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Small Business and General Business Tax Break – Consultation
Business Tax Division

The Treasury
Langton Crescent
PARKES ACT 2600

Email: investmentallowance@treasury.gov.au

Dear Sir/Madam

Thank you for the opportunity to comment upon the draft legislation introducing the Tax Laws Amendment (Small Business and General Business Tax Break) Bill (2009).

1 Background

The CCF or Civil Contractors Federation is the member based representative body of civil engineering contractors in Australia providing assistance and expertise in contractor development and industry issues.

Through our Federation we represent 2000 small, medium and large sized contractors who in turn employ more than 40,000 people.

Our members are involved in a variety of projects and activities including the development and maintenance of civil infrastructure such as roads, bridges, dams, wharves, commercial and housing land development.

Civil Construction is for historic reasons considered as part of the building and construction industries but in effect it represents 30% or more of the sector nationally and over 40% in some states such as Queensland.

Our members are substantial purchasers of heavy plant and machinery from road graders and bulldozers through to small bobcats and light utility vehicles. As such they are purchasers of both new and used equipment and have a considerable interest in the draft bill.

2 The economic climate

We have welcomed the government's assistance through a number of stimulus packages and in particular its support for infrastructure development. The state of the industry is very concerning, with federal government assistance generally yet to flow through to our members on the ground.

Our Queensland branch has carried out detailed work on the downturns in Queensland and have found since September 2008:

- The private earthworks and subdivision market has declined by approximately 50%;
- The civil construction industry workforce has declined by approximately 10 – 15%; and
- Trainees and apprentices have made up 1 in 10 redundancies to date.

The projections to June 2009 are even more concerning:

- Based on current trends CCF estimates that the total civil construction workforce in Queensland will decline by approximately 25 -35% by mid 2009; and
- It is expected that trainees and apprentices will make up approximately 1 in 6 of those redundancies.

Any efforts therefore to assist our members in making large capital investments is important both for the cash injection into the economy generally and also in relation to business confidence.

However there are several issues we would like to bring to your attention.

3 Concerns with proposed investment allowance.

The measure only applies to new equipment. We appreciate the policy rationale for this in that it is designed to specifically support new capital investment.

As stated previously a number of our members would purchase second hand equipment – still at considerable capital cost –but without the assistance available for new equipment. In fact they might be more inclined to purchase second hand equipment given their concerns about workflow and economic activity generally.

With this in mind we would point out the following matters for consideration:

3.1 Majority of heavy plant and equipment is made overseas.

A majority of the heavy equipment is not made in Australia and accordingly the Australian economy does not directly benefit from the cash injection.

Further such plant and equipment will actually impact unfavourably on the balance of payments – especially with the Australian dollars current exchange rate.

3.2 Possible distortion of the cost of second hand equipment and a consequent fall in asset values for present owners.

It would seem likely that by introducing the favourable treatment for new assets, second hand assets might fall in value. This might impact upon demand for second hand equipment which is locally based and employs local staff in sales and service.

It may also impact upon the value of assets already in the hands of businesses and cause a loss of value of those assets. This might be important if the assets themselves are part of the financing of the company and are held as collateral for the loans held by a business. In a very difficult credit market this could lead to financiers seeking further security from borrowers or increasing the cost of funding, all of which are highly undesirable.

4 Suggested reforms

4.1 Industry assistance for those purchasing second hand equipment

CCF supports the Government measure but we would also like to see incentives for those purchasing second hand equipment perhaps through specific and targeted industry assistance measures.

Government has recently for example tied the \$14.7 billion package for schools and schools maintenance to preference to businesses that demonstrate a commitment to retain and employ new apprentices.

Government could consider matching grants for businesses that are prepared to invest in equipment which increases their capacity to retain or take on staff. For example an additional grader which would allow the contractor to employ another employee or to train or retrain someone already in the company.

4.2 State taxation reforms

Reforms in state taxation such as stamp duty would also greatly assist members and we are happy to provide further detailed information. For example in Victoria our members pay stamp duty on the registration of earth moving equipment. This is not the case in a number of the other states. All of this adds considerably to the cost of doing business.

4.3 Timing

We appreciate that the Government measure is designed as a bring forward for capital expenditure. Critically these are big capital investments and certainty of taxation arrangement is paramount.

However, it would be appropriate for Government to keep this measure and its timing under constant review.

This is especially the case given the well known difficulties in relation to finance in the small to medium sector. The Government stimulus packages for infrastructure as noted earlier take time to flow through into real economy (ie our members don't have work on the ground) and this will no doubt weigh very heavily on members minds in making investment decisions.

We would accordingly welcome being in constant dialogue on this issue with Government.

Thank you for the opportunity to provide our views. Please contact Ms Abramson on 03 9851 9900 should you wish to discuss any aspects of our submission further.

Yours Sincerely



Mr Chris White
Chief Executive Officer