SUBMISSION BY THE

Housing Industry Association

to the

Economic Regulation Authority

on the

Inquiry into Microeconomic Reform in Western Australia

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HIA is the leading industry association in the Australian residential building sector, supporting the businesses and interests of over 43,000 builders, contractors, manufacturers, suppliers, building professionals and business partners.

HIA members include businesses of all sizes, ranging from individuals working as independent contractors and home based small businesses, to large publicly listed companies. 85% of all new home building work in Australia is performed by HIA members.

1 Introduction

The Housing Industry Association (HIA) is the leading industry association in the Australian residential building sector, supporting the businesses and interests of over 43,000 builders, contractors, manufacturers, suppliers, building professionals and business partners. HIA members include businesses of all sizes, ranging from individuals working as independent contractors and home based small businesses, to large publicly listed companies 85% of all new home building work in Australia is performed by HIA members.

The HIA welcomes the opportunity to provide a submission to the Economic Regulation Authority on its Microeconomic Reform paper.

2 Keystart

The Housing Industry Association is **opposed** to the abolishment of Keystart and fully supports this important program that has supported many West Australians into home ownership.

The HIA believe this to be one of the most important and successful programs to be implemented by government and over its 25 year history, Keystart has proved to be the most successful Government backed Home Loan Scheme in Australia. It has assisted over 85,000 Western Australian singles, couples and families into home ownership, who could not otherwise obtain bank finance.

2.1 Keystart Profitability

Unlike other national programs Keystart is financially self-sufficient, does not draw upon the taxpayers consolidated revenue fund and delivers a significant net profit back to State Government to invest in other areas such as community housing.

2.2 Critical Pathway

It is important to note that Keystart provides a critical pathway for first homebuyers who would otherwise remain in the rental market. To illustrate this successful pathway approach Keystart has helped over 85,000 borrowers in the last two decades and over 65,000 (almost 80%) have then transitioned onto a private lending institution.

Keystart allows the transition from rental to home ownership through a lower deposit requirement than a bank. Saving for a high deposit and fees is recognised as a major barrier to homeownership in housing affordability studies.

2.3 Financial risk of Keystart lending.

Not only Keystart is profitable, but is of low risk to State Government as Keystart requires a much more rigorous savings justification process than normal bank practice, its arrears rate is 0.26%(the private financial institutions market average is 1.17%) and Keystart has over its 20 year history had an exceptional arrears rate of only one third of that of private financial institutions. Consequently, the assertion that Keystart's lending practices pose a financial risk to the State Government does not appear to be supported by the statistics over two decades.

2.4 Construction Industry Support

The importance of Keystart as a regional home lender is also important. The current Government raised the income criteria to assist regional Western Australia where the cost of housing is higher and traditional banks are reluctant to lend because there is not the economy of scale and profit in establishing branch networks.

The Housing industry is a strong supporter of Keystart as it can, in conjunction with government economic stimulants such as the first home buyers grant, assist in moderating the boom/bust construction cycle. This assists the homebuyer with a moderation of risks in housing construction costs as well assist stabilisation of employment of which this industry is a significant employer.

2.5 Housing Industry and its wider economic impact

Due to the slowdown in mining investment, the government has focussed on supporting the Housing Industry through the Housing Supply Package in the 2013 state budget to increase employment opportunities and the large economic multiplier effect it provides the state economy. Independent research commissioned by the Housing Industry Association from the highly regarded Centre for International Economics (CIE) highlights the importance of residential construction to the wider national economy. The economic impact ratios stemming from policy reform in the housing industry are found to be very large, not only for Australia as a whole but also for Western Australia.

Key results from this independent research included:-

- A 1.0 per cent total factor productivity increase for residential construction - through avenues such as the removal of workplace restrictions, reductions in planning approval times, and the reform of environmental controls, building regulation and apprenticeship training - can generate a step change in overall economic activity of nearly $900million a year. There is a flow-on effect of $4.19 of additional economic activity (GDP) per increased dollar of activity in residential housing.
- Not surprisingly the equivalent economic linkages apply to Western Australia. The Western Australian Residential Building Industry is worth around $6b per annum with many other Western Australian business supplying goods and services to these stakeholders such as accounting, legal services and consumer goods for example.
- The independent CIE research finds an even larger positive impact for WA than for the national economy. A 1.0 per cent productivity improvement generated by, for example a reduction in planning approvals times, generates an additional $4.85 of economic activity in WA per increased dollar of activity in residential building.
- The analysis above applies to a situation of full employment. The economic gain for housing and the wider WA economy from a reduction in approval times would be larger still in a situation of less than full employment. The unemployment rate in WA has been running above its five year average for five consecutive months in 2013.

3 Review of State Taxes

HIA welcomes the tax reform discussion occurring at the state level, and support the Economic Regulation Authorities proposal to increase the reliance on efficient taxes and reduce or abolish inefficient taxes. This is a preferable path of action compared with the alternative proposal which simply modifies inefficient taxes.

3.1 Residential transfer duty

Stamp duty is levied when a property is sold and this tax can be paid multiple times along the process of bringing a new home to the market. The cost of these taxes is embedded in the final purchase price paid by the consumer.

The current process for levying stamp duty can involve ‘triple taxation’. Stamp duty can be imposed at three stages in the construction of a new house:

- Sale of land to developer;
- Sale of land from developer to builder; and
- Sale of house and land package to purchaser.

At each stage in housing production stamp duty can be collected on the contract sale price and levied on items such as GST, development charges, and stamp duty applied in previous transactions.

Land tax and council rates incurred during the development phase of housing also add to the holding costs of developers and, like all taxes, add to the final cost of the home to the end consumer.

This transaction and taxation process which can apply to the new home building sector is essentially treating new housing as ‘trading stock’ and is unique to this sector. In other industries, for example the used car industry, the ‘commodity’ is regarded as holding stock and does not attract stamp duty until the sale to the ultimate consumer. For the new home building sector, the taxes paid whilst approvals are being sought during the development phase can be significant and should be addressed by either a cut in rates or an exemption.

Stamp duty is a major source of revenue for state governments, but it is a highly inefficient tax. ‘Australia’s Future Tax System’ report (Australian Treasury, 2010) notes:

“Ideally, there would be no role for any stamp duties, including conveyancing stamp duties, in a modern Australian tax system. Recognising the revenue needs of the States, the removal of stamp duty should be achieved through a switch to more efficient taxes, such as those levied on broad consumption or land bases.“

Independent economic modelling commissioned by HIA demonstrates that implementation of reforms which remove inefficient taxes that specifically effect housing, such as stamp duty on conveyancing, and replace the government revenue with more efficient taxes, improve housing affordability. Furthermore, such reforms are also likely to have broader economic benefits that deliver higher living standards to Australian households.

3.2 Land tax

Development of a strategy and timeframe to replace transfer duty on residential property with more efficient taxes will deliver significant benefits to the community and should be a priority. In isolation from reform of federal taxes, a well-designed land tax implemented by the state government would provide an efficient means of replacing the revenue foregone through the abolition of transfer duty. However, consideration should be also be given other efficient taxes which may be suitable alternatives including taxes levied at the federal level, for example broadening the base or increasing the rate of GST.

3.3 Payroll tax

The proposal to remove the concessions and exemptions and lower the rate of payroll tax is likely to reduce the inefficiency of the tax, however it will remain distortionary. Complete removal of payroll tax and replacing revenue with more efficient taxes, for example broadening the base or increasing the rate of GST, would be preferable to the current proposal.

The Australia's Future Tax System Report (Australian Treasury, 2010) states:

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

Noting specifically that:

"…a more efficient, equitable and sustainable means of taxing labour income would be a broad-based consumption tax."

While we acknowledge the limitations and difficulties of reform to state based taxes in isolation from federal tax reform, a coordinated approach between the state and the Commonwealth governments is likely to provide greater economic benefits.