

Treasury Report: Impact of Repairing Leaky Homes on GST

Date:	17 December 2009	Report No:	T2009/2759
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Action Sought

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Minister of Finance (Hon Bill English)	<p>Note that there is unlikely to be a net dividend to the government from GST collected on goods and services provided to repair leaky homes.</p> <p>Note the GST impact does not provide the government with any scope to provide more assistance towards the costs of repair.</p> <p>Agree to forward this report to the Prime Minister and the Minister of Building and Construction to inform their response to the Mayors.</p>	10am, Thursday 17 December 2009

Contact for Telephone Discussion (if required)

Name	Position	Telephone		1st Contact
Stephen Glover	Manager, Children and their Families	[withheld]	[withheld]	✓
Chris Pound	Analyst, Children and their Families	[withheld]	[withheld]	

Minister of Finance's Office Actions (if required)

If agreed, forward to the offices of the Prime Minister and the Minister for Building and Construction.

Enclosure: No

Treasury Report: Impact of Repairing Leaky Homes on GST

Executive Summary

The Prime Minister has requested advice from Treasury on whether the government will receive a large GST windfall from the additional spending on repairs for leaky homes and so can afford to contribute a greater amount towards the repair costs.

The short answer

In short, expenditure on repairing leaky homes is likely to have no impact on overall GST receipts. GST is a broad based tax and the money the government, councils and homeowners spend on repairing leaky homes would otherwise be spent on other goods and services elsewhere in the economy. These goods and services would also be subject to GST so there is unlikely to be any net increase in GST.

The longer answer

GST applies to a broad base – just over 80% of all household expenditure is on items subject to GST. The main exclusions are rent and mortgage repayments, foreign travel, financial services, and small overseas purchases over the internet. The proportion of expenditure subject to GST remains broadly unchanged across the income distribution. New Zealand's GST system is also highly efficient, when compared relative to other countries.

The short answer describes the longer run effect on GST. In the short run, homeowners and councils will borrow to finance repairs of leaky homes. This will result in higher expenditure over the next few years, and lower expenditure in the future. Homeowners will need to repay interest and principal on the extra debt and so their expenditure subject to GST will be lower than it would otherwise be, for the term of the loan. Likewise, councils will also need to service and repay the extra debt they will take on.

As a result the Crown will see higher GST receipts in the short term, offset by lower GST receipts over the longer term. The Crown is still no better off overall. This change in the timing of GST receipts is no different to the Crown borrowing more to be able to spend more in the short term, at the cost of higher debt costs and hence less scope to spend over the longer term. Expressed another way, the Crown could use the higher GST receipts in the short term to pay down debt or borrow less, so that lower debt costs in the future offset the lower receipts from GST – in this way the Crown's expected expenditure track would be left unchanged.

In practical terms, this timing effect on GST receipts will be reduced to some extent by the overall financing constraints on banks. Given banks do not have an unlimited ability to lend, it is likely that the increased lending for repair of leaky homes will reduce the amount of lending available for other activities. Other expenditure in the economy will be lower, with lower GST receipts, which will in part offset the GST receipts from leaky home repairs.

Hence the main conclusion remains the same. While the timing of GST receipts may alter, the overall value of GST receipts is unchanged and the Crown is no better off overall.

Ability to provide additional assistance

As a result, with little change in GST receipts overall, the impact on GST does not provide the government with any scope to provide more assistance towards the costs of repair.

Next steps

We understand Mayors will need to respond to the government's proposal shortly. It is likely that the GST question, and the leaky home issue more broadly, will be the subject of some comment in the press over the next few weeks.

We recommend that you forward this report to the Prime Minister and the Minister for Building and Construction to inform their response to the mayors.

Recommended Action

We recommend that you:

- a **note** that there is unlikely to be a net dividend to the government from GST collected on goods and services provided to repair leaky homes;
- b **note** the GST impact does not provide the government with any scope to provide more assistance towards the costs of repair; and
- c **agree** to forward this report to the Prime Minister and the Minister for Building and Construction to inform their response to the Mayors.

Agree/disagree.

Stephen Glover
**Manager, Children and their Families
for Secretary to the Treasury**

Hon Bill English
Minister of Finance