



TAX FORUM

4-5 October 2011

STATEMENT OF REFORM PRIORITIES

PARTICIPANT NAME AND POSITION

Mr Shane Goodwin, Managing Director

ORGANISATION

Housing Industry Association (HIA). The Housing Industry Association is Australia's largest residential building organisation. Members include builders, trade contractors, design professionals, kitchen and bathroom specialists, and manufacturers & suppliers.

STATEMENT OF PRIORITIES

Around two or three pages, please. Please address both of these issues:

1. What are your priority reform directions for the tax and transfer system?

Housing is a staple of life, providing both shelter and a base from which Australians can participate in education, the workforce, and society more broadly. Australians of all means therefore require (and deserve) access to appropriate and affordable housing, and such access in turn ensures a higher rate of productivity growth can be achieved.

The Tax Forum has the capacity to form the starting platform for driving a process of reform of Australia's Federalism model to: remove inefficient (largely state) taxes; reduce the total number of taxes; and boost Australia's productivity. The successful creation of this platform includes a requirement to examine how taxes at the Commonwealth level can compound taxes levied at the state and local government level.

A successful Tax Forum is, in the HIA's view, a forum that succeeds in commencing a substantial reform process of Australia's taxation system, a process which is almost universally seen as necessary. Such success would, by definition, create the starting point for the delivery of more equitable and efficient access to affordable housing in Australia, which as noted at the outset is an important contributing factor to generating a much-needed boost to Australia's productivity growth.

To ensure the successful commencement of the reform process, HIA identifies six key reform areas within the framework of the Tax Forum. The Commonwealth Government needs to commit to driving a process involving all tiers of government aimed at:

- reducing the large and inequitable taxation burden placed on the new home sector;
- working closely with the states and territories, and with local government, to this same end, with an initial focus on removing stamp duties on new homes;
- working with the states and territories, and local governments, to move away from the increasing reliance on a 'user pays' system for funding residential infrastructure. Placing the tax burden for residential infrastructure on too few members of the community means that homes don't get built and therefore the entire community misses out on new and/or upgraded infrastructure;
- simplifying the current taxation arrangements falling on the new home sector to reduce a taxation compliance burden which falls disproportionately on small business;
- rationalising and reducing the large number of ad-hoc taxes, fees, and charges levied on new housing; and
- reducing the supply-side barriers which prevent a sufficient number and range of new residential dwellings from being provided each year in order to meet the demands of a growing and ageing population.



TAX FORUM

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The Tax Forum discussion paper notes Henry Review recommendations surrounding the need to fix Australia's housing supply being a pre-requisite to taxation changes. Recognition of the importance of these recommendations forms the focus of the HIA's point above regarding supply-side barriers. The evidence of the need for substantial policy reform to reduce these supply side barriers to boosting Australia's housing supply is compelling.

HIA is of the view that a renewed commitment to housing supply reform is a key prerequisite to ensuring a successful Tax Forum. This view reflects the empirical evidence (exemplified below) that a significant element of the inherent inefficiency and inequity of the current taxation system resides within the new housing sector. Therefore, underpinning the successful utilisation of the Tax Forum to begin a process of considerable taxation reform is a requirement for concrete policy decisions to be taken in order to reduce Australia's critical shortage of housing supply, which is especially evident in New South Wales and Queensland.

Returning to the need for overall reform of the taxation system, the new home sector is one of the most heavily taxed sectors of the Australian economy. All tiers of government place a large array of taxes on housing, on top of which cascade the final GST and stamp duty payments, escalating the total taxation burden falling on a new home.

Modeling by the Centre for International Economics (CIE), commissioned by the HIA, verifies that:

- the GST from new housing alone accounts for 13 per cent of total GST collections;
- the average tax burden on new housing is 30.9 per cent of output value, the second highest proportion amongst the largest industrial sectors of the Australian economy; and
- the tax component of a new home is now so large it exceeds the costs of residential land.

Many of the taxes levied on new housing are highly inefficient and there is considerable inequity due to new housing being more heavily taxed than existing housing. The numerous taxes on new housing not only distort the housing market itself, constraining housing supply, but often also act to constrain labour mobility. Consequently some of the current taxes effectively act as a brake on the aggregate Australian economy and hence there is a strong productivity rationale for reforming taxes as they apply to new housing.

This requirement for reform of taxation as it relates to new housing is verified by two (among many) findings of the CIE research, which demonstrate that:

- the taxation burden on new housing falls largely on the home buyer, meaning taxes add directly and in a very substantial way to Australia's housing affordability (and therefore labour mobility) constraints; and
- when direct, indirect and hidden taxes are included, the total tax on a new house can be as much as 44 per cent of its purchase price (in the case of Sydney) and repayments on these taxes alone can make a call on 33 per cent of a young couple's income.

2. How are your proposals financed over the short and longer term?

The tax system has major impacts on housing supply, housing affordability, and hence the ability of the community to access shelter. The tax burden on new housing has grown substantially over the past decade and there exists an inequitable treatment of new housing compared to existing housing, as has previously been outlined.

There is no denying that the tax burden on new housing must be reduced. However, prioritising the reform of any existing tax burden and evaluating alternative compositions for the taxation base is primarily a matter for the Government. It may well involve the need for tough political decisions, and most certainly extends beyond contemporary fiscal constraints of both an economic and political nature.

HIA provides below six general points with regard to financing a reduction in inefficient taxes:



TAX FORUM

4-5 October 2011

1. sensible taxation reform will itself pay dividends through higher productivity, efficiency gains, higher future economic growth, and hence increased future revenue streams;
2. this reform includes recognising the important role that small business plays in the Australian economy. A simple and coherent tax system is vital to the sustained success of small business operations and to achieving the four economic dividends outlined in point 1. above.
3. a criteria of short-term “fiscal neutrality” constrains the ability of the Government to undertake the reforms necessary to improve Australia’s taxation system and hence lift Australia’s productivity performance;
4. the Government has a large number of programs that could be examined closely for savings to offset a reduction in inefficient taxes;
5. the potential for efficiency gains, and savings, from reform of the current Federal-State fiscal arrangements is large; and
6. without consideration of the GST (in terms of both its base and its distribution among the jurisdictions), any taxation reform in Australia cannot be considered comprehensive.

While the onus of appropriately prioritising taxation from different tax bases falls on the Government, below is one example (as modeled by the CIE) that highlights the potential benefit of reducing the inefficient taxes on housing:

- In proportional terms, a \$500 million cut in stamp duty is estimated to infer a \$738 million benefit to home buyers and up to \$27 million to producers (builders). This example highlights the extent of inefficiency that arises from the levying of stamp duties (and conversely gives an indication of the kind of economic gains that may be had from the reduction or removal of these duties).

Further detail regarding the taxation of housing in Australia, and required reforms, will be provided in HIA’s Submission to the Tax Forum which will be tendered in due course.

LIST OF ATTACHMENTS

HIA will, in due course, provide a full submission ahead of the Tax Forum.