

Carbon Tax Implications for the Property Industry

by Danielle King, MBDV

Although the property industry does not directly emit large amounts of carbon, it is responsible (indirectly) for approximately 24% of Australia's Greenhouse Gas (GHG) emissions. With the Carbon Tax coming into effect on 1st July this year, it's time to seriously look at and prepare for the impact it will have on you, your business and your clients.

The key elements are that it will be charged at \$23 per tonne of Greenhouse Gas (GHG or CO₂-e) and will apply to any entity producing more than 25,000 kilo-tonnes of CO₂-e per annum. While the 'carbon price' will only apply to the biggest polluters, it will have an effect on increasing end-user costs in the following areas:

- Energy (electricity and gas, especially if from fossil fuels);
- Water (depending on providers' carbon output);
- Waste (disposal to landfill);
- Transport (air, heavy construction and public transport);
- Construction materials (cement, steel, aluminium, glass);
- Industrial chemicals (refrigerants, fire retardants);
- Air travel.

Exemptions currently include agriculture, fisheries and forestry. Light road vehicles (4.5 tonnes or less) are exempt for the first two years, but will be impacted from 1 July 2014.

The Impact

Administratively, there will be no forms to fill in or carbon accounting required (unless you're one of the biggest polluters). It will be 'business as usual'; however, we will be exposed to higher costs. The Treasury Modelling Overview document states an expected increase of 10% for electricity and around 9% for gas during the first year.

In the construction industry, producers of emissions' intensive building materials such as steel, aluminum and cement, will experience increased costs, and they will seek to pass these on to consumers. According to an Allen Consulting Group Report¹, the

impact on constructing a 200 sqm home in Victoria in 2012-2013 financial year is likely to be an increase of approximately 1.7% (or \$18 per sqm), adding around \$3,645 to the price of the home.

In relation to commercial construction, cost increases are expected to be in the vicinity of 1.5% or \$27/sqm. However, the biggest impact on commercial building is anticipated to be in operating costs, and is likely to be the cost of energy.

The impact on the residential market is much lower than originally expected due to Federal Government Shielding. This is where the most emissions-intensive trade-exposed activities will receive assistance to cover 94.5 per cent of industry average carbon costs in the first year of the carbon price (this includes steel, aluminum and glass). Less emissions-intensive trade-exposed activities are to receive assistance to cover 66 per cent of industry average carbon costs (this includes wood and some plastics)². This assistance will be reduced by 1.3 per cent each year, which will keep the cost impact to a manageable level, and will give such industries time to cut pollution levels (therefore, carbon tax liability) gradually.

Aside from the shielding mentioned above, the Federal Government is offering other assistance packages during 2012-2013 for small businesses (with an aggregated turnover of under \$2m per year). Of particular relevance is:

- Asset Tax Write-off: for investment in energy efficient equipment, small businesses will be able to instantly write off any eligible equipment/asset up to \$6,500. This covers items like energy efficient lighting, more efficient computers, efficient refrigerators, efficient heating/cooling systems and so on.
- Information Sessions: keep an eye out in your local area for the small business sessions that will be run later this year.
- The Australian Competition and Consumer Commission (ACCC) also has legal budget to investigate complaints where consumers feel an organisation is charging too much 'carbon tax'.

What Can You Do?

There is always something you can do to mitigate higher costs; here are some suggestions:

- Review your business and identify areas in which you are likely to be impacted (eg electricity costs, transport, materials);
- Look at ways to reduce your exposure (by reducing what you use, change the way you do things);
- Seek to minimise use of products that have a high carbon footprint (aluminium, steel, cement, glass) and utilise other options (eg wood);
- Read your energy bills, understand what you use, and apply energy efficiency strategies to reduce energy usage;
- Minimise waste, increase your recycling, and reduce waste to landfill;
- Take advantage of the \$6,500 tax write off;
- Minimise transport costs; where possible, go local.

Places for free help:

- Carbon Tax information at www.cleanenergyfuture.gov.au
- Small business support at www.business.gov.au
- An excellent (and free) small business resource is the book by Jon Dee and Sensis called *Sustainable Growth*, downloadable at <http://about.sensis.com.au/small-business/free-sustainable-growth-book/>

If you'd like some specialised assistance, get a qualified Energy Auditor or Carbon Accountant who understands your industry to review your business with you.

The bottom line is: yes, carbon tax will have an impact; how big that impact is will really depend on what you do, and how you do it.

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¹ Allen Consulting Group Report, The Carbon Price Mechanism and the Property Sector (October 2011), commissioned by The Property Council.

² Department of Climate Change and Energy Efficiency (DCCEE).