

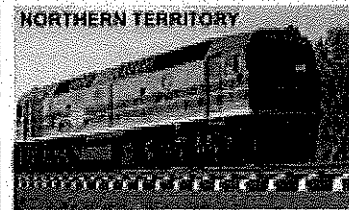
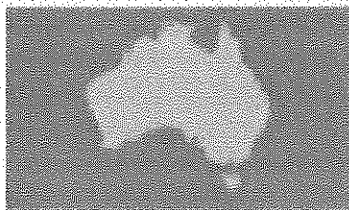
**MASTER BUILDERS
AUSTRALIA**

**Position Statement to Tax Forum:
Future Directions for Tax Reform**

October 2011

Master Builders Australia Ltd ABN 68 137 130 182

building australia



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1 INTRODUCTION

- 1.1 This Position Statement is made by Master Builders Australia Ltd (Master Builders).
- 1.1 Master Builders is the peak national association for the building and construction sector in Australia.
- 1.2 Master Builders' primary role is to champion the interests of the building and construction sector, representing residential and commercial building, and engineering construction.
- 1.3 Master Builders has more than 31,000 member-companies with representation in every state and territory in Australia, the great majority of which, by number, are small to medium sized enterprises.
- 1.4 Master Builders' membership consists of large national, international, residential and commercial builders and civil contractors through to smaller local subcontracting firms, as well as suppliers and professional industry advisers.
 - 1.4.1 Membership of Master Builders' represents 95 per cent of all sectors of the building and construction sector.
- 1.5 The building and construction sector accounts for almost 8 per cent of gross domestic product, and more than 9 per cent of employment, in Australia.

2 PURPOSE OF THIS POSITION STATEMENT

- 2.1 This Position Statement outlines the tax policies and reform priorities of the building and construction sector, represented by Master Builders Australia, and to offer a concrete plan of action in this critical area of business, economic and social policy.
- 2.2 Master Builders' Policy Statement offers a framework for meaningful and lasting tax reform to encourage entrepreneurship, innovation and investment, which in turn will facilitate employment and productivity growth and drive our international competitiveness.
- 2.3 This Position Statement will address a number of important issues in taxation reform, covering:
 - 2.3.1 company tax (Section 5);
 - 2.3.2 personal income tax (Section 5);
 - 2.3.3 capital gains tax (Section 5);
 - 2.3.4 tax simplification (Section 5);
 - 2.3.5 new tax reporting requirements for the building and construction industry (Section 7);
 - 2.3.6 housing affordability (Section 7);
 - 2.3.7 infrastructure ('developer') charges (Section 8);
 - 2.3.8 stamp duty (Section 9);
 - 2.3.9 trading losses (at Section 10);
 - 2.3.10 tax arrangements for residential housing (Section 7); and,
 - 2.3.11 reform processes beyond the Tax Forum (Section 12).

3 BACKGROUND

- 3.1 The Federal Government has convened a Tax Forum, to be held in Canberra on 4 and 5 October 2011, to identify priorities and potential future directions for taxation reform in Australia.
- 3.2 The Federal Government has, quite correctly, observed (in its Discussion Paper, *"Tax Reform: Next Steps for Australia"*, 2011), the importance of the taxation system (and hence imperative of meaningful taxation reform) for, inter alia, rewarding hard work, encouraging workforce participation, stimulating investment and employment, and contributing to our international competitiveness.
- 3.3 The Tax Forum comes at a particularly important time for the Australian economy, business and the wider community. As a nation, we are facing a range of significant challenges, including: at home, the ageing of our population, continuing deterioration in our productivity performance, and declining international competitiveness; and, abroad, growing sovereign debt stresses, and failures of political leadership and reform fatigue in key developing nations.

4 AUSTRALIAN TAXATION SYSTEM

- 4.1 The Australian taxation system must be efficient, globally competitive and fair if we, as a nation, are to meet the major economic and public policy challenges which lay ahead.
 - 4.1.1 Key amongst these domestic challenges are: ageing of the Australian population; globalisation of the world economy; continuing structural change; lifting our productivity performance; and, improving our international competitiveness.
 - 4.1.2 Key amongst these international challenges are: growing sovereign debt stresses, and failures of political leadership and reform fatigue in key developing nations; and, the rise of new manufacturing and services powerhouses in China, India and elsewhere.

- 4.2 There is a need for major reforms of the Australian taxation and welfare systems to, inter alia, maximise our national capacity to create wealth, encourage entrepreneurship and rejuvenate productivity.
- 4.3 The building and construction sector has a key role to play in the ongoing program of work on taxation reform. The sector accounts for:
- 4.3.1 almost 8 per cent of Australia's national output (GDP); and,
- 4.3.2 more than 9 per cent of Australia's employment (or more than 1 million people).
- 4.4 Building and construction is one of the most widely taxed sectors in Australia, and bears a direct and indirect tax burden at all levels of government - Federal, State and Territory, and Local.
- 4.5 This high and onerous tax burden distorts investment decisions, discourages entrepreneurship and innovation, reduces business investment and employment opportunities, and diverts scarce resources into (unproductive and unnecessarily costly) tax compliance, within a key sector of the Australian economy.
- 4.5.1 These impacts, in turn, lower housing affordability, increase housing stress and add to the fiscal burden on governments for housing assistance.
- 4.6 Master Builders', in our submission to the Henry Tax Review, said:
- 4.6.1 *"Australia's tax system needs to be internationally competitive, streamlined, simplified and harmonised; and, one which encourages hard-work and rewards workforce participation by removing complex disincentives."*
- 4.7 Master Builders has welcomed the Federal Government's responses to a number of the recommendations of the Henry Report, in particular categorically ruling out:
- 4.7.1 taxing the family home;
- 4.7.2 altering the current negative gearing arrangements; and,

- 4.7.3 changing the capital gains tax concessions on rental property.
- 4.8 These decisions will ensure the private sector can continue to positively contribute to solving Australia's housing shortfall and in turn reducing housing (un)affordability.
- 4.9 Master Builders has also publicly commended a number of other tax-related initiatives announced by the Federal Government which will assist business, and small business in particular:
 - 4.9.1 allowing small business to immediately write off assets up to \$6,500 in the year of purchase, which will assist in capital renewal and will facilitate future entrepreneurship and growth, and jobs creation from this sector;
 - 4.9.2 simplifying depreciation pooling arrangements to allow small businesses to depreciate certain assets more quickly (at a rate of 30 per cent instead of 5 per cent), which will simplify the tax compliance and reduce the red tape burden imposed on small business; and,
 - 4.9.3 reductions in the company tax rate to 29 per cent from 2012-13, which will act as a welcome boost for small business. Large to medium companies will also benefit from the cut in company tax rate (also to 29 per cent) from 2013-14. These reductions in the company tax rate should result in an increase in investment and much needed jobs, and should be considered an instalment on a pathway to a 25 per cent company tax rate.
- 4.10 However, Master Builders is concerned the decision for a phased increase in the Superannuation Guarantee Charge to 12 per cent by 2019-20 will have implications for business, particularly small business, adding to labour costs without any necessary offsetting gain in labour productivity.
- 4.11 Master Builders remains concerned the Australian taxation system is acting as a drag on our international competitiveness.

- 4.12 According to World Economic Forum's Global Competitiveness Report for 2011/12, taxation issues constituted two of the top six most problematic factors for doing business in Australia.
- 4.12.1 'Tax rates' was rated equal 2nd most problematic issue (by 12.3 per cent of survey respondents); and,
- 4.12.2 'Tax regulation' was rated 6th most problematic issue (by 8.0 per cent of survey respondents).
- 4.13 By way of note: "restrictive labour regulations" ranked the most (that is, first rated) problematic issue (by 16.6 per cent of respondents); and "inefficient government bureaucracy ranked equal 2nd most problematic issue (by 12.3 per cent of respondents).

5 TAX REFORM

- 5.1 Master Builders' main priorities for tax reform are:
- 5.1.1 a reduction in the company tax rate to 25 per cent;
- 5.1.2 planning for further reduction in personal income tax rates;
- 5.1.3 the introduction of a reducing, stepped rate of capital gains tax;
- 5.1.4 improving housing affordability by removing supply constraints, and making significant reforms to inefficient developer charges;
- 5.1.5 simplifying tax compliance, especially for small business to free up entrepreneurial energies for more productive purposes, such as generating investment, employment and productivity;
- 5.1.6 better treatment of trading losses, through the introduction of a system of 'carry-back' of such losses; and,
- 5.1.7 not persuaded of the need to increase the Goods and Services Tax rate, without first examining and actioning existing inefficiencies in the broader tax system at Federal State and Local Government levels.

5.1.7.1 Any increase in the GST rate will raise the cost of new housing, and exacerbate the already difficult housing (un)affordability situation.

5.2 In the area of **company tax**, Master Builders':

5.2.1 welcomes the commitment by the Federal Government to reduce the company tax rate to 29 per cent from 2013/14 (2012/13 for smaller companies), and to accelerate asset write-offs for small firms;

5.2.2 advocates (further) reducing the company tax rate to a more competitive and pro-growth rate of 25 per cent;

5.2.3 This would stimulate domestic entrepreneurship, investment and innovation, and through these lift employment opportunities and productivity outcomes, and attract much-needed foreign investment.

5.3 Master Builders notes the corporate income tax system is the least efficient of the taxes imposed by the Federal Government, with a welfare-loss approaching 40 per cent of each marginal dollar raised.

5.3.1 Looked at another way, for every additional \$10 raised by the Federal Government in corporate income tax, national welfare falls by \$4.

5.4 In the area of **personal income tax**, Master Builders welcomes the commitment by the Federal Government to:

5.4.1 raise substantially the tax free threshold (from \$6,000 to \$18,200 in 2012/13), and related tax simplification measures (such as eliminating the need for many lower income earners to lodge a tax return); and,

5.4.2 improve arrangements relating to standard tax deductions, and the treatment of interest-income from savings; although,

- 5.4.3 we remain concerned at the capacity of many employers generally, and in the building and construction sector in particular, to meet the obligations of an increase in the Superannuation Guarantee charge.
- 5.5 Master Builders' will be looking to the Federal Government to reduce the differential between the higher marginal income tax rates and the company tax rate. Such a measure would:
 - 5.5.1 help improve tax compliance; and,
 - 5.5.2 through lower income tax rates, improve productivity and workforce participation (especially by secondary and marginal earners), and act as an incentive for domestic saving (which would, in turn, lower the cost of capital for business, especially smaller firms).
- 5.6 In the area of **capital gains tax**, Master Builders advocates the introduction of a reducing stepped rate of capital gains. This would reduce the CGT burden and encourage longer-time horizon investment, and discourage speculative investments.
- 5.7 Master Builders is concerned Australia's CGT system is no longer internationally competitive, thus risking lost investment and innovation opportunities.
- 5.8 Master Builders would propose assets held for:
 - 5.8.1 Less than 1 year have 100 per cent of CGT subject to tax;
 - 5.8.2 1 to 2 years have 50 per cent of CGT subject to tax (25 per cent for small business with an underlying active asset);
 - 5.8.3 2 to 5 years have 25 per cent of CGT subject to tax;
 - 5.8.4 5 to 10 years have 10 per cent of CGT subject to tax; and,
 - 5.8.5 More than 10 years have 0 per cent subject to tax (that is, CGT free).

- 5.9 In the area of **tax simplification**, Master Builders strongly supports the need for ongoing efforts to simplify business tax compliance.
- 5.10 Master Builders' notes business taxes are amongst the most costly taxes in Australia, in terms of the welfare loss resulting from a marginal increase in the tax concerned.
- 5.10.1 The welfare-loss amounts to around 40 cents for each additional \$1 raised in corporate income tax and around 35 cents for each additional \$1 raised in conveyancing stamp duties.
- 5.11 Master Builders' also recognises the need to simplify personal income tax compliance.
- 5.11.1 It is a damning indictment of the Australian personal income tax system that almost three-quarters of personal taxpayers in this country feel the need to engage a tax agent to ensure their compliance with the tax laws.
- 5.12 Another example of increasing tax compliance for the building and construction sector is the new reporting requirements for contractors in the building and construction industry, which are due to commence on 1 July 2012.
- 5.13 Under these new reporting arrangements contractors will be required to make an annual report to the Australian Taxation Office (ATO) about payments to other contractors in the building and construction industry.
- 5.13.1 The Federal Government's stated purpose in introducing the reporting regime is to "ensure that all contractors comply with their taxation obligations and pay their fair share of tax."
- 5.14 Master Builders has identified a number of shortcomings with the proposal, including:
- 5.14.1 there is no evidence the proposed law will achieve the stated purpose;

- 5.14.2 legitimate operators in the industry would be subject to an increased administrative burden that will add to the cost of doing business;
- 5.14.3 the new reporting requirements will drive those who already abuse the system underground and will punish legitimate operators by increasing their compliance costs.
- 5.15 Master Builders' would recommend alternate approaches to data matching be considered. However, if the proposal is to proceed then the design of the reporting regime should be 'light handed', with the reporting burden and costs being kept to a minimum.
- 5.16 In the area of **infrastructure ('developer') charges**, Master Builders will continue to press hard for significant reforms to inefficient infrastructure charges.
- 5.16.1 Inefficient infrastructure charges mean higher prices for new homes, higher rental prices for scarce rental properties and contribute to the housing under-supply problem.
- 5.16.2 Such charges are often imposed with insufficient transparency and accountability, rendering them particularly vulnerable to misuse and/or corruption.
- 5.17 Master Builders' concerns regarding, and proposals for reform of, infrastructure/developer charges are discussed further in Section 8 of this Position Statement.
- 5.18 In the area of **stamp duty**, Master Builders is calling for the progressive wind-back, and ultimately elimination, of this inefficient tax.
- 5.18.1 Stamp duty inhibits labour force geographic mobility, and discourages older homeowners from potentially shifting to more appropriate accommodation options.

- 5.18.2 Conveyancing stamp duties are fairly inefficient taxes, imposing a welfare loss of around one-third (or 35 per cent) of each marginal dollar raised in revenue from such taxes. That is, for every \$1 billion raised in conveyancing stamp duties, national welfare falls by some \$350 million.
- 5.18.3 As a first step, stamp duties on business conveyances should be abolished, followed by the abolition of stamp duties on residential property.
- 5.19 Master Builders' concerns regarding, and proposals for reform of, stamp duty are discussed further in Section 9 of this Position Statement.
- 5.20 In the area of **trading losses**, Master Builders' sees merit in the introduction of 'carry-back' of losses within the Australian taxation system.
- 5.20.1 The absence of 'carry-back of losses for taxation purposes discourages higher-risk commercial ventures, especially those initiated during downturns in the economic cycle (often when they are in greater need), and add to cash-flow pressures in particular for smaller and start-up enterprises.
- 5.21 Master Builders' concerns regarding, and proposals for reform of, 'carry-back' of losses are discussed further in Section 10 of this Position Statement.

6 HOUSING

- 6.1 Housing is a critical part of the Australian economic and social fabric.
- 6.2 As a nation, we have one of the highest rates of home-ownership in the world:
 - 6.2.1 more than two-thirds (68 per cent) of Australians currently own, or are in the process of buying, their home; and,
 - 6.2.2 for older Australians (those aged 65 years or more), the home ownership rate is around 82 per cent.
- 6.3 Housing is an important economic asset for many Australians. Housing is one of their largest single economic assets (along with superannuation) and forms a large share of their personal savings and is an integral part of their retirement strategy.
- 6.4 Housing is also an important social asset for many Australians, providing them with a domain to form and raise a family, and for broader social engagement with family and friends, and their wider community.
- 6.5 Master Builders believes the high rate of, and strong public policy commitment over many years by governments of both major political persuasions to, home ownership has enriched Australia both in economic and social terms.
- 6.6 The tax treatment of the family home, and other taxation arrangements are foundation-stones of our national housing and retirement incomes policies.
 - 6.6.1 Master Builders' will vigorously oppose the advocacy of those who promote unsettling these deeply rooted features of Australian economic and social policy.

7 HOUSING AFFORDABILITY

- 7.1 The interface between the taxation system and housing affordability must be a high priority within the broader tax reform challenge.
- 7.2 The Henry Report expressed the situation well, when it said: *“The affordability of housing in light of high housing price rises and increasing rents, is a fundamental challenge for all Australian Governments.”* (at 410 - 411)
- 7.3 The housing (un)affordability problem can be seen in a few simple figures. Using the housing affordability ratio as a metric (median house prices divided by median income):
- 7.3.1 Housing (un)affordability has increased to a factor of 7.3 in 2011 (ie median house prices were 7.3 times median income), compared to a factor of 4.7 a decade earlier (ie 2001).
- 7.4 Looked at another way, housing in Australian capital cities, as a whole, has gone from being ‘affordable’ in 2001, to ‘severely unaffordable’ in 2011.
- 7.5 Master Builders recognises housing (un)affordability is not wholly and solely a taxation issue, but it is a mix of:
- 7.5.1 government failure, in the form of insufficient land supply policies and practices; and,
- 7.5.2 poor tax design, through the imposition of inefficient developer charges and stamp duties.
- 7.6 One constructive step the Federal Government could take would be to provide certainty to investors in housing stock, of whatever form, on the tax treatment of such investments,
- 7.6.1 in particular, the preservation of ‘**negative gearing**’ of applicable residential housing stock.

- 7.7 Master Builders' regards 'negative gearing' as a vital element of ensuring supply of more affordable residential housing for lower income earners and for those who elect to rent as a life-style choice.
- 7.8 Without an effective 'negative gearing' arrangement:
- 7.8.1 the supply of rental properties would be lower, and/or,
- 7.8.2 the rents charged for available rental properties would be higher.
- 7.9 Similarly, absent 'negative gearing' there would likely be substantial additional fiscal pressure on Federal, State/Territory and Local Governments to:
- 7.9.1 directly provide public-rental housing (thus taking on a greater hands-on role as landlord); and/or,
- 7.9.2 provide additional financial assistance to meet the higher (non-subsidised) housing costs carried by socially disadvantaged members of society.
- 7.10 While the Henry Report discussed a number of (theoretical) options as alternatives to 'negative gearing', it correctly concluded it would be premature to unsettle existing arrangements before concrete action was taken to address wider problems of housing affordability and supply.
- 7.10.1 Prominent examples of these priority areas include approvals processes associated with planning systems, land supply and broader arrangements for housing assistance.
- 7.11 Another constructive step the Federal Government could take to reduce housing (un)affordability pressures would be to restructure the **First Home Owner Grant (FHOG)** Scheme by:
- 7.11.1 indexing for inflation the real value of the FHOG, with regular (annual) adjustments;
- 7.11.2 providing transitional assistance for first home buyers for the higher build-costs of the proposed Carbon Pricing Mechanism arising from the Federal Government's '*Securing a Clean Energy Future*'

program – estimated by Master Builders at \$5,000 per dwelling;
and,

- 7.11.3 compensating first home buyers for the higher build-costs resulting from the move from ‘five star’ to ‘six star’ energy efficiency ratings – estimated by Master Builders at more than \$9,400 per (modest) dwelling.
- 7.12 These steps would not require the Federal Government to establish any new policy principles – just consistently apply those already being practiced elsewhere in the indexation of assistance programs and in compensating those adversely impacted by government policy decisions.
- 7.13 The Henry Report also proposed the involvement of the Council of Australian Governments (COAG), to review building and land use policies and infrastructure charges to ensure they do not unnecessarily restrict supply of housing.
- 7.14 The Henry Report identified a number of priorities for this COAG Review (at 422), namely: zoning requirements and processes; approvals requirements, processes and time-taken; and building code and other standards impacting building quality.
- 7.15 Master Builders sees merit in a COAG review, providing it does not mean ‘paralysis by analysis’ - that is, doing nothing whilst officials prepare their report. Rather, the review should run parallel to concrete action, inter alia, to: repair the FHOG Scheme; eliminate stamp duty; and, abolish inefficient and unjustifiable developer charges.

8 DEVELOPER CHARGES

- 8.1 Developer charges constitute a major cost for property developers which flow through to new home buyers.
- 8.2 As the NSW Department of Planning recognised (Media Release, 3 April 2008): *“In essence, developer contributions have become an uncontrolled form of backdoor taxation (of) the family home”*

- 8.3 Traditionally the cost of infrastructure supply was shared amongst the general community through local government rates and/or state/territory government taxes.
- 8.3.1 By contrast, developer charges, as the nomenclature indicates, impose the cost of infrastructure provision on the developer and, through them, new home buyers.
- 8.4 Master Builders has identified a number of problems with the current approach of imposing developer charges for new infrastructure. These include developer charges:
- 8.4.1 reduce housing affordability;
- 8.4.2 involve a lack of transparency; and,
- 8.4.3 result in 'gold plating' and hidden cross-subsidies
- 8.5 Master Builders is particularly concerned at the adverse impact of developer charges on housing affordability.
- 8.5.1 Developer charges add to prices of new homes, exacerbate the under-supply of residential property, and reduce supply of rental housing, and push up rental prices (the latter of which particularly disadvantage lower income earners and/or those dependent on social welfare support).
- 8.6 Master Builders' Policy Paper (*"Infrastructure Charges: Where Bad Taxes Beget More Bad Taxes"*, 2009) found in growth areas of Sydney, developer charges can be as much as \$66,000 – or 30 % of sale price – for a single block of land zoned for residential development.
- 8.7 The current approach to developer charges implies a cross-subsidy from new home buyers, who ultimately bear the cost of the developer charges to existing home owners in the area who can use the services (eg libraries, playgrounds) without having paid for them.
- 8.8 Master Builders is greatly concerned at the lack of transparency and accountability associated with developer charges. Such charges:

- 8.8.1 can and do differ between local councils, and even within local government areas. The NSW Department of Planning (Media Release, 3 April 2008) noted developer charges can range between \$11,000 to \$53,000 per lot in south western Sydney, and \$7,500 to \$64,000 per lot on the NSW Central Coast; and,
- 8.8.2 can appear to be established in an arbitrary manner, with little or no official, and virtually no public, scrutiny. This lack of transparency and accountability makes developer charges particularly vulnerable to misuse and/or corruption.
- 8.9 Developer charges also encourage 'gold plating' by local councils.
- 8.9.1 That is, requiring developers to provide higher standards and/or more expansive infrastructure than they themselves (local councils) would provide - for example, libraries, parks and gardens, playgrounds, wider roads or, in NSW, even information/rest bays and lookouts.
- 8.10 Henry Report supported use of infrastructure charges where they are applied:
- 8.10.1 efficiently (that is, reflect the true cost of provision); and,
- 8.10.2 to 'avoidable' infrastructure (that is, infrastructure which would not be needed if the property development did not proceed).
- 8.11 However, the Henry Report warned of costs associated with poor use of developer charges, in particular their potential to add to house prices and to reduce housing affordability:
- 8.11.1 *"... where infrastructure charges are implemented poorly or are designed to operate as taxes, they can discourage housing supply and contribute to higher house prices."* (Henry Report: 426)
- 8.12 The Henry Report identified a number of problems with the current application of developer charges, including: they are being used to raise tax revenue (that is, being applied in manner beyond the efficient user charge) and are complex and costly to administer; and, questioned the appropriateness of the uses of revenues raised.

8.12.1 In the latter case, the Henry Report was supportive of the use of such revenues for local roads, sewerage, and open spaces, but was 'doubtful' about using them for libraries, child care facilities, parks and open spaces.

8.13 Again, to quote from Henry Report:

8.13.1 *".. general uncertainty about charging is likely to discourage development activity, which could reduce the overall supply of housing and increase the price of housing."* (page: 427)

9 STAMP DUTY

9.1 The building and construction industry regards stamp duties as a significant burden on residential home buyers, and on commercial property transactions.

9.2 Master Builders calls for, as a first step, the abolition of stamp duty on business conveyances of real property to be followed by the abolition of stamp duty on residential property.

9.3 In this context, Master Builders' notes with concern:

9.3.1 the commitment to abolish stamp duties on business conveyances made in the *1999 Intergovernmental Agreement on the Reform of Commonwealth-State Financial Relations*; and,

9.3.2 more than a decade later, this commitment has not been delivered.

9.4 The Henry Report correctly observed (at 247): *"Stamp duties are poor taxes ... Stamp duties on conveyances are inconsistent with the needs of a modern tax system."*

9.5 There are very good reasons for abolishing stamp duties, namely for sound principles of good tax system design, and for the adverse economic and social impacts of such taxes.

9.6 Stamp duties fail badly the tests of efficiency, simplicity, equity and low compliance:

- 9.6.1 each State/Territory has different rates and thresholds,
- 9.6.2 within States/Territories different rates and thresholds can apply to different types of property, and,
- 9.6.3 there are often differing concessional arrangements by home buyer type (eg first vs non-first home buyer).

- 9.7 Stamp duties also have substantial adverse economic and social impacts, imposing sizeable costs on home buyers especially first home buyers looking to generate sufficient equity for their initial residential purchase, and for 'baby boomers'/older Australians looking to change their residential arrangements (ie 'downsize').

- 9.8 Stamp duties:
 - 9.8.1 act as a financial disincentive to buying and selling housing, effectively reducing the supply of available housing, and discouraging younger people from buying their first home raising their required savings threshold just to pay stamp duty;
 - 9.8.2 encourage people to renovate rather than relocate, which can lead to sub-optimal employment and social conditions, for example deterring them from moving house to take up new job opportunities;
 - 9.8.3 reduce the creation of new housing stock by imposing multiple obligations for stamp duty. For example, stamp duty is paid when a developer buys the property from its initial owners, and then again when final owner buys the land;
 - 9.8.4 discourage the optimal use of scarce residential land by also taxing residential structures put on the land; and,
 - 9.8.5 deter business growth and development by locking them into existing buildings and structures rather than expanding or relocating to larger and more efficient premises, which can be particularly problematic for smaller businesses.

- 9.9 Taken as a whole, Master Builders in its submission to the Henry Review said: "*Stamp duties, as a transaction tax, are inefficient and*

other things being equal would tend to reduce the turnover of housing resulting in less than optimum use of the current housing stock.”

10 TAX LOSSES

10.1 Master Builders’ continues to be concerned at the asymmetric treatment of gains and losses by trading enterprises, such as small businesses that form the backbone of the building and construction sector.

10.1.1 These concerns reflect the highly cyclical and volatile nature of the building and construction industry, where ‘booms and busts’ have traditionally been commonplace.

10.2 At present, gains are taxed as they are realised, while losses can only be carried forward in a limited manner.

10.3 Taken together, these tax arrangements:

10.3.1 act as a general disincentive to entrepreneurship, especially amongst small business and start-up enterprises;

10.3.2 discourage higher-risk commercial ventures – especially ‘greenfields’ capital projects and new activity during the down-phase of the economic cycle; and,

10.3.3 exacerbate financial pressures on businesses, especially small and start-up enterprises, during commercial and economic downturns (given the tax value of deductions for losses cannot be recovered until the company has an income against which to offset the loss.

10.4 Master Builders’ would support the introduction of ‘carry-back’ of losses within the Australian taxation system. Such a facility would:

10.4.1 allow companies to offset losses made in a particular year against income from the previous year;

10.4.2 reduce the need for businesses, especially small businesses, to have recourse to debt-financing to sustain the enterprise (often

when it is more difficult to acquire/during demanding trading conditions); and,

- 10.4.3 encourage entrepreneurship, innovation and risk-taking, and through this drive business investment, employment creation and productivity growth.
- 10.5 Master Builders' welcomes media reports the Federal Government is seriously considering 'loss carry back', and we look forward to hearing formally of its breadth and depth of application at the earliest opportunity.
- 10.6 Master Builders' also welcomes the Federal Government's decision, announced in the 2011/12 Budget, to allow investors in infrastructure projects of national significance to carry forward losses with an uplift factor to maintain their value.

11 CARBON TAX

- 11.1 The Federal Government has signalled its intention to proceed with legislation to introduce a carbon tax/ pricing mechanism.
 - 11.1.1 The legislation is currently before the Parliament for debate. The Federal Government has indicated it will be looking for the package of legislation to pass through the House of Representatives and the Senate by the end of this calendar year.
- 11.2 Master Builders has expressed in a number of fora, and will reiterate at the Tax Forum, our concerns over several aspects and implications of the proposed carbon tax/pricing mechanism.
- 11.3 In general terms, the proposed carbon tax/pricing mechanism will have a substantial adverse impact on the building and construction sector.
 - 11.3.1 According to revised modelling and forecasting by the Federal Treasury (released in mid-September 2011), the proposed carbon tax/pricing mechanism will reduce gross output of the building and construction sector by 5.7 per cent by 2050.

- 11.3.2 This reduction in gross sectoral output is much greater than the effects predicted for the mining (gross output down 4.1 per cent), manufacturing (down 2.6 per cent) or services (down 1.2 per cent) sectors over the same period.
- 11.4 The proposed carbon tax/pricing mechanism is also likely to add to the costs of constructing new/renovating existing residential properties, adding to the already difficult housing (un)affordability situation for new home buyers and for those in the rental marketplace.
- 11.5 Master Builders' estimates the proposed carbon tax/pricing mechanism is likely to add around \$5,000 to the cost of new housing generally, and potentially closer to \$6,500 to \$7,000 in cities such as Sydney, Canberra and Melbourne.
- 11.5.1 Against this background, Master Builders continues to call for transitional assistance for first home buyers, in the form of a \$5,000 increase in the First Home Owners Grant (FHOG) Scheme.
- 11.6 Master Builders' also has other concerns with the design and operation, and likely effectiveness, of the carbon pricing mechanism, but these are outside the scope of the Tax Forum.

12 REFORM BEYOND THE TAX FORUM

- 12.1 Master Builders plans for the Tax Forum to be a springboard for a new wave of meaningful taxation reform, delivering substantive outcomes in a structured framework.
- 12.1.1 While 'conversations' and 'discussions' on future priorities for taxation reform can be useful, the more important challenge is to deliver a competitive and efficient taxation system, which facilitates wealth creation and minimises economic distortions over the medium to longer term.
- 12.1.2 The key performance indicator must be tangible and substantial outcomes in meaningful taxation reform, rather than just more inputs to the normal governmental decision-making processes.

- 12.2 Master Builders at the Forum will be pressing for the development of a number of concrete Action Agendas on key issues in taxation reform, which would be carried forward by discrete Action Groups.
- 12.3 The proposed six key themes for the Tax Forum offer a good framework for these Action Agendas/Groups – one each on personal tax; transfer payments; business tax; state taxes; environmental and social taxes; and, tax system governance.
 - 12.3.1 Housing affordability should be added to the list.
- 12.4 Master Builders would expect strong business input and meaningful engagement from key Federal Government agencies (for example, the Treasury at suitability senior level) into the work of these Action Groups.
- 12.5 Key outputs from these Action Agendas/Groups would be substantive reports on key issues and proposals for concrete action within their respective areas with two, five and ten year benchmarks.
- 12.6 Master Builders will also be looking for bipartisan support for tax reform to ensure sustained momentum, not leaving such a vital policy issue unnecessarily vulnerable to the political cycle.

