THE EFFECTS OF A NEW TAX SYSTEM (*ANTS*) ON BOARDING HOUSE COSTS AND PRICES

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Department of Family and Community Services

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Main Findings

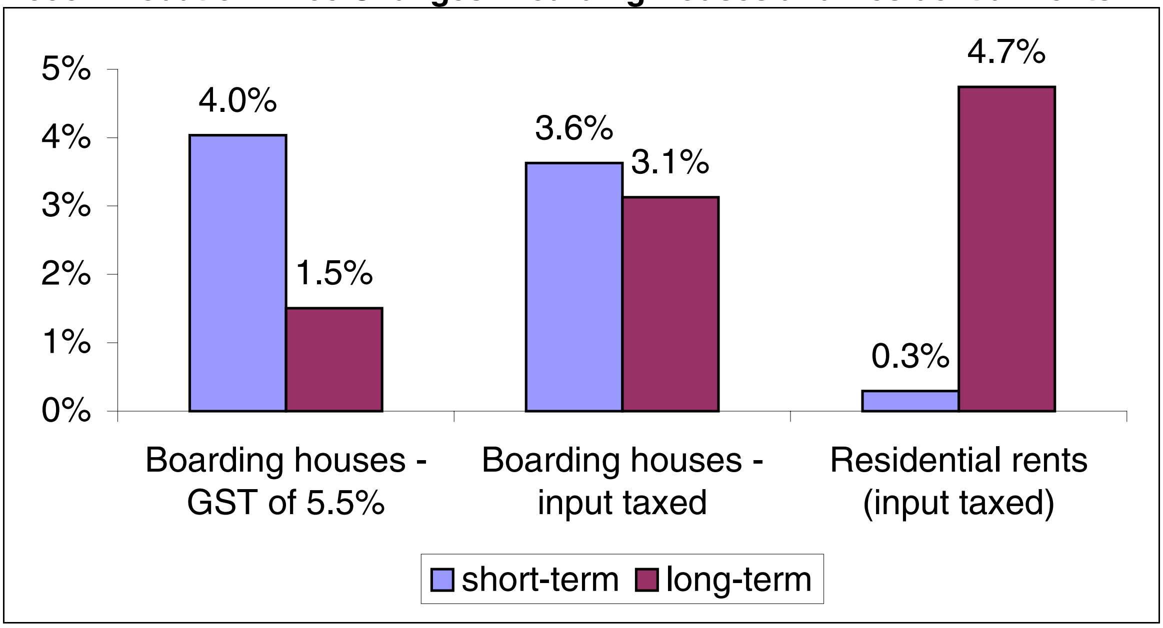
This report examines the effects of a New Tax System (ANTS) on the price of boarding house accommodation in the short-term and long-term, and compares this with the effects on residential rents.

Each year, boarding houses can choose between two tax options under the GST.

Under the first option, they are input taxed, putting them on the same footing as residential rents. This means GST is applied to the inputs used by boarding houses, but not to its output of accommodation services. Thus the GST indirectly raises the price of accommodation services by raising the cost of non-labour inputs.

Under the second option, boarding houses are concessionally taxed. Specifically, GST is applied patially to 50 per cent of the GST-inclusive price of accommodation services, implying an effective GST rate of 5.5 per cent rather than 10 per cent. Full input tax credits can be claimed so in effect, there is no GST on inputs. Under partial output taxation, the GST directly raises the price of accommodation services.

Accommodation Price Changes: Boarding Houses and Residential Rents



In the short-term, which corresponds to the ANTS introduction year of 2000/01, the price rise for boarding house accommodation is about 4 per cent under both GST options. Under the first option, GST output tax of 5.5 per cent is partially offset by cost savings resulting in a net rise in the price of boarding house accommodation of 4.0 per cent. Under the second option, GST input tax of 10 per cent is applied to non-labour inputs resulting in a slightly lower price rise of 3.6 per cent. However, these are average outcomes. Most but not all boarding houses will be better off choosing input taxation in 2000/01.

In the long-term, when changes in the cost of construction of boarding houses flow through, the price rise is lowest under partial output taxation. Under partial output taxation, additional cost savings pull back the price rise from 4.0 per cent in the short-term to 1.5 per cent in the long-term. Under input taxation, these additional cost savings are partly offset by GST on construction work on boarding houses, so the price rise declines only slightly from 3.6 per cent in the short-term to 3.1 per cent in the long-term.

Overall, it will be advantageous for the majority (but not all) of existing boarding houses to elect for input taxation rather than partial output taxation in 2000/01. However, new boarding houses constructed after the introduction of ANTS, and existing boarding houses undertaking significant alterations or extensions, should opt for partial output taxation to avoid GST on this construction work undertaken under ANTS.

In the long-term, even where boarding houses opt for input taxation, their long-term price rise of 3.1 per cent will be less than the rise for residential rents of 4.7 per cent. This is because labour is a significant cost for boarding houses but not residential properties, and is not subject to GST.

Boarding houses that opt for partial output taxation will enjoy an even bigger long-term advantage over the input-taxed residential rent sector, because this avoids GST on new construction work that would otherwise eventually flow through to accommodation prices as it will with rents.

This is the opposite of the situation in the short-term. Residential properties use less recurrent inputs than boarding houses and so attract less GST input tax in the short-term.

Introduction

This report examines the effects of a New Tax System (ANTS) on the price of boarding house accommodation in the short-term and long-term, and compares this with the effects on residential rents.

Boarding houses can choose between two tax options under the GST.

Under the first option, they are input taxed, putting them on the same footing as residential rents. This means GST is applied to the inputs used by boarding houses, but not to the price of their services. The GST indirectly raises the price of accommodation services by raising the cost of non-labour inputs.

Under the second option, boarding houses are partially output taxed under Division 87, with GST at an effective rate of 5.5 per cent added to the price of their services. Full input tax credits can be claimed so in effect, there is no GST on inputs. Under partial output taxation, the GST directly raises the price of accommodation services.

This case study has looked at four different boarding houses. The boarding houses studied were chosen by the Department of Family and Community Services to give a broad representation of small, medium and large boarding houses covering four cities. Due to confidentiality, further details about these boarding houses are not reported.

The modelling exercise was conducted in a two step procedure — economy-wide modelling and boarding house modelling.

The economy-wide modeling uses Econtech's MM303 model. MM303 is a computable general equilibrium model that was designed specifically to estimate the effects of indirect tax reform such as ANTS on costs, prices and economic activity in each industry. It has been used by Econtech to model the effects of ANTS for the ACCC, the Commonwealth Government, each of the eight states and territories, many major corporations in sectors including mining, manufacturing, utilities, retailing, hotels, transport, communications, banking and the media, and for 12 industry associations.

In the economy-wide modelling step, MM303 was used to estimate the cost changes arising from *ANTS* in both the short-term and the long-term for 305 different goods and services in the Australian economy.

In the boarding house modelling, these cost changes were applied to the actual cost structure of each of the four boarding houses, as represented by their financial information for 1998/99. This was used to estimate expected short-term and long-term changes in prices for accommodation at each boarding house. The results were then averaged over the four boarding houses on a per room basis.

The cost changes estimated in this report are based on a full pass through of cost savings by all suppliers. This is required by the ACCC guidelines and in any case is likely to occur in many industries through the operation of competitive market forces.

Estimates of direct, short-term and long-term cost and price changes were made. These terms are defined in section 1, which deals with method and definitions.

Section 2 estimates the effects of ANTS on the price of accommodation at boarding houses that opt for input taxation under the GST.

Section 3 estimates the effects of ANTS on the prices of accommodation at boarding houses that instead adopt for partial output taxation under the GST.

Section 4 presents the effects of *ANTS* on residential rents, as a point of comparison.

The Attachment summarises the calculation of estimated price changes for each of the four boarding houses.

While all care, skill and consideration has been used in the preparation of this report, the findings are based upon the strict instructions of the Department of Family and Community Services and are designed to be used only for the specific purpose set out below. If you believe that your instructions are different from those set out below, or you wish to use this work or information contained within it for another purpose, please contact us.

The specific purpose of this report is to provide the Department of Family and Community, with estimates of the effect on *ANTS* on prices of accommodation at boarding houses, drawing on financial information for four selected boarding houses. These price changes are compared with expected changes in residential rents.

The findings in this report are subject to unavoidable statistical variation. While all care has been taken to ensure that the statistical variation is kept to a minimum, care should be used whenever using this information. Should you require clarification of any material, please contact us.

1. Method and Definitions

The cost changes estimated in this report are based on a full pass through of cost savings by all suppliers. This is required by the ACCC guidelines and in any case is likely to occur in many industries through the operation of competitive market forces. Only some of the cost savings will be immediately available to boarding houses. Econtech has estimated the direct, short-term and long-term cost effects for each boarding house. These estimates can be explained in terms of the following diagram.

Changes under *ANTS* in the Short-term and Long-term

Income =

Labour costs	No change
Non-labour recurrent costs	Changes in short-term and long-term
Depreciation	Changes in long-term
EBIT	Changes in long-term

- There is no change in labour costs because wages should be unaffected by *ANTS*. While employees will face higher consumer prices due to the GST, they will be more than compensated for this with higher take home pay due to income tax cuts. Thus employee living standards will rise under *ANTS* without the need for any special wage rise.

- Direct cost changes refer to the changes to each boarding house from changes to the tax treatment of its non-labour recurrent purchases. For example, where a boarding house elects to be input-taxed, GST will add to the cost of taxable recurrent inputs. Similarly, abolition of wholesale sales tax will directly lead to lower prices for items such as furniture, motor vehicle parts and electronic equipment.

- In addition to the direct changes, short-term cost changes include indirect savings in non-labour recurrent purchases when suppliers pass on their direct savings in the form of lower prices to Boarding houses. For example, suppliers of road freight services will make tax savings on their purchases of fuel, and under ACCC re-pricing guidelines they are required to pass these savings on to boarding houses in the form of lower road freight rates. Thus the short-term changes capture all savings in non-labour recurrent costs, including direct changes as well as indirect or supply chain savings.

- *ANTS* will make new business investment cheaper with the abolition of wholesale sales tax on items such as road motor vehicles, computers and other office equipment. On the other hand new residential investment will be subject to GST and will become dearer. In the long-term these changes in the replacement cost of business capital and residential housing will flow through to changes in depreciation. Also, assuming an unchanged rate of return on capital, profit levels in dollar terms will be similarly affected.

2. Boarding House Accommodation Prices under Input Taxation

Each year under the GST, boarding houses can elect to be either input taxed or partially output taxed. This section estimates the effects of ANTS on accommodation prices for boarding houses that opt for input taxation.

Under input taxation, a boarding house pays GST on the cost of its taxable non-labour inputs that it cannot claim back, but does not add GST to the price of its accommodation services.

Table 2.1 shows the estimated cost and subsequent price changes for boarding houses that opt to be input taxed. The results are based on an analysis of the cost structures of the four boarding houses used as case studies.

Table 2.1
Cost and Price Changes for Boarding Houses Under Input Taxation

	Cost Changes %	Price Changes %
Direct	4.1%	4.1%
Short-term	3.6%	3.6%
Long-term	3.1%	3.1%

Note: all changes are expressed as percentages of boarding house income.

Under input taxation, there is no GST on the supply of accommodation services, however, boarding house owners will pay GST on their inputs. This means that changes in costs flow through to changes in prices without change, as seen from comparing the cost and price columns of Table 2.1.

Under input taxation, ANTS is expected to produce a direct rise in the cost of recurrent expenses for boarding houses equivalent to 4.1 per cent of income. This mainly reflects GST on inputs that cannot be claimed back. However, there are also direct cost savings due to the reduction and removal of taxes, such as wholesale sales tax, on boarding house purchases.

In the short-term, under input taxation, boarding house prices will rise by 3.6 per cent. In addition to the direct effect of 4.1 per cent, boarding houses should receive cost reductions as suppliers pass on their tax savings on recurrent purchases (e.g. from the removal of sales tax on printing and stationery) in the form of lower prices. These savings partially offset the direct cost increases, so that boarding house prices in 2000/01 need only rise by 3.6 per cent, not 4.1 per cent.

In the long-term, changes under ANTS in the cost of new business and residential investment will flow through into prices.

For suppliers to boarding houses, business investment will be cheaper, with the removal of sales tax on items such as road motor vehicles, computers and other office equipment. In the long-term, these capital cost savings should enlarge the cost savings that boarding houses receive from suppliers.

On the other hand, under input taxation, construction work on boarding houses will be dearer. This applies both to the construction of new boarding houses as well as alterations and additions to existing boarding houses.

Overall, lower supplier capital costs outweigh higher boarding house construction costs, so in the long-term the price rise for boarding house accommodation eases to 3.1 per cent from the short-term rise of 3.6 per cent.

Table 2.2 summarises the calculation of the estimated price changes reported in Table 2.1.

Table 2.2
Cost and Price Changes for Boarding Houses Under Input Taxation

	Cost Shares	Short-term Change %	Long-term Change %
Labour	17%	0.0%	0.0%
Other Recurrent Purchases	61%	6.0%	2.8%
Capital & Other Expenses	23%	0.0%	6.4%
Total	100%	3.6%	3.1%

It is assumed that *ANTS* does not affect wage rates, so labour expenses are not changed.

Other recurrent purchases contribute over one-half of boarding houses expenses. In the short-term, under input taxation, the cost of other recurrent purchases is expected to rise by 6.0 per cent. This is the net effect of GST of 10 per cent partly offset by cost savings passed through the supply chain as a result of removal and reduction in other taxes such as wholesale sales tax. In the long-term, as capital savings are also passed on, the cost of other recurrent purchases will only increase by 2.8 per cent. The major recurrent purchases that boarding houses make can be seen in Table 2.3.

The main capital expense of boarding house accommodation is the construction of the boarding house itself. Thus the long-term rise of 6.4 per cent in capital costs of boarding houses largely reflects GST input taxation on construction work on boarding houses, including the construction of new boarding houses as well as alterations and additions, partially offset by cost savings in the construction industry.

Table 2.3 shows the major recurrent purchases of boarding houses. The total increase in costs of recurrent purchases of 6.0 per cent in the short-term and 2.8 per cent in the long-term are the same as the figures in Table 2.2. Cost savings on recurrent purchases will flow through to price changes quite quickly. The share of total recurrent purchases is shown for each type of purchase, along with the short-term and long-term cost changes.

The table below shows 16.2 per cent of boarding house recurrent purchases are electricity. As the electricity industry is not currently taxed and the price to boarding houses will be subject to GST, this directly adds 10 per cent to the price of electricity. In the short-term there is expected to be a small saving in the cost of producing electricity and this will be passed on to boarding houses in the form of lower prices, thus reducing the cost increase to boarding houses. Similarly, in the long-term the cost of producing electricity should fall further, reducing the cost increase to boarding houses to 6.0 per cent.

Table 2.3
Changes in Costs of Major Recurrent Purchases under Input Taxation

	Cost Share	Short-term Change %	Long-term Change %
Electricity Supply	16.2%	9.7%	6.0%
Furniture Manufacturing n.e.c.	14.0%	4.2%	1.6%
Business Admin. Services	6.8%	8.8%	6.3%
Repair & Maintenance - Bldg	6.8%	8.6%	6.5%
Mattress Manufacturing	6.7%	8.9%	6.2%
Gas Supply	6.1%	9.6%	3.4%
Business Management Service	3.5%	8.8%	6.2%
Motor Vehicle Parts	3.2%	-7.6%	-10.3%
Accounting Services	3.2%	8.8%	6.2%
Other general insurance	3.2%	0.6%	-0.4%
Residential Property Operators	3.0%	0.3%	4.7%
Electronic Equipment	3.0%	3.5%	0.8%
Water, Sewerage & Drainage	2.3%	-0.8%	-5.6%
Radio & Television Services	2.0%	7.9%	4.9%
Other	19.9%	4.3%	-0.6%
Total Recurrent Costs	100.0%	6.0%	2.8%

Boarding houses also purchase furniture. Furniture manufacturing includes bed bases, wardrobes, cupboards, tables, and chairs and contributes to 14 per cent of boarding house's recurrent purchases. These items currently incur sales tax and thus the direct change in the cost of these items will include both the removal of this tax and the introduction of a 10 per cent GST. In the short-term, the cost of these items is expected to increase by 4.2 per cent as savings in the cost of production is passed on to boarding houses in the form of lower prices. In the long-term, the cost of production should fall further as capital savings are realised and thus prices should only increase by 1.6 per cent.

Further areas of significant price increases for boarding houses are through the purchase of business administrative services, repair & maintenance, gas and business management services. The GST adds 10 per cent directly to the price of these goods and services, but in the short-term this is partially offset through cost savings in supply chains being passed on in the form of lower prices.

3. Boarding House Accommodation Prices under Partial Output Taxation

Each year under the GST, boarding houses can elect to be either input taxed or partially output taxed. This section estimates the effects of ANTS on accommodation prices for boarding houses that opt for partial output taxation.

Under partial output taxation, GST is applied to 50 per cent of the GST-inclusive price of accommodation services, implying an effective GST rate of 5.5 per cent rather than 10 per cent. Full input tax credits can be claimed so in effect, there is no GST on inputs. Under partial output taxation, the GST could directly raise the price of accommodation services if cost savings are not passed on by up to 5.5 per cent.

Table 3.1 shows the estimated cost and subsequent price changes for boarding houses that opt for partial output taxation. The results are based on an analysis of the cost structures of the four boarding houses used as case studies.

Table 3.1

Cost and Price Changes for Boarding Houses Under Partial Output Taxation**Error! Not a valid link.**Note: all changes are expressed as percentages of boarding house income.

Under partial output taxation, the GST directly adds 5.5 per cent to the price of boarding house accommodation which is offset by a fall in boarding house costs. Thus the price changes shown in Table 3.1 exceed the cost changes by that margin.

Under partial output taxation, ANTS is expected to produce a direct fall in the cost of recurrent expenses for boarding houses equivalent to 0.8 per cent of income. Unlike under input taxation, GST on inputs can be claimed back, so GST does not add to costs. Costs fall due to the reduction and removal of taxes, such as wholesale sales tax, on boarding house purchases.

In the short-term, under partial output taxation, in addition to the direct saving of 0.8 per cent, boarding house costs will fall further as suppliers pass on their tax savings on recurrent purchases (e.g. from the removal of sales tax on printing and stationery). This enlarges the cost fall to 1.4 per cent. Adding GST at an effective rate of 5.5 per cent to the price of boarding house accommodation converts this short-term cost fall of 1.4 per cent into a price rise of 4.0 per cent.

In the long-term, changes under ANTS in the cost of new business and residential investment will flow through into prices.

For suppliers to boarding houses, business investment will be cheaper, with the removal of sales tax on items such as road motor vehicles, computers and other office equipment. In the long-term, these capital cost savings should enlarge the cost savings that boarding houses receive from suppliers.

Unlike under input taxation, under partial output taxation construction work on boarding houses will also be cheaper. This applies both to the construction of new boarding houses as well as alterations and additions to existing boarding houses.

Overall, lower supplier capital costs and lower boarding house construction costs in the long-term lower the price rise for boarding house accommodation from the short-term estimate of 4.0 per cent to 1.5 per cent.

Table 3.2 summarises the calculation of the estimated price changes reported in Table 2.1.

Table 3.2
Cost and Price Changes for Boarding Houses Under Partial Output Taxation

	Cost Shares	Short-term Change %	Long-term Change %
Labour	17%	0.0%	0.0%
Other Recurrent Purchases	61%	-2.3%	-5.0%
Capital & Other Expenses	23%	0.0%	-3.3%
Total	100%	-1.4%	-3.8%

It is assumed that *ANTS* does not affect wage rates, so labour expenses are not changed.

Other recurrent purchases contribute over one-half of boarding houses expenses. In the short-term, under partial output taxation, the cost of other recurrent purchases is expected to fall by 2.3 per cent due to direct and indirect (or supply chain) savings in recurrent costs. Unlike under input taxation, the GST does not raise costs because it can be claimed back in full. In the long-term, as capital savings are also passed on, the cost of other recurrent purchases will fall by 5.0 per cent.

The main capital expense of boarding house accommodation is the construction of the boarding house itself. Thus the long-term fall of 3.3 per cent in capital costs of boarding houses largely reflects supply chain savings in construction work on boarding houses, including the construction of new boarding houses as well as alterations and additions.

Table 3.3 shows the major recurrent purchases of boarding houses. The total fall in costs of recurrent purchases of 2.3 per cent in the short-term and 5.0 per cent in the long-term are the same as the figures in Table 3.2. Cost savings on recurrent purchases will flow through to price changes quite quickly. The share of total recurrent purchases is shown for each type of purchase, along with the short-term and long-term cost changes. Unlike under input taxation, GST does not raise costs because it can be claimed back in full.

Electricity supply is the largest recurrent purchase boarding houses make, contributing 16.2 per cent to total recurrent purchases. It is expected that boarding houses will have no direct cost savings in electricity, as electricity purchases do not currently attract any of taxes that are to be reduced or removed. In the short-term there is expected to be a small cost saving of 0.3 per cent in the electricity industry as savings in electricity production are passed through to boarding houses in the form of lower prices. In the long-term there are expected to be large cost savings of 3.6 per cent as capital savings also flow through the supply chain.

Furniture is the next largest recurrent purchase for boarding houses. Furniture includes bed bases, wardrobes, cupboards, tables, chairs and other like furniture. Furniture will have direct cost savings of 4.3 per cent due to the removal of wholesale sales tax. In the short-term, the cost of these items is expected to decrease by 5.3 per cent as suppliers pass on their cost savings in the form of lower prices. In the long-term, the cost savings are expected to be 7.6 per cent as reductions in capital is also passed on.

Table 3.3
Changes in Costs of Major Recurrent Purchases under Partial Output Taxation

	Cost Share	Short-term Change %	Long-term Change %
Electricity Supply	16.2%	-0.3%	-3.6%
Furniture Manufacturing n.e.c.	14.0%	-5.3%	-7.6%
Business Admin. Services	6.8%	-1.1%	-3.4%
Repair & Maintenance - Bldg	6.8%	-1.3%	-3.2%
Mattress Manufacturing	6.7%	-1.0%	-3.4%
Gas Supply	6.1%	-0.4%	-6.0%
Business Management Service	3.5%	-1.1%	-3.4%
Motor Vehicle Parts	3.2%	-16.0%	-18.4%
Accounting Services	3.2%	-1.0%	-3.4%
Other general insurance	3.2%	0.6%	-0.4%
Residential Property Operators	3.0%	0.3%	4.7%
Electronic Equipment	3.0%	-5.9%	-8.4%
Water, Sewerage & Drainage	2.3%	-0.8%	-5.6%
Radio & Television Services	2.0%	-1.9%	-4.6%
Other	19.9%	-0.6%	-2.7%
Total Recurrent Costs	100.0%	-2.3%	-5.0%

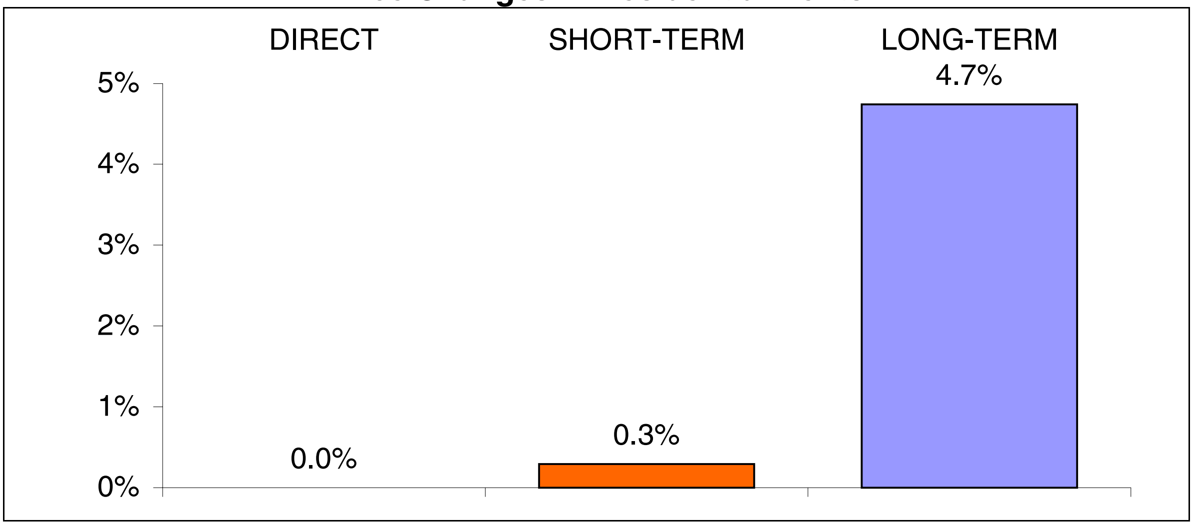
Further areas of saving for boarding houses are through the purchase of business administrative services, repair & maintenance, mattresses and gas. No direct savings are expected on any of these products. Cost savings are expected to flow through as these industries pass on their cost savings to boarding houses in the form of lower prices.

4. Residential Rents under Input Taxation

This section examines the effects of a New Tax System (ANTS) on residential rents. This serves as a point of comparison for the effects reported in the preceding sections on prices of boarding house accommodation.

Residential rents are an input taxed supply. No GST is charged on sales, but GST paid on inputs cannot be claimed back as an input tax credit. Econtech's MM303 model estimates that residential rents will increase by 0.3 per cent in the short-term and 4.7 per cent in the long-term, as shown in Chart 4.1.

Chart 4.1
Price Changes in Residential Rents



No <u>direct</u> change is expected in the price of residential rental. This is because residential rents will not incur GST charges and there are no direct taxes on this service that are to be removed.

<u>Short-term</u> price changes also include suppliers passing on their cost changes through price adjustment. These price changes include GST input tax on non-labour recurrent purchases, partially offset by upstream suppliers passing on their recurrent cost savings by reducing their prices before adding on the GST. The estimated <u>short-term</u> price increase is 0.3 per cent. This is only a small change because residential operators do not tend to purchase many recurrent items, which is the source of short-term changes.

While the short-term price change takes into account changes in recurrent costs, the <u>long-term</u> change also includes changes in capital costs. The main capital cost in this sector is residential construction, including alterations and additions to existing residences and construction of new residences. The full, long-term change will only be realised as new residential construction work takes place under ANTS. The long-term cost change is estimated to be 4.7 per cent. In the long-term higher house prices are expected to significantly increase the price of residential rents to rental property residents.

Table 4.1 summarises the effects of *ANTS* on each major component of production costs. The change is presented in both dollars and as a percentage for both the short-term and the long-term.

Table 4.1
Cost and Price Changes for Residential Rents Under Partial Output Taxation

	Before *ANTS* ($)	Short-term Change ($)	Short-term Change (%)	Long-term Change ($)	Long-term Change (%)
Labour	$0	$0.0	0.0%	$0.0	0.0%
Other Recurrent Expenses	$20	$0.3	1.4%	-$0.2	-1.1%
Capital & Other Expenses	$80	$0.0	0.0%	$5.0	6.2%
Total	$100	$0.3	0.3%	$4.7	4.7%

The residential rental industry does not use any direct labour in providing its services.

As can be seen in the table above, other recurrent purchases contribute only one fifth of costs for residential rents. In the short-term, these costs are expected to increase by 1.4 per cent. This price change includes GST input tax on non-labour recurrent purchases, partially offset by upstream suppliers passing on their recurrent cost savings by reducing their prices before adding on the GST. In the long-term, as capital savings are also passed on, the cost of other recurrent purchases are expected to fall by 1.1 per cent.

Changes in capital costs will only be realised in the long-term, when houses constructed under the existing system are either replaced with new houses or are altered or extended under the new system. House prices are expected to rise by 6.2 per cent in the long-term. Residential operators are input taxed and so cannot claim back the GST on new houses as an input tax credit, leading to higher rents.

Table 4.2 shows the major recurrent purchases of this industry. The cost of recurrent purchases is expected to rise by 1.4 per cent in the short-term and fall by 1.1 per cent in the long-term. These changes are the same as already reported in Table 4.1. Cost savings on recurrent purchases will flow through to price changes quite quickly. The share of total recurrent purchases is shown for each type of purchase, along with the direct, short-term and long-term cost changes.

The table below shows about 40 per cent of residential operators' recurrent purchases are from the banking sector. This is mostly the financing of properties. As there are no taxes on banking services being abolished in the first year and because these services are input taxed under *ANTS*, there will be no direct change in the cost of banking for residential operators. Cost savings of 1.9 per cent are expected to flow through in the short-term when FID is abolished from 1 July 2001. In the long-term, banking costs should fall by 3.2 per cent as capital savings flow through.

Rental property owners also purchase water and sewerage services. These services contribute to about 20 per cent of this supplier industry's recurrent purchases. As water and sewerage services are not taxed under the current taxation system and will be GST-free under *ANTS*, there will be no direct change in the cost of these services. In the short-term, the cost of these items are expected to fall by 0.8 per cent as suppliers pass on their recurrent cost savings in the form of lower prices. In the long-term, these costs should fall by 5.6 per cent as capital savings also flow through.

The remaining areas where costs will increase for the rental property owners are through the building repairs and maintenance costs, real estate agent services, and structural metal products. These purchases will show a direct increase in costs to rental property owners because of GST input tax. As suppliers of these products pass on their cost savings in the form of lower prices, this will offset some of the direct cost increase. In the long-term, suppliers should also pass on cost savings in capital costs further offsetting the direct effects.

Table 4.2
Changes in Costs of Recurrent Purchases of Residential Property Operators

Description	Share	Change Direct	Change Short-term	Change Long-term
Banking	38%	0.0%	-1.9%	-3.2%
Water Supply, Sewerage and Drainage Services	19%	0.0%	-0.8%	-5.6%
Repairs & Maintenance - Bldg	9%	10.0%	8.6%	6.5%
Building Societies	3%	0.0%	-2.7%	-4.7%
Real Estate Agents	3%	10.0%	8.8%	6.2%
Other general insurance	2%	0.0%	0.6%	-0.4%
Structural Metal Product Manufacturing n.e.c.	2%	10.0%	9.2%	5.7%
Misc. Plastic Product Mfg	2%	2.3%	1.3%	-1.5%
Legal Services	2%	10.0%	8.8%	6.2%
Credit Unions	2%	0.0%	1.5%	-0.6%
Misc. Wood Product Mfg	2%	7.6%	6.4%	3.8%
Wooden Structural Component Manufacturing	1%	10.0%	8.9%	6.2%
Other	16%	5.6%	4.7%	1.5%
Total	100%	2.8%	1.4%	-1.1%

Attachment: Summary Comparison of Price Changes for 4 Boarding Houses

Boarding House A

	Input Taxed		Partial Output Tax	
	Cost Changes	Price Changes	Cost Changes	Price Changes
Direct	4.0%	4.0%	-1.2%	4.3%
Short-term	3.6%	3.6%	-2.1%	3.2%
Long-term	1.6%	1.6%	-4.7%	0.6%

Boarding House B

	Input Taxed		Partial Output Tax	
	Cost Changes	Price Changes	Cost Changes	Price Changes
Direct	3.5%	3.5%	-0.5%	4.9%
Short-term	2.9%	2.9%	-1.0%	4.4%
Long-term	1.8%	1.8%	-3.1%	2.3%

Boarding House C

	Input Taxed		Partial Output Tax	
	Cost Changes	Price Changes	Cost Changes	Price Changes
Direct	1.7%	1.7%	-0.3%	5.2%
Short-term	1.6%	1.6%	-0.4%	5.1%
Long-term	2.1%	2.1%	-0.4%	5.1%

Boarding House D

	Input Taxed		Partial Output Tax	
	Cost Changes	Price Changes	Cost Changes	Price Changes
Direct	4.8%	4.8%	-0.7%	4.8%
Short-term	4.2%	4.2%	-1.2%	4.2%
Long-term	4.7%	4.7%	-4.0%	1.3%