2024/2025 State Budget Submission

Prepared on behalf of South Australia's business community.

SOUTH AUSTRALIAN Business Chamber EST. 1839

sabusinesschamber.com.au

Your **success** is our **business**

Published by

South Australian Business Chamber
ABN 14 725 309 328

sabusinesschamber.com.au

Contents

CEO Foreword

Andrew Kay – CEO, South Australian Business Chamber

As the peak business organisation in South Australia, we are committed to advocating for policies and initiatives that support the growth and development of businesses in the state. Here we present practical recommendations designed to support businesses.

This year's submission has a clear focus on two themes that influence economic complexity, productivity, and business growth in our state: Payroll Tax and Small Business Investment. Our recommendations are grouped under each, with a suite of practical suggestions that can have significant impact.

1 Reform payroll tax to make it work for the state

Payroll tax is a tax on employment and an impediment to growth. Our surveys repeatedly demonstrate it is the most constraining state-based tax, and high wage growth in recent years has created a bracket creep scenario that has seen many businesses paying this tax for the first time.

The abolition of payroll tax by any government is highly unlikely, however we believe there are opportunities for reform that will not only make South Australia more economically competitive, but support our state as we take on the ambitious defence, energy and infrastructure projects that lay ahead.

a) Lift the payroll tax threshold

The payroll tax threshold was most recently adjusted in 2019, at a time of low inflation, low wage growth and prior to COVID-19. Since then, South Australian businesses have been subjected to award wage increases of 2.5% in 2021[1], of 4.6% in 2022[2] and 5.75% in 2023 (the highest in history)[3], along with the highest inflation in generations, and the pandemic-induced economic fallout. As a result, many businesses are now subject to payroll tax for the first time.

In our *June 2023 Survey of Business Expectations*, we found that 38.9% of respondents paid payroll tax in 2020/21 climbing to 46.4% in 2022/23. At the time, 45.7% expected to be liable for 2023/24, with a further 9.2% unsure of what their obligations might be for this year.

We therefore advocate for the payroll tax threshold to be lifted to reflect the increase in wages. At a time of fiscal health for the State Government, increasing the payroll tax threshold would encourage growth and employment, and provide a reprieve for those businesses on the cusp of a significant additional cost.

We recommend the government increase the threshold from $1.5 million to $2.1 million. This would give South Australia the most competitive threshold in the country and cement South Australia as a great place to do business.

b) Introduce a 50% payroll tax discount for regional South Australia

Victorian regional businesses are subject to a payroll tax rate of just 1.2125% - a fraction of the South Australian rate. We want an environment that encourages businesses to set up, grow and stay in the regions rather than be lured across the border to avoid a comparatively exorbitant tax.

To generate increased business investment, we call for a 50% payroll tax reduction for regional South Australia.

Eligibility for Victoria and Queensland's regional payroll tax schemes require the principal address of the business to be located in a regional area and that at least 85% of staff live and work in a regional area. We feel this is a reasonable criterion that can be replicated for regional South Australia and would be happy to work with the government to find a suitable approach.

c) Introduce an exemption on wages paid to apprentices, trainees, new graduates

The South Australian Government has many ambitious infrastructure goals, including Hydrogen Power Plant, Northern Water, AUKUS, the Women's and Children's Hospital and completing the North South Corridor. At the same time, increasing the state's housing stock is crucial to accommodate the workforce required to deliver these projects.

South Australia is in the midst of a prolonged and costly skills shortage, and it is particularly dire in trades. Data from Jobs and Skills Australia shows that 36% of all occupations are in shortage nationally, including *all* occupations in the category of Construction Trades Workers.[4]

Providing incentives for businesses to bring on new apprentices and trainees in areas of distinct need for South Australia would help solve this problem.

Businesses tell us that they are experiencing increasing cost pressures in every part of their operations at unprecedented levels. Faced with the likelihood of paying payroll tax for the first time, they may be forced to downsize their workforce and abandon growth plans that will require an increased headcount. This is when inexperienced workers are most vulnerable, as existing jobs are put at risk, and the pipeline of opportunities that we need to build and grow our workforce is stalled. Lack of job security in South Australia has historically sent workers interstate and this is not a scenario we can afford if we are to deliver on our state's major projects The absence of both a skilled and unskilled workforce is one of the biggest risks the government faces.

The government can incentivise businesses to bring on apprentices, trainees, graduates (local and international) by exempting these jobs from payroll tax calculations. This would have broad support from the business community and the public and lead to real change. Businesses eager to grow would be encouraged to do so without the threat of payroll tax decimating profits and young people would have career pathways in the sectors where they are most needed, keeping them here in our state and servicing our major projects.

d) Boost employment through targeted payroll tax discounts

As with the apprentice, trainee and graduates example, employment growth in specific sectors could be encouraged by offering aligned payroll tax deductions. This would support the state's future plans and increase our economic complexity and sovereign capability.

The state's participation rates could also be addressed using this model.

South Australia's unemployment rate (4%) currently sits lower than nearly all other jurisdictions. Conversely, our underemployment rate (7.7%) is the highest in the country and our participation rate (63.4%) is second lowest after Tasmania[5]. Access to a new workforce is needed by those businesses desperate for staff.

The Chamber recommends the government waive payroll tax on wages for businesses hiring under-represented workers, long-term unemployed individuals, post-correctional individuals, and those undergoing re-skilling to enhance workforce accessibility. This measure could unlock a vital workforce segment and stimulate economic participation.

e) Widen the range at which payroll tax is scaled from 0% to 4.95%

The structure of the payroll tax scale hits growing businesses hard and quickly. Businesses in expansion mode find themselves faced with significant tax obligations that seem to have come out of nowhere.

To encourage growing businesses to hire new staff, increase wages and expand their operations, the scale at which payroll tax is introduced needs to be reformed to soften the impact. While businesses would rather pay no tax at all, this approach is more supportive than the status quo.

We are willing to work with the government to determine the range that is used for scaling payroll tax to strike a balance between state revenue and business affordability.

f) Relax grouping restrictions for small businesses in their first 12 months

The grouping of businesses for payroll tax is proving a real challenge where not all businesses are performing equally or at the same stage of growth. We hear this from entrepreneurs and business operators who take on new businesses, often saving a distressed asset that would otherwise be closing, impacting its workforce and local community. We recommend the State Government investigate relaxing grouping restrictions as they apply to new businesses.

For example, a newly started or purchased small business could be exempt from payroll tax grouping restrictions for its first 12 months of operation. During this initial period it is not uncommon for a business to be running at a loss. It hardly seems fair (or logical) to force a payroll tax obligation on the part of a business group that is not even turning a profit, yet is creating jobs and contributing to the economic complexity of the state. We need to encourage our entrepreneurs – they are telling us that grouping is a significant disincentive. When buying a failed business and saving jobs puts your total workforce above the payroll tax threshold, there is little reward for your endeavours.

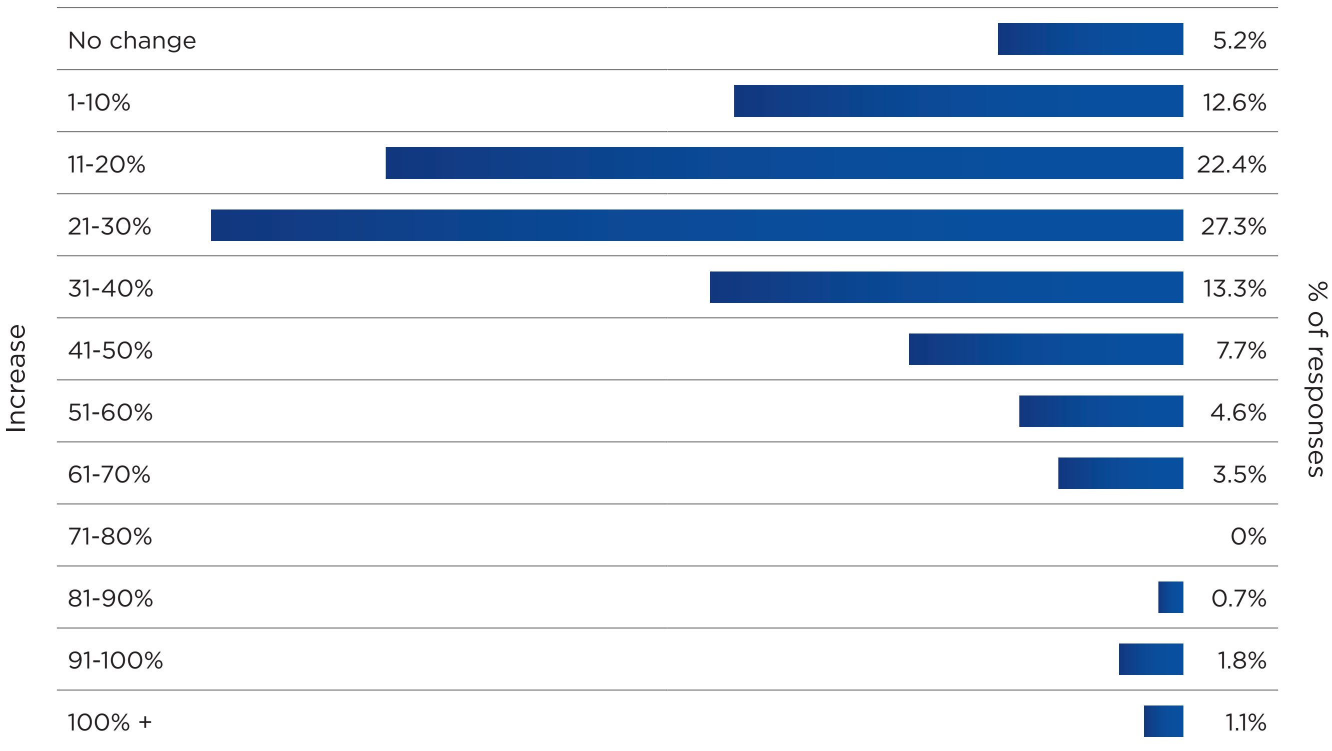
2 Investing in South Australian small business

Small businesses represent 98% of all registered businesses in South Australia, employing 40% of the workforce and add $49 billion to the economy, equating to 38% of Gross State Product.[6] Creating an environment for small businesses to thrive, as well as encouraging future entrepreneurs to establish new businesses, is critical to the state's economic mix.

a) Energy rebate

The Chamber commends the State and Federal Governments for announcing a $650 energy rebate for small businesses in their respective 2023-24 budgets. We encourage the State Government to not only continue with this scheme in 2024-25, but to double it to $1300, given the continuously escalating electricity costs. Findings from our December quarter *Survey of Business Expectations* show that the majority of South Australian businesses have experienced significant electricity bill increases in the past 12 months:

How much have your energy bills increased in the last 12 months?



In December 2022 we asked the same question, in that survey, 36.2% of businesses reported their energy prices had increased by 20% or more. In December 2023 – after the introduction of the last rebate, 60% of businesses reported their energy prices had risen by 21% or more. The problem is getting worse and the issuance of an energy rebate for businesses is even more justified in the upcoming budget than last financial year.

Our survey findings are supported by other sources. According to Energy Consumers Australia's 'Small Business Retail Tariff Tracker'[7] from December 2023, over a six-month period "Electricity bills increased in most jurisdictions, with the greatest increase in South Australia (23%)." Furthermore, "Businesses in South Australia continue to have the highest annual electricity bills ($10,427)", almost double of their counterparts in Tasmania ($5,902).

b) ESG awareness/training

Large businesses and financial institutions will need to commence mandatory climate-related disclosures from the 2024-25 financial year. However, the system has been designed to use data from their supply chains, which means that related small businesses will also be required to report.

According to our December 2023 *Survey of Business Expectations*, only 7.8% of businesses see *ESG and/or Net Zero* as one of their top five most concerning issues. While we don't dispute that businesses costs, profitability and staff shortages are more immediate concerns, we are concerned that many businesses will soon be caught out by lack of awareness and understanding of their obligations.

ESG must be front of mind for businesses to ensure they comply with the necessary requirements before they are mandated to do so. To support small businesses in this transition, we recommend the State Government introduce a series of micro-grants to enable businesses to assess their ESG credentials and, in partnership with the Chamber, to run an education and awareness program for businesses to understand what they need to do meet ESG requirements and establish a roadmap for doing so.

c) Say 'yes' to continued funding of the South Australian Business Chamber's delivery of its entrepreneur's programs

The South Australian Business Chamber has a wealth of experience in delivering the SAYES program, since its inception 26 years ago. In that time more than 1,100 participants have turned their business concept into a reality or grown their small established business. The Chamber's SAYES Program has been recently refreshed, encouraging participants from all age demographics (beyond 18 years) and has highlighted the need for a multi-generational program, that encourages entrepreneurs of all age demographics. Our program has created thousands of South Australian jobs, and supported participants to enter new markets domestically and internationally. Our funding to deliver such an impactful program is under threat and we urge the State Government to safeguard the future of the program within the Chamber.

This is even more important in 2024, with the closure of the Federal Government's Entrepreneurs Program last June. We are also experiencing declining rates of youth entrepreneurship in Australia[8]. Those young people taking the risks to create new products, services and employment in South Australia should be supported by an independent, pro-business organisation.

d) Design and implement a compensation scheme for businesses impacted by the engineered stone ban

The use of engineered stone will be banned from 1 July 2024, due to the risk of those handling the product developing silicosis. The Chamber supports additional measures that will lead to improved work health and safety outcomes for employees. The communication from the State Government and its agencies around the band has been laudable. We understand that the majority of affected businesses are aware of the upcoming ban and are making and implementing plans to address challenges that will arise following its implementation.

However, there will be businesses which, through no fault of their own, are left with unsold stock or unfulfilled contracts when the ban takes effect. Our suggestion is for the State Government to develop, in partnership with the Commonwealth, a compensation scheme for affected companies which have to write off their stock. The Chamber is also concerned that many of the finer details surrounding the ban have yet to be announced, causing some confusion about business obligations, such as contracts and matters related to the transition phase of the ban. We suggest communicating these at the earliest opportunity and would be happy to partner with the State Government to do so.

e) Introduce education programs for businesses to manage their workplace obligations

Recent changes to the *Work Health and Safety Act 2012* require employers to implement control measures to manage psychosocial risks in the workplace. These regulations are new, broad, and ambiguous. As a consequence, many businesses are unclear as to their obligations. According to our *Regional Voice 2023/24* survey, only 26% of businesses were both aware of the laws and understood what they had to do to comply with them. 26.8% were aware yet did not fully understand their obligations and 47.2% were completely unaware of the regulation changes.

Given this data, there is a need for a program that would enable employers to better understand their obligations. We are asking the State Government to fund this to help reduce the incidence of psychosocial injuries among the state's workforce and improve mental health outcomes. The Chamber has the experience and capability to deliver such programs, already offering a short course for businesses on this subject.

A similar educational program should be considered on the topic of industrial manslaughter. An example of this is how the Federal Government has funded the Australian Chamber of Commerce and Industry to conduct a series of workshops on the finer details of the 'Closing the Loopholes' Bill and the obligations it will impose for employers. The Chamber is the first port of call for many businesses on industrial relations matters and this would fit well within our remit.

f) Grants to purchase defibrillators

From 1 January 2026 automated external defibrillators must be installed in all buildings (with an area of ≥600 m^2) used for commercial purposes, as per the *Automated External Defibrillators (Public Access) Act 2022*. A multi-use defibrillator can cost between $1,500 and $3,000, and needs to be replaced every eight years, or per manufacturer's recommendations. A single-use defibrillator, although less expensive, still costs around $500. This would be yet another expense for businesses already facing significant financial challenges due to inflation, rising energy costs, and wage increases. The additional impost of purchasing a defibrillator will prove difficult for many. The Chamber proposes establishing a once-off grant of $500, to assist small businesses to comply with this legislation.

Endnotes

1. Hall & Wilcox, Minimum wage increase 2021: wages rise by 2.5%, Alison Baker, 18 June 2021, <https://hallandwilcox.com.au/thinking/minimum-wage-increase-2021-wages-rise-by-2-5/#:~:text=The%20outcome%20of%20the%20review,up%20from%20%2419.84%20per%20hour).>

2. Hall & Wilcox, Minimum wage increase 2022: wages rise by 5.2% for the lowest paid, Alison Baker, 15 June 2022, <https://hallandwilcox.com.au/thinking/minimum-wage-increase-2022/#:~:text=modern%20award%20minimum%20wage%20rates,increase%20by%20%2440%20per%20week.>

3. The Hon Dr Jim Chalmers, Historic pay rise for Australian workers, 2 June 2023, Treasury, <https://ministers.treasury.gov.au/ministers/jim-chalmers-2022/media-releases/historic-pay-rise-australian-workers>

4. Jobs and Skills Australia, Current skills shortages, <https://www.jobsandskills.gov.au/publications/towards-national-jobs-and-skills-roadmap-summary/current-skills-shortages>

5. Australian Bureau of Statistics, Labour Force, Australia, 15 February 2024, <https://www.abs.gov.au/statistics/labour/employment-and-unemployment/labour-force-australia/latest-release#states-and-territories>

6. Office for Small & Family Business, South Australia's Small Business Strategy 2023 – 2030, <https://business.sa.gov.au/file/downloads/south-australias-small-business-strategy-2023-2030>

7. Energy Consumers Australia, Small Business Retail Tariff Tracker, December 2023, https://energyconsumersaustralia.com.au/projects/retail-tariff-tracker

8. Centre for Independent Studies, Risky Business: Why millennials are scared off entrepreneurship, 30 March 2023, Mikayla Novak, <https://www.cis.org.au/publication/risky-business-why-millennials-are-scared-off-entrepreneurship/>

SOUTH AUSTRALIAN
Business
Chamber
EST. 1839

Level 1, 136 Greenhill Road
Unley SA 5061
policy@sabusinesschamber.com.au
08 8300 0000
sabusinesschamber.com.au