A Budget for Housing and Infrastructure

Overview

Throughout the lead up to the 2017/18 federal budget the government has gone to considerable lengths to promote two key elements of their policy agenda: housing affordability and transformational infrastructure. These two policy areas are fundamental to the residential building industry and the renewed focus is a welcome development. However, the streets are not all paved with gold.

Budget measures announced include:

- Establishing the National Housing Finance and Investment Corporation;
- Establishing $1 billion National Housing Infrastructure Facility;
- GST on new homes to be remitted to ATO at settlement;
- Commitment to identify underutilised commonwealth land suitable for residential development;
- First Home Super Saver Accounts;
- Reducing barriers to downsizing;
- Tighter restrictions and additional taxes on foreign and temporary residents;
- Renewed commitment to the National Affordable Housing Agreement;
- Increasing the capital gains tax (CGT) discount for investors in affordable housing;
- Encouraging Managed Investment Trusts (MITs) to invest in affordable housing;
- ‘City Deals’ Housing package for Western Sydney;
- Changes to allowable expense deductions for investors;
- Commitment to build the second Sydney Airport at Badgerys Creek;
- Apprentice training and mentoring;
- Funding incentives for removal of red tape.

These measures are discussed in more detail in the following section. More broadly, this budget marks a shift towards a more expansionary fiscal strategy. There are duel motivations for this; firstly to achieve an economic objective of stimulating private sector investment; and secondly, a political objective whereby the Prime Minister is seeking to differentiate the strategy of the current government from the Abbott/Hockey era.

In laying the groundwork for new fiscal strategy and moving away from the ‘budget emergency’ rhetoric, the Coalition are hoping to have given themselves more flexibility than they have had in any year since winning government back in 2013. However, analysts will still be closely scrutinising the increase in borrowing irrespective of whether it is classified as ‘good debt’ or ‘bad debt’. Public sector investment in key infrastructure is essential for our ongoing prosperity; however it is also important for the government to address the structural deficit between revenue and expenditure.

While the budget projections show the underlying cash balance (the traditional metric used to determine the extent of a surplus/deficit) will still reach surplus in 2021, the treasury is relying on a relatively healthy trajectory for economic growth to support stronger tax revenue.

Economic Backdrop & Fiscal Position

There is a degree of circularity within the budgetary process. While both savings and expenditure measures affect economic performance, conditions in the broader economy also influence revenue and expenditure and thereby the government's capacity to implement the budget as planned. Furthermore, as we have seen with the so-called 'zombie measures' the government also has the added complexity of ensuring there is adequate political unity to pass any required legislation.

Projections about the economic conditions during the upcoming year and across the forecast horizon are an integral part of the budget process, however the economic outlook prepared by the Commonwealth Treasury also provides a good guide for businesses planning.

Recent reports from the Reserve Bank of Australia which received media coverage last week provided a 'sneak peek' into the economic backdrop for the budget. While the RBA are independent of the government, when it comes to economic forecasts, they are usually on the same page. The key economic assumptions on which the Budget was developed are summarised in the table below.

Key Treasury Forecasts underlying Budget 2017-18:

	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
Underlying Cash Balance ($ millions)	-39.6	-37.6	-29.4	-21.4	-2.5	7.4
Underlying Cash Balance (Per cent of GDP)	-2.4	-2.1	-1.6	-1.1	-0.1	0.4
Unemployment Rate	5.7	5.75	5.75	5.5	5.5	5.25
Inflation Rate	1.0	2.0	2.0	2.25	2.5	2.5
Real GDP Growth	2.6	1.75	2.75	3.0	3.0	3.0
Dwelling Investment Growth	10.6	4.5	1.5	-4.0		
Total business investment Growth	-10.3	-6.0	0	3.0		
Mining investment	-27.5	-21.0	-12	-3		
Non-mining investment	1.4	1.5	4.5	4.5		

In terms of the economic assumptions underlying the Budget projections, the Treasury foresees the rate of economic growth achieving 1.75 per cent in 2016/17, before strengthening to 2.75 per cent in 2017/18 and then returning to 3.0 in 2018/19 and remaining at this level over the forecast horizon. Projections for metallurgical coal and iron ore prices have an important bearing on government revenue and there will inevitably be questions about their reliability or implied optimism. In reality commodity prices have been highly volatile recently. Should the prices for Australia's key export commodities fall below the projections then underlying cash deficits will persist beyond the current projections.

The acceleration of economic growth will help drive a reduction in the unemployment rate to 5.5 per cent by the end of the forecast horizon (2018/19), a little lower than the 5.75 average rate expected for 2016/17. Against this backdrop, inflation is expected to continue rising from the low of 1.0 per cent recorded in 2015/16 and reach the middle of the RBA's inflation target band for monetary policy by 2018/19. With inflationary pressures set to return, if there isn't already a tightening bias for monetary policy there soon will be.

Of note are the estimates of the contribution that dwelling investment will make to economic growth in the years ahead. While the dwelling commencement cycle had peaked there is a large amount of work outstanding. Treasury figures show that dwelling investment increased by 10.6 per cent in 2015/16, and is expected to increase by a further 4.5 per cent in 2016/17. The outlook for the future is less optimistic, with growth of only 1.5 per cent projected for 2017/18, ahead of a fall of 4.5 per cent in 2018/19.

In terms of the actual budget projections, the size of expected future deficits in 2017/18 and 2018/19 have increased slightly since the forecasts presented in the Mid-Year Economic & Financial Outlook (from Dec 2016), which was an increase on the levels projected in last year's budget. In 2017/18, the underlying cash balance is expected to reach $29.4 billion, followed by $21.4 billion in 2018/19. The scale of deficit is projected to be significantly reduced in 2019/20, falling to just $2.7 billion before returned to surplus in 2020/21.

Key Budget Measures

Establishing the National Housing Finance and Investment Corporation

Throughout its development it has been referred to as the ‘bond aggregator’, however it has now been anointed as the National Housing Finance and Investment Corporation.

The Government will provide an initial $9.6 million in 2017-18 to establish the NHFIC, which will commence operations from 1 July 2018. The Government will settle the final details of the NHFIC following advice from the Affordable Housing Implementation Taskforce, due by mid-2017.

The NHFIC will operate an affordable housing bond aggregator to provide cheaper and longer term finance for community housing providers by aggregating their borrowing requirements and issuing bonds into the wholesale market at a lower cost and longer-term than traditional bank finance.

Establishing $1 billion National Housing Infrastructure Facility

The government will establish a $1 billion National Housing Infrastructure Facility (NHIF) that will finance the critical infrastructure needed to speed up the supply of new housing.

The NHIF will provide funding over 5 years to support local governments through a range of options to finance critical infrastructure such as transport links, power and water infrastructure and site remediation works.

The NHIF will help local governments address infrastructure bottlenecks that impede development and build the infrastructure needed to speed up the supply of new housing.

The NHIF will be administered by the National Housing Finance and Investment Corporation (NHFIC).

Further details on the eligibility criteria for financial assistance and other requirements will be informed through consultations.

Changes to payment of GST payments for new homes

From 1 July 2018, the Government will require purchasers of newly constructed residential properties or new subdivisions to remit the GST directly to the ATO as part of settlement. Under the current law, where the GST is included in the purchase price and the developer remits the GST to the ATO, budget documents allege that some developers are failing to remit the GST to the ATO despite having claimed GST credits on their construction costs. Treasury believe that purchasers should experience minimal impact from these changes as most use conveyancing services to complete their purchase. However, there is no acknowledgement of the significant imposition that this will have on the business processes and cash flow of residential builders and developers.

Commitment to identify underutilised commonwealth land suitable for residential development

Initially, the Government will divest 127 hectares of surplus Defence land in Maribyrnong – less than 10 kilometres from the Melbourne CBD. This land, once remediated, is large enough to develop up to 6,000 new homes.

From 1 December 2017, the Government will publish a registry of the Commonwealth’s land holdings online, including mapping their locations. This registry will create opportunities for stakeholders and the public to propose better use of Commonwealth land — whether this might be to deliver more houses, community amenities, key services or employment hubs.

First Home Super Saver Accounts

From 1 July 2017, individuals can make voluntary contributions of up to $15,000 per year and $30,000 in total, to their superannuation account to purchase a first home. These contributions, which are taxed at 15 per cent, along with deemed earnings, can be withdrawn for a deposit. Withdrawals will be taxed at marginal tax rates less a 30 per cent offset and allowed from 1 July 2018.

Reducing barriers to downsizing

From 1 July 2018, people aged 65 and over will be able to make a non-concessional (post-tax) contribution into their superannuation of up to $300,000 from the proceeds of selling their home.

The existing voluntary contribution rules for people aged 65 and older (work test for 65-74 year olds, no contributions for those aged 75 and over) and restrictions on non-concessional contributions for people with balances above $1.6 million will not apply to contributions made under this new special downsizing cap.

This measure will apply to a principal place of residence held for a minimum of 10 years. Both members of a couple will be able to take advantage of this measure for the same home, meaning $600,000 per couple can be contributed to superannuation through the downsizing cap.

Tighter restrictions and additional taxes on foreign and temporary residents

Limiting foreign ownership in new developments

- The government will introduce a 50 per cent cap on foreign ownership in new developments. This will be applied through conditions imposed on New Dwelling Exemption Certificates.
- New Dwelling Exemption Certificates are granted to property developers and act as pre-approval allowing the sale of new dwellings in a specified development to foreign persons without each foreign purchaser seeking their own foreign investment approval. The current Certificates do not limit the proportion of dwellings that may be sold to foreign investors.
- This will apply to developments that are multi-storey and have at least 50 dwellings.

Charging foreign owners who leave their residential properties vacant

- The Government will now charge foreign owners of residential properties an annual charge if the property is not occupied or available to rent for at least six months in each year.
- Where a foreign-owned residential property is left vacant for more than six months in a year, a charge will be levied on the foreign owner equivalent to the foreign investment application fee which was paid at the time of application.

Tightening of capital gains tax rules for foreign investors

- The Government will stop foreign and temporary tax residents from claiming the main residence capital gains tax exemption when they sell property in Australia from Budget night. Foreign and temporary tax residents who hold property on Budget night can continue to claim the exemption until 30 June 2019.
- The Government will also bolster the foreign resident capital gains tax withholding regime by increasing the withholding rate from 10 per cent to 12.5 per cent, as well as increasing the number of foreign residents caught by the regime by reducing the threshold from $2 million to $750,000. These changes will apply from 1 July 2017 and will reduce the risk that foreign residents avoid paying a capital gains tax liability they owe in Australia.

Establishing an Industry Specialist Mentoring for Australian Apprentices

The Government will provide $60.0 million over two years from 2017-18 to establish an industry specialised mentoring service to complement the existing In-Training Support services available under the Australian Apprenticeship Support Network program. The mentoring service will support 45,000 Australian apprentices and trainees, particularly in the first two years of training, in order to improve completion rates and support the supply of skilled workers in industries undergoing structural change.

Renewed commitment to the National Affordable Housing Agreement

The government has confirmed a commitment to renew the National Affordable Housing Agreement, which lays out the roles, responsibilities and funding arrangements of the three levels of government (the existing agreement expires at the end of 2017/18).

The commitment includes an increase in funding to $4.6 billion over three years.

The renewed agreement is set to increase accountability for the states and territories to achieve:

- aggregate supply targets, including targets for social and affordable housing;
- residential land planning and zoning reforms;
- inclusionary zoning arrangements (land use planning intervention requiring or incentivising affordable housing including dedicated first home buyer stock);
- renewal of public housing stock and transfer of public housing to community housing providers; and
- homelessness services.

Increasing the capital gains tax (CGT) discount for investors in affordable housing

From 1 January 2018, the Government will provide an additional 10 per cent CGT discount to resident individuals investing in qualifying affordable housing. This means investors in qualifying affordable housing will be entitled to a 60 per cent discount on CGT.

To qualify for the additional discount, housing must be provided at below market rent and made available for eligible tenants on low to moderate incomes.

The affordable housing must also be managed through a registered community housing provider and the investment held as affordable housing for a minimum period of three years.

Encouraging Managed Investment Trusts (MITs) to invest in affordable housing

For income years starting on or after 1 July 2017, the Government will introduce new rules that enable MITs to acquire, construct or redevelop property to hold for affordable housing.

‘City Deals’ Housing package for Western Sydney

The Government is working in partnership with the NSW and local governments on a Western Sydney City Deal. The City Deal will focus on local job opportunities, connectivity and liveability. The City Deal will catalyse development in the area surrounding the new Western Sydney Airport and stimulate local job growth and improved transport options with the rest of Sydney.

Tightening deductable expenses for investors

From 1 July 2017, the Government will disallow deductions for travel expenses and, for properties bought after today, the Government will also limit plant and equipment depreciation deductions to only those expenses directly incurred by investors.

Extending the immediate deductibility threshold for small businesses

The Government will extend the 2015-16 Budget measure *Growing Jobs and Small Business — expanding accelerated depreciation for small businesses* by 12 months to 30 June 2018 for businesses with aggregated annual turnover less than $10 million.

Small businesses will be able to immediately deduct purchases of eligible assets costing less than $20,000 first used or installed ready for use by 30 June 2018.

Personal income tax — increase in the Medicare levy — National Disability Insurance Scheme

The Government will increase the Medicare levy by half a percentage point from 2.0 to 2.5 per cent of taxable income from 1 July 2019 to ensure the National Disability Insurance Scheme (NDIS) is fully funded.

Skilling Australians Fund

The Government will provide $1.5 billion over four years from 2017-18 to establish a permanent Skilling Australians Fund to support the skilling of Australian workers. The Fund will prioritise apprenticeships and traineeships for occupations in high demand, occupations with a reliance on skilled migration pathways, industries and sectors of future growth, trade apprenticeships, and apprenticeships and traineeships in regional and rural areas. The Fund, when matched with funding from the States, will support up to 300,000 more apprentices, trainees, and higher level skilled Australians over the next four years.

The Fund will support a range of projects which are focused on Commonwealth priorities and are designed to support growth in trade and non-trade apprenticeships and traineeships in target areas. Projects may include providing incentives for employers, pre-apprenticeship training, improving apprenticeship and traineeship retention and completion rates, and additional support for higher level apprenticeships.

Funding incentives for removal of red tape

Through a new National Partnership for Regulatory Reform (an agreement between the commonwealth and the states), the commonwealth will make $300 million over two years available to encourage states to remove unnecessary barriers to competition and regulations that hold back small businesses. It is unclear how payments will operate based on current information.

Extension of the Taxable Payments Reporting System to contractors outside of construction

The TPRS is a transparency measure and already operates in the building and construction industry, where it has resulted in improved contractor compliance. Under the TPRS, businesses are required to report payments they make to contractors (individual and total for the year) to the ATO. This measure brings payments to contractors in the courier and cleaning industries into line with wages, which are reported to the ATO. Businesses in these industries will need to ensure that they collect information from 1 July 2018, with the first annual report required in August 2019.

A one year extension of funding for ATO audit and compliance activities

The Government will provide $32.0 million for one year of additional funding for ATO audit and compliance programs to better target black economy risks. This funding was to expire on 30 June 2017.

Delivering Western Sydney Airport

The Government will invest up to $5.3 billion of equity in WSA Corporation Limited (WSA Co) from 2017-18 to build Western Sydney Airport (the airport). This measure includes $8.7 million over 10 years from 2017-18 for the Departments of Infrastructure and Regional Development and Finance for shareholder oversight of WSA Co.

Delivery of Inland Rail

The Government will provide an additional equity investment of $8.4 billion over seven years from 2017-18 to the Australian Rail Track Corporation (ARTC) for the delivery of the Inland Rail project.

For further information regarding Budget 2017/18, please contact the HIA Economics Team:

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