

The Henry Taxation Review and the Housing Industry

June 2010

Introduction:

In 2008 the Federal Government set up a panel of experts to conduct a comprehensive review of Australia's taxation system. The panel was headed up by Commonwealth Treasury Secretary, Ken Henry, and hence the review has subsequently been referred to simply as "The Henry Report" or The "Henry Taxation Review".

The Henry Taxation Review, titled "Australia's future tax system – report to the Treasurer" set out to 'reform and modernise Australia's taxation system'. The report was provided to the Federal Treasurer, Wayne Swan, in December last year and the government released its response in early May this year.

The review provided 138 recommendations across a broad range of personal and business taxation matters designed to provide a tax system that is 'simpler, more equitable, and enables greater economic efficiency'.

The theme of the Federal Government's response to the Henry Tax Review was "Stronger, Fairer, Simpler – A Tax Plan for Our Future." The Federal Government's response consisted of only a handful of recommendations and focused on small business taxation, superannuation, and the resources sector (by way of the hotly contested Resources Super Profit Tax).

In terms of the immediate implications for the housing industry it is perhaps illustrative to firstly consider what recommendations from the Henry Review the Federal Government ruled out "In the interests of business and community certainty":-

What's Out:

- a) Include the family home in means tests
- b) Introduce Land tax on the family home
- c) Restrict eligibility to rent assistance for families
- d) Implement any changes to the tax system that harm the not-for-profit sector, including removing the benefit of tax concessions, raising the gift deductibility threshold or changing income tax arrangements for clubs
- e) Reduce the capital gains tax (CGT) discount, apply a discount to negative gearing deductions, or change grandfathering arrangements for CGT
- f) Remove the benefits of dividend imputation
- g) Introduce a bequests tax
- h) Ask the States to charge market rents to public housing recipients
- i) The Government also reaffirmed that it will never increase the rate or broaden the base of the GST or remove tax free superannuation payments for the over 60s (these areas were specifically excluded from the Henry Review's brief).

Moving from 'what's out' to 'what's in', the policies below were announced by the Federal Government under the auspices of their response to the Henry Review:-



What's In:

- a) A 12 per cent Superannuation Guarantee (SG) – commencing with a 0.25 per cent increase in 2013-14 and accelerating in increments to 12 per cent by 2019-20
- b) A low income earners Government contribution – from 1 July 2012, providing \$500 annually into the superannuation account of workers earning up to \$37,000
- c) Concessional super caps for those nearing retirement – from 1 July 2012. Workers aged over 50 with super balances less than \$500,000 can contribute up to \$50,000 in annual concessional super contributions
- d) Raising the super guarantee age limit from 70 to 75 – from 1 July 2013
- e) Apply a discount of 40 per cent to interest earned up to \$1,000 for taxable income purposes
- f) Optional standard tax deduction of \$500 in 2012 increasing to \$1,000 in 2013
- g) Company tax rate to be reduced from 30 per cent to 28 per cent by 2014-15. Small business will receive this discount from 2012-13
- h) Introduction of a resource super profits tax of 40 per cent on profits above a nominal return of 6 per cent profit
- i) Instant write-off of assets valued at less than \$5,000 for small business
- j) \$700 million annual state infrastructure fund
- k) \$661 million boost to skills training

Various other measures were considered to have merit and while not government policy at present, were noted as recommendations that may be canvassed in a “mature policy debate” at a later date.

The Henry Report itself extends to over 1,000 pages and will likely form the basis for policy consideration and debate for a number of years into the future, regardless of who is in power at a Federal level.

Still on the table:

Three areas for potential consideration in the future are:-

- a) Payroll tax harmonisation
- b) Cash flow taxation
- c) Congestion taxation for roads

Recommendation #57 of the Henry Report, for example, stated that:-

State payroll taxes should be replaced with revenue from more efficient broad-based taxes that capture the value-add of labour.

Consideration of the broadening of taxes on labour is one issue that could potentially require close scrutiny, in terms of implications for our industry, in the years ahead.

Housing affordability:

The Henry Report made significant mention of housing affordability, noting for example that:-

Housing supply can be restricted through a range of policies, such as planning and zoning regulations, as well as the approvals processes that govern them.

The report also made specific reference to infrastructure charges and stated in Recommendation #70 that:-

COAG (the Council of Australian Governments) should review infrastructure charges (sometimes called developer charges) to ensure they appropriately price infrastructure provided in housing developments. In

particular, the review should establish practical means to ensure these charges are set appropriately to reflect avoidable costs of development, necessary steps to improve the transparency of charging and any consequential reductions in regulations.

Progress in tackling obstacles to boosting Australia's housing supply, such as planning issues and infrastructure charges, has been slow, but it is encouraging that the issues were canvassed in the Henry Report.

Focus on the Resource Super Profits Tax (RSPT):

The Henry Review recommended that taxation of Australia's natural resources be based on economic rents (above normal return income) rather than net income or royalties. The Federal Government announced plans to introduce a Resource Super Profits Tax (RSPT) in its May Budget for 2010/11. The RSPT would be broadly based on the Henry Review recommendations and in place by July 1, 2012.

Under such a scheme, the government shares in both the profits and the costs since the government allows 40 per cent of losses of a project to be rolled forward or offset against other company project incomes.

The scheme is designed to increase the overall taxation take by around \$9 billion per year. This reflects the increased 'charge' exploration firms will be expected to pay for the extraction of resources. Mining royalties would continue to be paid to the states but refunded by the Federal Government.

Treasury recommended the tax change believing that the rent tax would add to economic efficiency and revenue gains. Treasury believes that taxation revenue will increase since rent taxes are less distortionary than royalties and consequently there would be greater investment in the mining sector, especially amongst smaller firms. These gains would be partially offset by added compliance and administration costs.

While recognising the requirement for appropriate charging of mining companies for the use of Australia's natural resources, HIA is concerned about the potential impact of the tax on the residential building industry in terms of the proposal to tax non-renewable resources.

The Henry Review rightly suggested that for some non-renewables, the benefits of including them under the RSPT are unlikely to outweigh the costs (compliance and administration). Henry suggested that these resources, such as lime, marble, silica, and gypsum, may merit exemption. The Federal Government's current version of the tax proposes covering all non-renewables.

The likely impact of this new tax on resources such as materials mined from quarries, which form an important part of the residential building industry, is difficult to determine. The taxing of such resources would, however, almost certainly have some upward impact on building costs.

The price impacts will vary between resources. Some resources are subject to a world price, such as iron ore, while many quarry products are more domestically focused and there will be scope for price change. The impact on materials and manufacturing suppliers will also be related to the degree of import substitution.

HIA expects that costs for the industry will increase, the likely impact being that manufacturers and materials sectors will face greater cost pressures.

Considerable uncertainty still exists for the industry regarding the final make up and indeed potential impacts of the tax. HIA will continue to work closely with industry and will provide updated information when available.