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Lincolne Scott

By email: AFTSubmissions@treasury.gov.au

Dr Ken Henry
Review Panel Chair
Australia's Future Tax System
AFTS Secretariat
The Treasury
Langton Crescent
PARKES ACT 2600

Dear Dr Henry,

We make this submission to the Review of Australia's Future Tax System as a member of the Australian property industry advocating immediate reform of taxation to simultaneously

- drive deep, fast, low-cost greenhouse gas emissions cuts in all non-residential buildings,
- stimulate jobs growth and innovation in the new carbon economy,
- improve the health and productivity of working Australians, and
- assist governments facing deferment of investment in energy infrastructure.

If upstream emissions from heat and electricity are included, emissions from buildings total 40 per cent of the global greenhouse gas emissions. In our cities, their contribution rises to as much as 80%.

In response to those staggering figures, and the fact that the Federal Government's proposed Carbon Pollution Reduction Scheme will not impact the non-residential property sector, we have spent the past 18 months investigating the best way to stimulate and maximise energy efficiency investments in all office blocks, pubiic buildings, hospitals, hotels, schools and campuses, shopping centres and department stores, and industrial buildings.

We have identified a cap and trade scheme for the non-residential building sector, which we have called the *Efficient Building Scheme* (full details of the Scheme are attached).

We gave evidence on the Scheme to the Senate Select Committee Inquiry on Climate Policy. We described how the scheme could deliver a **50% reduction** in the greenhouse gas emissions from non-residential buildings **by 2020**. Non-residential buildings account for at least 15.8% of Australia's emissions – halving those emissions will deliver a greater reduction than the government's own 5% target.

The argument mounted by some commentators that the market will determine where least cost abatement occurs and therefore drive energy efficiency improvements in non-residential buildings overlooks the basic nature of the industry, commonly referred to as split incentives or principal agent. That is, in almost every commercial development the entity responsible for developing the building is not the owner, let alone the tenant. So there is no financial incentive for a building owner or developer to invest in energy efficiency. Consequently uptake of energy efficiency and greenhouse gas emissions reduction initiatives has been poor.

The Efficient Building Scheme is a simple and elegant solution that overcomes many of the barriers to energy efficiency investments in the building sector. However we believe further reductions could be made through tax reforms such as the following:

- **Changes to Research & Development tax concession legislation**

  Current Research & Development (R&D) tax concession legislation is ill-suited for the property industry, where research and development is usually undertaken on a project basis, embedded in a project budget and applied to asset-specific materials or methods, making it virtually impossible for companies in the sector to forecast R&D expenditure for future years or sustain a consistent level of eligible expenditure. As a result it is therefore also virtually impossible for companies in the sector to access the premium R&D tax concession more than occasionally owing to the fact that R&D expenditure must consistently increase to maintain access to that rate.

  We believe this is curtailing the industry's investment in green building technology development, and emissions reduction solutions in particular, and advocate reform of R&D tax concessions that will make them accessible to the building sector.

  We note that 'Venturous Australia', the Report on the Review of the National Innovation System, makes a number of recommendations in relation to tax concessions for Research & Development, to which the Federal Government is due to respond "in the budget context".

In conclusion, by maximizing energy efficiency investments across the non-residential building sector these tax reforms – in concert with the Efficient Building Scheme - will enhance overall economic, social and environmental wellbeing.

In the face of the global financial crisis and rising unemployment, they will also drive growth in new green jobs by providing appropriate incentives for increased workforce participation and skill formation, of both new entrants to the workforce and those who will be retooled for the new carbon economy.

Without the Efficient Building Scheme and these tax reforms, the necessary investments in energy efficiency will not be made.

We would be pleased for the opportunity to discuss our submission with you further.

Yours sincerely

Ché Wall
Managing Director