

Master Builders Australia Limited

Federal Pre-Budget Submission

1 February 2019



ABOUT MASTER BUILDERS AUSTRALIA

This submission is made on behalf of Master Builders Australia Ltd.

Master Builders Australia (Master Builders) is the nation's peak building and construction industry association which was federated on a national basis in 1890. Master Builders' members are the Master Builder State and Territory Associations. Over 128 years the movement has grown to over 32,000 businesses nationwide, including the top 100 construction companies. Master Builders is the only industry association that represents all three sectors, residential, commercial and engineering construction.

The building and construction industry is an extremely important part of, and contributor to, the Australian economy and community. It is the second largest industry in Australia, accounting for 8.1 per cent of gross domestic product, and over 9 per cent of employment in Australia. The cumulative building and construction task over the next decade will require work done to the value of \$2.6 trillion and for the number of people employed in the industry to rise to 1.3 million.

Executive Summary of Master Builders Recommendations for Federal Budget 2019/20

In this submission, Master Builders sets out key initiatives through which Government can ensure the 2019/20 Budget allows the building and construction industry to do what it does best – to build homes, schools and roads, grow small business, train young people and create jobs.

Our priority recommendations contained in this submission can be summarised as:

Taxation Incentives

- Retain current arrangements around Negative Gearing and the Capital Gains tax discount.
- Accelerate the pace of company tax reductions in light of improving budgetary position.
- Specify a timescale for 25% corporate tax rate to apply to all businesses, regardless of their size.
- Permanently Increase deductibility threshold for business assets to \$30,000 and extend to all businesses.

Backing Small Business

- Resources for an independent government agency, that could be known as the Small Business Impact Assessment Agency, to conduct more rigorous regulatory impact assessments on the impact of government regulation on small business and also spearheading changes to make government procurement more accessible for the small business sector.
- Ensure there is no increase to business costs from accessible housing and energy efficiency measures.

Creating More Jobs and Boosting Vocational Skills

- Fund an additional kick-start apprenticeship incentive from 1 May 2019 to 31 December 2019.
- Provide greater support for pre-apprenticeships.
- The creation of quality framework for Vocational Education & Training providers.
- The allocation of an additional \$10 million to the Real Skills for Real Careers marketing campaign.

Supporting housing and the built environment

- Increase emphasis on the provision of adequate stock of public housing.
- Increase direct financing of public infrastructure.
- An expansion of cross-government activities to boost housing and infrastructure
- NAHHA funding should be tied to their performance with respect to meeting targets relating to affordable and public housing.
- Increase funding for the Australian Building Codes Board (ABCB) to implement recommendations in the Building Confidence Report.

Support for Workplace Relations & Safety Agencies

- Guarantee that the Australian Building & Construction Commission is appropriately resourced.
- The Registered Organisations Commission to be funded adequately.
- Retain and enhance the operation of the Fair Work Commission (FWC).
- Increase resourcing for Safe Work Australia and review its operations.
- Retain the Australian Government Work Health & Safety Accreditation Scheme by ensuring adequate resourcing of the Office of the Federal Safety Commissioner (OFSC).

The Building and Construction Industry

The building and construction industry:

- Consists of over 370,000 business entities, almost all of which (99%) employ fewer than 20 people and over half (59%) having no employees;
- Employs over 1.1 million people (almost 1 in 10 workers) representing the third largest employing industry behind retail and health services, and the largest industry for full time employment;
- Represents over 8% of GDP, with contributing \$142 billion Gross Value Added activity to the economy - the second largest sector in the economy;
- Trains more than half of the total number of trades based apprentices every year, being well over 50,000 apprentices; and
- Performs construction work each year to a value of over \$220 billion.

Recent and forecast conditions affecting the building and construction industry highlight the importance that Government ensure the policy parameters underpinning the 2019/20 Federal Budget support a sector performing more than \$220 billion of construction work every year and help sustain growth across the economy more broadly.

The importance of the significant contribution building and construction makes to the economy and community cannot be understated and budget settings must not only allow this contribution to continue but encourage it to grow and safeguard against future risks.

While it remains stable overall, conditions have become increasingly difficult for Australia's building sector over the past 12 months and there are risks appearing with potential to exacerbate these difficulties. For example:

- New home building is in decline and predicted to continue falling until 2022/23.
- Engineering construction activity is still well below the peaks reached during the mining boom while non-residential building will come under pressure in the next few years.
- Once activity starts to recover over the medium term, the risk is that shortages of skilled and trades labour will emerge as has happened on numerous occasions in the past.
- Foreshadowed changes to labour market regulation and additional business red-tape pose a real challenge for sector SMEs.

Overall, we anticipate that total construction activity will decline by 4.7% during 2018/19 and by a further 1.2% in 2019/20.

HOW FEDERAL BUDGET 2019/20 CAN SUPPORT OUR SECTOR

Master Builders Australia's budgetary proposals for 2019/20 are consistent with the strategic direction commenced by Government last May designed to back business and support jobs in the Australian economy.

Using the Tax System to Deliver our Housing Needs

There is no escaping the fact that changing current arrangements around negative gearing and the Capital Gains Tax discount would result in fewer new homes being built, less jobs in the construction sector and would reverse Australia's capacity to house its people adequately over the long term.

Recent modelling by Cadence Economics confirmed that restrictions on NG and CGT as foreshadowed¹ would:

- Result in between 10,000 and 42,000 fewer new homes being built across Australia over a five-year period – enough to house 25,000 to 104,000 Australians;
- Mean between 7,500 and 31,900 fewer full-time jobs in the construction sector;
- Reduce the value of construction activity by between \$2.76 billion and \$11.75 billion.

In addition, current arrangements make it less costly for investors to supply housing to the rental market. Rowing back on NG and CGT settings would have the effect of making it less attractive for investors to participate in the rental market and result in tighter supply and higher rents. Around 30% of Australian families rent their homes, and a disproportionately large share of them depend on lower incomes. Changes to NG and CGT would have significantly detrimental effects on the financial position of such households.

Master Builders understands the benefit of examining the operation of our tax laws and system but this should only occur on holistic basis as part of an economy-wide process of taxation reform which aims to:

- Achieve greater fiscal sustainability.
- Improve the efficiency of the economy.
- Support employment; and
- Address Australia's long-term economic challenges.

For the building sector, one of the least equitable features of the current taxation regime is the situation of 'taxes on taxes'. For example, stamp duties paid on the acquisition of land by developers are included in the base for calculating stamp duty at later stages in the building and development process. In the case of the final GST charge on new buildings and homes, taxes paid during the building process (like stamp duty, rates, etc.) have the effect of inflating the final GST bill paid by the new homeowner or business. A root and branch review of the taxation system should also examine the costly and inefficient infrastructure taxes, charges and levies imposed upon the building sector.

Recommendations:

- Retain current arrangements around Negative Gearing and the Capital Gains tax discount.
- Maintain the tax-free status of the family home.
- Ensure tax reform around housing is only be considered in context of an economy-wide taxation review.

¹ Labor's policy is outlined at <https://www.alp.org.au/negativegearing>

Easing the Tax Burden on Business

It is currently proposed that the corporate tax rate for companies with turnover of less than \$50 million be reduced from 27.5% to 26.0% in 2020/21 and further reduced to 25.0% from 1 July 2021.

In light of the expanding fiscal space available to the federal government and the exposure of small/medium-size firms to the significant decline in new home building anticipated to unfold, we propose that the reductions in the rate of corporate tax be brought forward perhaps with the 26.0% rate to take effect on 1 July 2019 and the reduction to 25.0% being introduced on 1 July 2020.

Furthermore, the 25.0% corporate tax rate should be rolled out for all businesses, regardless of size, and the Federal Budget should include a timescale for this to be done.

Recommendations:

- Accelerate the pace of company tax reductions in light of improving budgetary position.
- For businesses with turnover of less than \$50 million, reduce the corporate tax rate to 26% from 1 July 2019 and apply 25% rate from 1 July 2020.
- Specify a time scale for 25% corporate tax rate for all businesses, including those with turnover of above \$50 million.
- Permanently increase the threshold for immediate deductibility of small business assets to \$30,000 and extend it to all businesses irrespective of size.

Backing Business

Last May's Federal Budget pledged to back business in order to invest and create jobs. Building and construction firms are at the coal face of the economy, and our sector is overwhelmingly characterised by a highly competitive collection of small and very small firms.

Latest ABS estimates indicate that 371,600 firms were active in the construction sector at the end of June 2017. Of these, 215,310 (58% of the total) were non-employing with a further 145,030 construction firms (39% of the total) employing less than 20 people. This means that 99% of construction firms currently operate as small businesses – the majority of which are sole trading operations.

With most construction firms operating with a handful of staff, the burden of regulation and bureaucracy is particularly onerous on the building sector. Accordingly, the Federal Budget should take account of this situation.

Recommendations:

- Resources for an independent government agency, that could be known as the Small Business Impact Assessment Agency, to conduct more rigorous regulatory impact assessments on the impact of government regulation on small business and also spearheading changes to make government procurement more accessible for the small business sector. For example, when subcontractors working on Government projects are obliged to sign subcontractor documents with very substantial punitive provisions, it works to limit competition, increase the cost of projects to taxpayers, and undermines a range of industry reform agendas.
- Measures to ensure there are no increase to businesses costs resulting from tighter standards and regulations around accessible housing and energy efficiency.

Creating More Jobs and Boosting Vocational Skills

The 2019/20 Budget must ensure it enables the building and construction sector to continue as a significant provider of jobs to ordinary Australians and support a skilled and flexible workforce.

Recommendations:

- Unallocated money from the government's Skilling Australians Fund to fund an additional kick-start apprenticeship incentive from 1 May 2019 to 31 December 2019.
- Provide greater support for pre-apprenticeships.
- The completion of the consolidation of resources focused on labour market and skills needs analysis.
- Sufficient resources to be provided in order to deliver an update workforce development strategy in 2019/20 and in every second year going forward.
- The creation of quality framework for VET providers.
- The allocation of an additional \$10 million to the Real Skills for Real Careers marketing strategy so that its campaign can reach its full potential.
- Widen the scope of the Australian Apprenticeship Wage subsidy programme to include businesses which have recently employed apprentices. Also extend eligibility to GTOs and offer the same supports for businesses in urban and metropolitan areas.
- Increase funding through the Support for Adult Australian Apprenticeships (SAAA) programme. This may represent a useful opportunity for enabling people to transition into new careers in construction, particularly for those exiting manufacturing and other declining sectors.
- Rationalise and improve federal government career and labour market websites.

Supporting Housing and the Built Environment

There are few services more essential to a society than housing. As well as providing shelter and facilitating the strengthening of a society's social capital, an adequate housing stock facilitates the proper functioning of a competitive labour market and allows for mobility amongst the population.

For both renters and homeowners, housing is often the largest cost item in the household budget. Over the last number of decades, new housing supply has consistently struggled to keep pace with demand with housing affordability deteriorating steadily as a result. Back in 1988, the median Australian house price was \$83,000. This reached \$138,500 a decade later and by 2008 was \$373,000. In mid-2018, the median house price was \$550,000.

Latest population projections from the ABS indicate that population growth is on track to remain strong over the coming decades. From about 25 million today, Australia's population is likely to break the 30 million barrier sometime in 2030/31 and reach 35 million around 2043/44. If the policy settings are not improved radically, the risk is that the housing affordability squeeze will become even more acute because we will be unable to supply the requisite volume of new housing stock over this horizon.

Specifically, we need government to work hard to make new dwelling stock easier and less costly to build in a timely fashion. In addition to the taxation issues set out above, land release and planning are central to this agenda.

Recommendations:

- Increased emphasis on the provision of adequate stock of public housing and action to provide suitable accommodation to those families assessed as being in greatest need.
- Immediate review of competitive issues related to land release policies at federal, state and local government level.
- Increased direct financing of public infrastructure.
- Increase capital spending on new public buildings to be consistent with average of past 25 years.

- Governments to encourage superannuation funds to invest in both existing and new public infrastructure.
- Creation of incentives for state and territory governments to use funds from asset sales instead of resorting to debt to fund their infrastructure needs.
- Consideration to be given to PPP financing relationships to encourage private sector engagement in infrastructure delivery.
- NAHHA funding to states and territories to be tied to their performance with respect to meeting targets relating to affordable and public housing.
- States and territory governments to be rewarded for meeting key performance metrics for housing affordability through use of efficiency dividends.
- An expansion of cross-government activities to boost housing and infrastructure
- Use of incentive payments to encourage state and territories to perform better in planning and zoning.
- Funding to investigate the performance of local government and agencies with respect to planning and adequate land release.
- Support ongoing direct funding and use of other funding mechanisms to support provision of adequate public housing stock.
- Funding for Livable Housing Australia and piloting projects in city deals to extend the reach and availability of voluntary accessible housing standards, as opposed to introducing mandatory standards for all homes in the National Construction Code.
- Increased funding for the Australian Building Codes Board (ABCB) to implement recommendations in the Building Confidence Report.

Support for Workplace Relations & Safety Agencies

The building and construction industry is committed to delivering safe and productive workplaces for the more than one million people it employs. The personal and community cost of serious injury and death at work cannot be underestimated and must be addressed. Safer and more productive workplaces can be achieved without adding to the existing level of complexity and compliance.

Recommendations:

- Government to guarantee that the ABCC is appropriately resourced so as to ensure it remains able to uphold the rule of law on building and construction sites.
- The Registered Organisations Commission to be retained and funded adequately.
- Retain and enhancing the operation of the Fair Work Commission (FWC).
- Increased resourcing for Safe Work Australia and review of its operations.
- Retention of the Australian Government Work Health & Safety Accreditation Scheme by ensuring adequate resourcing of the Office of the Federal Safety Commissioner (OFSC).