

Schedule 4

National Urban Water and Desalination Plan— urban water tax offset

Background

5.1 Schedule 4 relates to the government's \$1 billion *National Urban Water and Desalination Plan*, announced in the 2008 Budget. Under this plan, the government will fund large infrastructure projects to assist cities and towns meet future water demand. The plan is part of the government's *Water for the Future* plan, a ten-year, \$12.9 billion initiative to secure the long-term water supply for Australia.¹ The security of water supplies 'will be achieved by supporting major desalination, water recycling and stormwater harvesting projects'.²

Purpose

5.2 The amendments to the *Income Tax Assessment Act 1997* (ITAA) 'provide a general exemption from capital gains tax for capital gains arising from a right or entitlement to a tax offset, deduction or similar benefit'.³ Amendments are made to 'provide a refundable tax offset in relation to certain projects approved under the National Urban Water and Desalination Plan' for the period between and including income years 2008–09 and 2012–13.⁴

5.3 The Hon Chris Bowen MP, Assistant Treasurer, explained:

Under the plan, eligible projects may receive assistance at a rate of 10 per cent of eligible capital costs, up to a maximum of \$100 million per project.

This schedule implements the refundable tax offset component of the plan and delivers on the government's election commitment.⁵

5.4 Financial assistance will be provided as refundable tax offsets for private sector applicants, or as grants for applicants outside the tax system such as water utilities and governments. In order to be entitled to a tax offset, the company is required to have a valid certificate for the project, issued by the Water Minister for

1 The Hon Wayne Swan MP, Treasurer, and Senator The Hon Penny Wong, Minister for Climate Change and Water, '\$1 billion to help secure urban water', Media release, PW 251/08, 7 December 2008.

2 Explanatory Memorandum, p. 73.

3 Explanatory Memorandum, p. 79.

4 Explanatory Memorandum, p. 4.

5 The Hon Chris Bowen, Assistant Treasurer, Second reading speech, *House of Representatives Hansard*, 19 March 2009, p. 16.

one income year at a time, and must meet project milestones. A certificate may be revoked, and the Water Minister's decisions may be reviewed by applying to the Administrative Appeals Tribunal.⁶

5.5 The plan finishes in 2013–14, and the provisions are repealed with effect from 1 July 2014.⁷

5.6 The schedule makes some consequential amendments to the ITAA 1997.⁸

5.7 The proposal was announced in the 2008 Budget.⁹

Financial impact

5.8 The financial implications of the proposal are as follows:

2008–09	2009–10	2010–11	2011–12
-\$14m	-\$129m	-\$195m	-\$315m

5.9 The compliance cost is expected to be moderate.

6 Explanatory Memorandum, pp. 74, 78.

7 Explanatory Memorandum, p. 78.

8 Explanatory Memorandum, p. 79.

9 Explanatory Memorandum, p. 4.