Parliamentary Budget Office

# Policy costing

| GST on Building Materials | | |
|---|---|---|
| Person/party requesting the costing: | Senator Malcolm Roberts, Pauline Hanson's One Nation | |
| Date costing completed: | 16 July 2024 | |
| Expiry date of the costing: | Release of the next economic and fiscal outlook report. | |
| Status at time of request: | Submitted outside the caretaker period | |
| | ☐ Confidential | ☒ Not confidential |
| Summary of proposal:<br>The proposal would remove the Goods and Services Tax (GST) on residential building materials at the final point of sale. Under the proposal new residential buildings would be effectively exempt from GST.<br>The exemption would not include renovations and additions, and the Commonwealth would compensate states and territories for any decrease in GST revenue.<br>The policy would commence on 1 January 2025, and conclude after 5 years. | | |

## Costing overview

The proposal would be expected to decrease the fiscal balance by about $1.4 billion and underlying cash balance by about $1.2 billion over 2024-25 Budget Forward Estimates period (Table 1). These impacts largely reflect a decrease in amount of GST revenue and excise revenue collected, partly offset by lower government expenses on indexed programs.

The proposal would be expected to decrease the consumer price index (CPI) in the implementation calendar year. This would have flow-on effects to budget items that are indexed by CPI including lower excise duties collected offset by lower government expenses due to indexation including the age pension and disability support pension. Following the termination of the policy in 5 years the impact on the CPI and associated budget items indexed to the CPI would be reversed as GST is reapplied.

The GST payments to states would remain unchanged as per the policy specification.

The fiscal balance impact differs from the underlying cash balance impact due to the timing differences between when GST liabilities are recognised and when they are collected.

The proposal would have an ongoing impact beyond the 2024-25 Budget forward estimates period. A breakdown of the financial implications (including separate public debt interest (PDI) tables) over the period to 2034-35 is provided at Attachment A.

**Table 1: GST on Building Materials – Financial implications ($m)[(a)(b)]**

| | 2024-25 | 2025-26 | 2026-27 | 2027-28 | Total to 2027-28 |
|---|---|---|---|---|---|
| Fiscal balance | -540.5 | -565.0 | -144.0 | -125.0 | **-1,374.5** |
| Underlying cash balance | -510.5 | -515.0 | -84.0 | -55.0 | **-1,164.5** |

(a) A positive number represents an increase in the relevant budget balance; a negative number represents a decrease.
(b) PDI impacts are not included in the totals.
- Indicates nil.

### Uncertainties

The proposal would be expected to lead to a change in the cost of constructing new homes, with potential flow-on impacts for house prices. However, this effect on house prices is sensitive to assumptions about how households and businesses would respond to the change in the GST-exempt status of new builds, as well as the impact on the housing market more broadly.

There is a high degree of uncertainty around the behaviour of those commissioning and purchasing newly constructed homes. There would likely be a behavioural impact from people delaying building activity in the 6 months prior to the exemption being introduced, leading to a reduction in GST revenue, and adding to congestion in the construction industry once the policy came into effect. Conversely, in the year prior to the policy's end date, building activity would be expected to increase as construction is brought forward, potentially increasing construction costs. Construction activity would be expected to decrease the following year. The scale of this volatility in construction patterns is uncertain, as is how households and businesses might respond to the expected change in prices.

Notwithstanding these uncertainties, overall building activity is expected to be relatively unchanged, reflecting existing capacity constraints in the building industry.

- – The Infrastructure Market Capacity 2023 Report notes market capacity competition and constraints are impacting the housing sector.

Additionally, there is a degree of uncertainty around the impact of the proposal on broader prices and the CPI, and the flow-on consequences for budget items that are indexed by the CPI. Further information about the assumptions used is provided in the following section.

## Key assumptions

The Parliamentary Budget Office (PBO) has made the following assumptions in costing this proposal.

- Net GST would be approximately 15% of gross GST for the relevant residential building industries.
  - The 6-year historical average proportion of input tax credits to gross GST is 85% for the residential construction industry per the Australian Taxation Office's (ATO) *Taxations Statistics 2016-17* to *2021-22*.
- Net GST would grow in line with the percentage change in private net dwelling investment until 2027-28. From 2028-29, net GST would grow in line with real GDP growth.
- Due to the 1 January 2025 start date, in the first and last year of the policy there would be a half year impact equal to 50% of the full financial year impact.
- There would be a behavioural response to the commencement of the exemption and its removal after 5 years.

  - In the 6 months prior to the introduction of the exemption there would be a decrease in building activity followed by an increase in building activity after the exemption comes into effect.
  - The behavioural response to the removal of the exemption after 5 years would be similar to the change in building approvals post the announcement of GST in the 1998 October election and when GST came into effect on 1 July 2000. There would be small spike in building activity 12 months prior to the reintroduction of GST, followed by a decrease in the following year.
- Following the removal of the exemption, within 1 year the amount of net GST collected for the residential construction industry would return to baseline levels.
- All price impacts from the GST changes are passed through the production chain immediately and are fully passed onto final consumers.
  - Removing GST would lead to an approximate 9% decrease in prices of new residential dwellings.
- Because purchases of new dwellings are a component of the CPI, the price reduction from removing GST would affect the CPI, decreasing various revenues and expenses indexed to CPI.
  - Purchases of new dwellings accounts for around 8% of the CPI basket of goods.
  - CPI impacts would be split evenly between 2024-25 and 2025-26.
  - CPI would be lower by around 0.36% compared to the baseline in 2024-25 and 2025-26.
- Similarly, when the policy is no longer in place, prices of new residential dwellings would increase by around 10%, increasing various revenue and expense items linked to CPI.
  - CPI impacts would be higher by around 0.4% compared to the baseline in 2029-30 and 2030-31.
- There would be a small ATO departmental cost to change Business Activity Statement (BAS) forms at the start and end of the policy. In addition, the ATO would need to have an education and compliance focus at the end of the proposal to ensure the building and construction industry is aware that GST is once again payable.
- The ATO and Commonwealth Grants Commission (CGC) would need to determine the actual forgone GST each year to allow the Commonwealth to correctly compensate states and territories. The PBO has assumed that any costs related to this would be absorbed by the ATO and CGC.

## Methodology

GST foregone revenue was calculated by multiplying GST on the value of new dwellings from the ABS National Accounts data by 15% as per *Key assumptions* to get estimated future net GST on new residential dwellings (excluding renovations).

Percentage change in CPI equals the percentage change in prices multiplied by the percentage of the CPI basket related to purchases of new dwellings as outlined in *Key assumptions*.

The impact on revenue and expenses indexed to CPI was determined using an internal version of the PBO's analysis tool *Build you own budget* (2024-25 Budget edition).[1]

Note that the cost of the proposal is the net impact many separate components. The impacts are particularly complex around the time of the introduction and cessation of the proposal, where the

[1] The version used internally for this costing has been adjusted to produce more comprehensive results, and any figures generated using the version currently on the PBO's website may not be the same.

timing of different revenue streams and expenses programs affect if the net amount is positive or negative.

The ongoing impact of the proposal is not zero because the impact of the proposal on the CPI is not quite symmetric between its introduction and cessation.

Financial implications were rounded consistent with the PBO's rounding rules as outlined on the PBO Costings and budget information webpage.[2]

## Data sources

The PBO used a version of Build your own budget modified specifically for this response.

Australian Bureau of Statistics (2024) *Annual weight update of the CPI and Living Cost Indexes*, accessed 15 May 2024.

Australian Bureau of Statistics (2024) *Table 2. Expenditure on GDP – National Accounts 2022-23*, accessed 4 July 2024.

Australian Taxation Office (ATO) (2019) *Taxation statistics 2016-17*, accessed 26 June 2024.

Australian Taxation Office (ATO) (2020) *Taxation statistics 2017-18*, accessed 26 June 2024.

Australian Taxation Office (ATO) (2021) *Taxation statistics 2018-19*, accessed 26 June 2024.

Australian Taxation Office (ATO) (2022) *Taxation statistics 2019-20*, accessed 26 June 2024.

Australian Taxation Office (ATO) (2023) *Taxation statistics 2020–21*, accessed 6 June 2024.

Australian Taxation Office (ATO) (2024) *Taxation statistics 2021-22*, accessed 26 June 2024.

Infrastructure Australia (2023) 2023 *Infrastructure Market Capacity report*, accessed 10 Jul 2024.

The Treasury provided economic parameters as at the 2024-25 Budget.

[2] https://www.pbo.gov.au/for-parliamentarians/how-we-analyse/pbo-rounding-rules

# Attachment A – GST on Building Materials – financial implications

### Table A1: GST on Building Materials – Fiscal balance ($m)[(a)]

| | 2024-25 | 2025-26 | 2026-27 | 2027-28 | 2028-29 | 2029-30 | 2030-31 | 2031-32 | 2032-33 | 2033-34 | 2034-35 | Total to 2027-28 | Total to 2034-35 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Tax revenue** | | | | | | | | | | | | | |
| *GST* | *-600.0* | *-1,160.0* | *-1,310.0* | *-1,470.0* | *-1,510.0* | *-970.0* | *-200.0* | *-* | *-* | *-* | *-* | ***-4,540.0*** | ***-7,220.0*** |
| *Indexed revenue: Fuel and alcohol excise* | *-* | *-157.0* | *-266.0* | *-276.0* | *-288.0* | *-261.0* | *-102.0* | *32.0* | *34.0* | *35.0* | *36.0* | ***-699.0*** | ***-1,213.0*** |
| ***Total – administered tax*** | ***-600.0*** | ***-1,317.0*** | ***-1,576.0*** | ***-1,746.0*** | ***-1,798.0*** | ***-1,231.0*** | ***-302.0*** | ***32.0*** | ***34.0*** | ***35.0*** | ***36.0*** | ***-5,239.0*** | ***-8,433.0*** |
| **Total – tax revenue** | **-600.0** | **-1,317.0** | **-1,576.0** | **-1,746.0** | **-1,798.0** | **-1,231.0** | **-302.0** | **32.0** | **34.0** | **35.0** | **36.0** | **-5,239.0** | **-8,433.0** |
| **Expenses** | | | | | | | | | | | | | |
| *Indexed grants and subsidies* | *-* | *72.0* | *152.0* | *161.0* | *167.0* | *175.0* | *83.0* | *-18.0* | *-19.0* | *-20.0* | *-21.0* | ***385.0*** | ***732.0*** |
| *Indexed other administered programs* | *60.0* | *680.0* | *1,280.0* | *1,460.0* | *1,540.0* | *1,470.0* | *770.0* | *-* | *-180.0* | *-190.0* | *-190.0* | ***3,480.0*** | ***6,700.0*** |
| ***Total – administered*** | ***60.0*** | ***752.0*** | ***1,432.0*** | ***1,621.0*** | ***1,707.0*** | ***1,645.0*** | ***853.0*** | ***-18.0*** | ***-199.0*** | ***-210.0*** | ***-211.0*** | ***3,865.0*** | ***7,432.0*** |
| ***Departmental*** | | | | | | | | | | | | | |
| *Australian Taxation Office* | *-0.5* | *-* | *-* | *-* | *-* | *-2.5* | *-4.0* | *-* | *-* | *-* | *-* | ***-0.5*** | ***-7.0*** |
| ***Total – departmental*** | ***-0.5*** | *-* | *-* | *-* | *-* | ***-2.5*** | ***-4.0*** | *-* | *-* | *-* | *-* | ***-0.5*** | ***-7.0*** |
| **Total – expenses** | **59.5** | **752.0** | **1,432.0** | **1,621.0** | **1,707.0** | **1,642.5** | **849.0** | **-18.0** | **-199.0** | **-210.0** | **-211.0** | **3,864.5** | **7,425.0** |
| **Total (excluding PDI)** | **-540.5** | **-565.0** | **-144.0** | **-125.0** | **-91.0** | **411.5** | **547.0** | **14.0** | **-165.0** | **-175.0** | **-175.0** | **-1,374.5** | **-1,008.0** |

(a) A positive number for the fiscal balance indicates an increase in revenue or a decrease in expenses or net capital investment in accrual terms. A negative number for the fiscal balance indicates a decrease in revenue or an increase in expenses or net capital investment in accrual terms.

\- Indicates nil.

## Table A2: GST on Building Materials – Underlying cash balance ($m)[(a)]

| | 2024-25 | 2025-26 | 2026-27 | 2027-28 | 2028-29 | 2029-30 | 2030-31 | 2031-32 | 2032-33 | 2033-34 | 2034-35 | Total to 2027-28 | Total to 2034-35 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Tax receipts** | | | | | | | | | | | | | |
| *GST* | *-570.0* | *-1,110.0* | *-1,250.0* | *-1,400.0* | *-1,440.0* | *-930.0* | *-190.0* | *-* | *-* | *-* | *-* | ***-4,330.0*** | ***-6,890.0*** |
| *Indexed revenue: Fuel and alcohol excise* | *-* | *-157.0* | *-266.0* | *-276.0* | *-288.0* | *-261.0* | *-102.0* | *32.0* | *34.0* | *35.0* | *36.0* | ***-699.0*** | ***-1,213.0*** |
| ***Total – administered tax*** | ***-570.0*** | ***-1,267.0*** | ***-1,516.0*** | ***-1,676.0*** | ***-1,728.0*** | ***-1,191.0*** | ***-292.0*** | ***32.0*** | ***34.0*** | ***35.0*** | ***36.0*** | ***-5,029.0*** | ***-8,103.0*** |
| **Total – tax receipts** | **-570.0** | **-1,267.0** | **-1,516.0** | **-1,676.0** | **-1,728.0** | **-1,191.0** | **-292.0** | **32.0** | **34.0** | **35.0** | **36.0** | **-5,029.0** | **-8,103.0** |
| **Payments** | | | | | | | | | | | | | |
| *Indexed grants and subsidies* | *-* | *72.0* | *152.0* | *161.0* | *167.0* | *175.0* | *83.0* | *-18.0* | *-19.0* | *-20.0* | *-21.0* | ***385.0*** | ***732.0*** |
| *Indexed other administered programs* | *60.0* | *680.0* | *1,280.0* | *1,460.0* | *1,540.0* | *1,470.0* | *770.0* | *-* | *-180.0* | *-190.0* | *-190.0* | ***3,480.0*** | ***6,700.0*** |
| ***Total – administered*** | ***60.0*** | ***752.0*** | ***1,432.0*** | ***1,621.0*** | ***1,707.0*** | ***1,645.0*** | ***853.0*** | ***-18.0*** | ***-199.0*** | ***-210.0*** | ***-211.0*** | ***3,865.0*** | ***7,432.0*** |
| ***Departmental*** | | | | | | | | | | | | | |
| *Australian Taxation Office* | *-0.5* | *-* | *-* | *-* | *-* | *-2.5* | *-4.0* | *-* | *-* | *-* | *-* | ***-0.5*** | ***-7.0*** |
| ***Total – departmental*** | ***-0.5*** | ***-*** | ***-*** | ***-*** | ***-*** | ***-2.5*** | ***-4.0*** | *-* | *-* | *-* | *-* | ***-0.5*** | ***-7.0*** |
| **Total – payments** | **59.5** | **752.0** | **1,432.0** | **1,621.0** | **1,707.0** | **1,642.5** | **849.0** | **-18.0** | **-199.0** | **-210.0** | **-211.0** | **3,864.5** | **7,425.0** |
| **Total (excluding PDI)** | **-510.5** | **-515.0** | **-84.0** | **-55.0** | **-21.0** | **451.5** | **557.0** | **14.0** | **-165.0** | **-175.0** | **-175.0** | **-1,164.5** | **-678.0** |

(a) A positive number for the underlying cash balance indicates an increase in receipts or a decrease in payments or net capital investment in cash terms. A negative number for the underlying cash balance indicates a decrease in receipts or an increase in payments or net capital investment in cash terms.

\- Indicates nil.

### Table A3: GST on Building Materials – Memorandum item: Public Debt Interest (PDI) impacts – Fiscal and underlying cash balances ($m)[(a)(b)]

| | 2024-25 | 2025-26 | 2026-27 | 2027-28 | 2028-29 | 2029-30 | 2030-31 | 2031-32 | 2032-33 | 2033-34 | 2034-35 | Total to 2027-28 | Total to 2034-35 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| ***Fiscal balance*** | *-10.8* | *-33.1* | *-47.1* | *-52.1* | *-55.9* | *-49.0* | *-29.4* | *-18.3* | *-22.5* | *-30.9* | *-40.8* | ***-143.1*** | ***-389.9*** |
| ***Underlying cash balance*** | *-8.2* | *-27.7* | *-43.7* | *-50.9* | *-55.0* | *-50.7* | *-34.1* | *-21.0* | *-21.5* | *-28.9* | *-38.4* | ***-130.5*** | ***-380.1*** |

(a) As this table is presented as a memorandum item, these figures are not reflected in the totals in the tables above. This is consistent with the approach taken in the budget where the budget impact of most measures is presented excluding the impact on PDI. If the reader would like a complete picture of the total aggregate, then these figures would need to be added to the figures above. For further information on government borrowing and financing please refer to the PBO's online budget glossary[3].

(b) A positive number for the fiscal balance indicates an increase in revenue or a decrease in expenses or net capital investment in accrual terms. A negative number for the fiscal balance indicates a decrease in revenue or an increase in expenses or net capital investment in accrual terms. A positive number for the underlying cash balance indicates an increase in receipts or a decrease in payments or net capital investment in cash terms. A negative number for the underlying cash balance indicates a decrease in receipts or an increase in payments or net capital investment in cash terms.

\- Indicates nil.

[3] https://www.aph.gov.au/about_parliament/parliamentary_departments/parliamentary_budget_office/online_budget_glossary