked was that it was creating prices at every transaction point through the economy. So it was almost a hidden tax that was hard to see. This one is at one point in time on the businesses with a labour bill. I would not put a number on it in the way you have, but it would be significant orders of magnitude difference.

MS CLAY: Yes; much more. I have one other question. Universities are exempt. Why is that?

Mr Steel: They still pay payroll tax but at a lower tax rate. That decision was made a couple of years ago now, I guess to provide them with an advantage, given their significant contribution to the economy.

MS CLAY: Sure; and that decision has been reconfirmed in this now?

Mr Steel: Yes, that is right.

MS CLAY: So they continue to be exempt. Did you model that at all?

Mr Steel: They are paying payroll tax but it is just at a lower rate.

MS CLAY: What are they paying payroll tax at? I am so sorry to not know.

Mr Steel: At 6.85.

MS CLAY: But their payroll would be well and truly over $150 million.

Mr Steel: There are some smaller universities here as well. Some of them would be advantaged by the fact that we have cut the rate of some of the smaller ones, if they have a payroll under $20 million. But, yes, the larger ones would have a substantial payroll.

MS CLAY: Showing a degree of restraint, I am not going to ask you to model this, but I am going to ask whether you have modelled it. Did you model what it would raise if the universities paid this?

Mr Steel: I do not think we have, explicitly, for the highest rate.

THE CHAIR: I want to confirm a couple of things. You have introduced this tax because you have a shortfall in the health budget going forward. You have reduced the number, for that fee, so you needed to do something about that gap. Is that correct?

Mr Steel: The health levy was reduced, from $250 to $100, for residential.

THE CHAIR: I remember, not that long ago, that you had to go through a second appropriation bill, because you did not manage your books and you needed more money for health. Is that correct?

Mr Steel: No, I would not characterise it as that. Last financial year, we saw a significant increase in demand in the health system that needed to be funded, so that if people presented to an emergency department, they could get treated.

THE CHAIR: Was that increase different from the past 20 years that Labor has been in government?

Mr Steel: Yes, it has been very substantial. We did not have an opportunity to address that, in terms of the funding, during that financial year, but we did, in the budget for this financial year; hence the introduction of new revenue measures, like the health levy, paid by property owners. There are also the payroll tax measures—lowering the threshold, broadening the base and now introducing this additional tax rate for businesses with a payroll over $150 million.

THE CHAIR: In other words, because you could not manage the budget, you were short in health, as your health fee was reduced, and you had to go to a second appropriation for health. You thought the next best step was to tax business more, to fix that gap, instead of the government properly managing their financials and their books, and managing your money situation more appropriately.

Mr Steel: No. We have seen, in our health and hospital systems, a substantial increase in demand for health services, and a substantial increase in the cost of delivering each episode of care. Each jurisdiction has faced that. Our increase was 11.7 per cent in costs. In Victoria, it was 14 per cent. I think the lowest was New South Wales, but most are hovering around the 10 or 11 per cent mark. It was a national trend that we have seen that was unexpected and needed to be funded.

We were very clear in the budget that everyone would have to contribute to the cost of delivering those services which the community expects. Business would play a role in that, through payroll tax. Property owners would play a role in that, through the progressive rates system and through the health levy that we introduced as well. Yes, there were revenue measures taken to be able to continue to fund the very high increase in demand and costs in the healthcare system, which have been outlined by Stephen Duckett, in a very comprehensive report on demand pressures in healthcare systems right across Australia, outlining that this is a national issue. Of course, it is the subject of a lot of discussion with the commonwealth, around the future of the National Health Reform at the moment.

THE CHAIR: From my perspective, it is about looking at the financials for the ACT, where we are heading, the projection, and the amount of debt that we are in. You have introduced a new tax for business, to help fill a hole. I am worried about what that might look like in the next 12 months, or the next 24 months. Where else will this government tax, in order to fix the hole that they have in their budgets? What will that look like for everyday Canberrans? It is more of a concern and a view of mine. It is not necessarily a question that you need to answer. Maybe it is something to think about.

Mr Steel: The government is not planning on introducing further payroll tax measures. We have a bill on the table to implement what we announced. We have set out in the budget, not just through revenue measures but whole-of-government expenditure, savings measures that we would undertake to help fund the healthcare pressures that we face. Canberrans rightly expect that, if someone shows up to an emergency department, they will be treated.

THE CHAIR: That is fair.

Mr Steel: The people who work in businesses, the people who own businesses, also access the healthcare system. They also expect that they will be treated in that healthcare system.

THE CHAIR: Yes. They also already pay payroll tax, company income tax, personal tax and superannuation for their employees. They pay out in a whole lot of other areas. But we are not here to debate that.

On behalf of the committee and our visiting member, we want to thank you, Minister and officials, for coming along today. We want to thank everyone who appeared today as witnesses for this inquiry. We thank broadcasting and Hansard and, of course, our secretariat for the assistance they have provided to us today. If any members have questions on notice—including visiting members; they can put questions on notice—get them in as soon as possible, and no later than five working days from the end of today. The hearing is adjourned.

The committee adjourned at 5.06 pm.