The Age
Wednesday, 6 May 2009
Page: B01 News 1st
Circulation: 193,500
Area of Clip: 216.56 sqcm
Clip ID: 2694128
Region: Vic Metropolitan

A taxing time for business

By **MARC MONCRIEF**

THE Victorian Government expects to make more money from taxing employers over the next four years despite rising unemployment.

The state budget handed down yesterday shows that the take from payroll tax — which business leaders disdain as a tax on jobs — is expected to increase by nearly 20 per cent over the next four years, from $4.08 billion to $4.73 billion.

The increase is set against a forecast for unemployment to increase from the current rate of 5.7 per cent, to 7 per cent by June 2010, and 7.75 per cent the following year.

In the published estimates, unemployment will remain at 7.75 per cent until 2013, even as the take from payroll tax continues to climb.

Last year's budget included a cut to payroll tax that took the rate to 4.95 per cent — the first time payroll tax has been below 5 per cent since the 1970s.

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Taxing times to come for business

However, as employers have felt the financial crunch hit home, lobbying for further cuts has been fierce.

Victorian Chamber of Commerce and Industry chief executive Wayne Kayler-Thomson had demanded a payroll tax rate cut to 4.75 per cent in the budget but, despite no such cut emerging, VECCI chief economist Stephen Wojtkiw yesterday gave the budget a stamp of approval.

"While Victorian business will be disappointed that there was no tax relief in today's budget, it is clear that the Government are putting their eggs into the infrastructure basket this time around, and we are pleased that the Government is committing to resuming the tax reform process down the track," he said.

"When the economy recovers, we look forward to getting back on track with the tax reform agenda, and some more direct relief for small business — we will be holding the Government to account on this."

A similar line was taken by Australian Industry Group's Victorian director Tim Piper.

He was disappointed that the budget lacked tax cuts, but said the Government's focus on new infrastructure spending would "help stimulate the economy, industry, and create job opportunities". "We understand the need for the Government to raise debt, both as a result of the impact of the recession on revenues, and in relation to its substantial investments in infrastructure," he said.

"The important factor is that the debt is related to a temporary deficit on the operational budget, or facilitates productive investments in inter-generational assets."

But Craig Whatman, executive director of the tax consulting division at Pitcher Partners, said the Government had missed an opportunity to use its tax policy to make it easier for businesses to keep their employees through the downturn.

Mr Whatman said that, while the Government had cut the payroll tax rate from 5.35 per cent to 4.95 per cent since 2002, it had held the exemption threshold steady at $550,000.

"The static exemption threshold has resulted in an increased number of small businesses becoming subject to payroll tax simply through organic growth," Mr Whatman said.

"Many small businesses will be at the coal face of the economic recovery, and could have had an opportunity to employ more people if they didn't have to worry about payroll tax."

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