



Pre-Budget briefing paper: An analysis of Australian Government tax measures that encourage fossil fuel use

Introduction

This briefing paper summarises government estimates of federal tax measures that encourage the production and use of fossil fuels. It shows how over coming years, the Australian Government plans to gift over \$10 billion of taxpayer’s money to subsidise fossil fuel use, unless significant changes are made in the May Federal Budget.

The assessment concludes that the Australian Government is set to spend over \$44 billion in the form of tax rebates and concessions, foregone revenue and expedited write downs of assets per year from 2012/13 to 2015/16. This assessment only includes tax measures, and does not include direct grants or State Government measures, which could add billions more to the annual totals.

On the basis of this assessment Environment Victoria and Market Forces are recommending that the Federal Government prioritises action at the upcoming Budget to cut the following five subsidies which would save taxpayers \$15 billion over the next three years:

Measure	Savings (\$ million)			Total
	2013/14	2014/15	2015/16	
Fuel tax credits scheme to the mining industry ^(a)	2377	2262	2277	6916
Statutory effective life caps (accelerated depreciation) to the oil and gas, and petroleum extraction industries, and to non-specified industries. ^(b)	55	240	490	785
Concessional rate of excise levied on aviation gasoline and aviation turbine fuel	960	990	1000	2950
Energy Security Fund – payments and free permits to the most carbon intensive power stations ^(c)	897	922	1026	2845
Exploration and prospecting deduction	500	400	400	1300
TOTAL	4789	4814	5193	14796

(a) Estimates based on the proportion of Fuel Tax Credits in 2010-11 that were claimed by the mining industry (\$2 billion of \$5.2 billion).

(b) Values taken from Business Tax Working Group discussion paper deliberations, obtained through Freedom of Information.

(c) Energy Security Fund values calculated by multiplying the value of free permit allocations to carbon pollution-intensive coal-fired power stations (41.705 million per annum – see <http://www.cleanenergyfuture.gov.au/clean-energy-future/securing-a-clean-energy-future/appendices/> under “Details of assistance”) with the forecast carbon price (obtained from Chart 5.1: Australia carbon price, carbonpricemodelling.treasury.gov.au/carbonpricemodelling/content/chart_table_data/chapter5.asp) where the price taken reflected the second half of that financial year.

Why Australia needs to end polluter handouts

Australia has begun to tackle climate change, with carbon pricing a step towards cleaning up our economy. But by continuing polluter handouts the Australian Government is, at the same time as pricing carbon, encouraging the continued use of fossil fuels that drive climate change.

Polluter handouts are also highly inequitable. For instance, the mining industry receives a 32c per litre discount on fuels such as petrol and diesel for off-road use. So while most Australians are paying full price for their fuel at the



bowser, their taxes also cover the cost of a huge discount to the mining industry. In all, this handout costs Australian taxpayers \$2 billion each year.

Australia, along with all other G20 nations, committed in 2009 to phase out inefficient fossil fuel subsidies over the medium term. At the time, Treasury identified \$8 billion in annual savings that could be made if Australia fulfilled this commitment¹. This money could be used to fund a wide range of nation-building projects, yet to date we continue to use these funds to line the pockets of polluting, and in many cases highly profitable, industries.

Is the government preparing to end polluter handouts?"

Documents uncovered through Freedom of Information² reveal that the government has given consideration to cancelling several fossil fuel subsidies in order to make budget savings. In 2012 The Business Tax Working Group put forward options for removing the exploration and prospecting deduction and accelerated depreciation that could return billions of dollars over the coming few years to the public purse.

The documents also show the mining industry lobbying the government to keep hold of their largest individual handout – the Fuel Tax Credits Scheme. A Treasury minute reveals that in November 2012 the Association of Mining and Exploration Companies met the Secretary of the Australian Treasury. The industry was concerned about losing their entitlements to Fuel Tax Credits, which reaped the industry \$2 billion in 2010-11.

In an era of significant budget constraints, governments are investigating options for budget savings. Cuts to fossil fuel subsidies can return billions of dollars to the budget bottom line, realign government spending with policy priorities and significantly reduce greenhouse emissions.

Building a campaign to end polluter handouts

Over the course of the next two years, major opportunities exist for the Australian Government to live up to their G20 commitment and begin the environmentally and economically responsible process of ending polluter handouts. Other organisations like the International Monetary Fund, the World Bank, the United Nations and the International Energy Agency are also calling for nations to end fossil fuel subsidies. Two federal budgets, a federal election, the G20 meeting in September and Australia's chairing of the G20 in 2014 all present a clear platform for Australia to meet its international commitments on fossil fuel subsidy reform.

Market Forces and Environment Victoria have joined with other environment groups across Australia to call for an end to polluter handouts. The campaign – paidtopollute.org.au – will be a focal point for community action calling on Treasurer Swan and MPs across Australia to support the redirection of polluter handouts towards projects that benefit Australia.

¹ Australian Financial Review, 28 February 2011, "Swan under pressure over fossil fuels".
http://www.afr.com/p/national/politics/swan_under_pressure_over_fossil_sIL1kkLg1AUfnHagNzibxM

² Documents available at www.marketforces.org.au/ffs/2013-foi.html

Assessment of Federal taxation-based fossil fuel subsidies

Measure	Expenditure (\$ millions)			
	2012/13	2013/14	2014/15	2015/16
Fuel tax credits scheme (total)	5600	6179	5880	5919
Statutory effective life caps (accelerated depreciation)	1335	1440	1460	1390
Energy Security Fund – payments and free permits to the most carbon intensive power stations	1000	897	922	1026
Concessional rate of excise levied on aviation gasoline and aviation turbine fuel	930	960	990	1000
Fringe Benefits Tax - Application of statutory formula to value car benefits	930	780	720	870
Exploration and prospecting deduction	550	500	400	400
Carbon Price Mechanism thresholds for obligations*	55	55	55	55
FBT - Exemption for employee taxi travel to or from their place of work*	55	55	55	55
GST – Tourism; domestic air or sea travel*	55	55	55	55
PRRT - expenditure uplift rate*	55	55	55	55
PRRT - gas transfer price regulations*	55	55	55	55
PRRT – starting base and uplift rate for capital assets*	55	55	55	55
Shipping - investment incentives*	55	55	55	55
Carbon Price Mechanism uncovered sectors – Decommissioned mines	20	40	30	30
FBT - Discounted valuation for car parking fringe benefits	18	19	20	21
FBT - Discounted valuation of travel for airline employees and travel agents	9	10	10	10
Alternatives to the logbook method of substantiating car expenses*	5	5	5	5
FBT - Exemption for minor private use of company motor vehicle*	5	5	5	5
FBT - Exemption for transport for oil rig and remote area employees in certain circumstances*	5	5	5	5
Capital expenditure deduction for mining, quarrying and petroleum operations	2	2	2	2
	Expenditure (\$ millions)			
	2012/13	2013/14	2014/15	2015/16
	10794	11222	10834	11068

* Values represent the middle value of a range estimated by Treasury. i.e. 5 is reflective of a Treasury estimate of 0-10, 55 reflective of a Treasury estimate of 10-100

Sources:

All measures and their corresponding values except for the Energy Security Fund and Fuel Tax Credits Scheme taken directly from Treasury Tax Expenditures Statement 2012, released January 2013 (<http://www.treasury.gov.au/PublicationsAndMedia/Publications/2013/TES-2012>)

Fuel Tax Credits Scheme – figures taken directly from Australian Government Budget 2012-13, Budget Paper 1, Section 6-10 (<http://www.budget.gov.au/2012-13/content/bp1/download/bp1.pdf>)

Energy Security Fund values calculated by multiplying the value of free permit allocations to carbon pollution-intensive coal-fired power stations (41.705 million per annum – see <http://www.cleanenergyfuture.gov.au/clean-energy-future/securing-a-clean-energy-future/appendices/> under “Details of assistance”) with the forecast carbon price (obtained from Chart 5.1: Australia carbon price, carbonpricemodelling.treasury.gov.au/carbonpricemodelling/content/chart_table_data/chapter5.asp) where the price taken reflected the second half of that financial year.



Descriptions of individual measures†

Fuel tax credits scheme

Under the scheme, eligible companies are able to claim a reduced rate of excise for fuels. The mining industry is able to use Fuel Tax Credits to lower the cost of fuels for mining trucks, digging and hauling equipment operating on a quarry site. The reduced rates for the financial year 2012-13 are:

- Petrol: 32.58 cents per litre
- Diesel and other liquid fuels: 31.79 cents per litre
- LPG: 34.32 cents per litre
- LNG and CNG: 31.33 cents per litre

Statutory effective life caps (accelerated depreciation)

'Statutory effective life caps' provide a shorter write-off period for assets subject to a statutory cap where the cap is below the effective life determined by the Commissioner. Statutory caps exist for a range of assets, including:

- aircraft and certain assets used in the oil and gas industries;
- trucks, truck trailers, buses and light commercial vehicles; and
- tractors and harvesters.

Concessional rate of excise levied on aviation gasoline and aviation turbine fuel

Aviation gasoline and aviation turbine fuel are subject to a lower rate of excise than the benchmark rate. Aviation gasoline and aviation turbine fuel are currently excised at 3.556 cents per litre and this rate has been increased from 1 July 2012 to include a 'carbon component rate', which is determined by the emission factor of each fuel.

Fringe Benefits Tax - Application of statutory formula to value car benefits

A fringe benefit arises where an employee is provided with a car for private use. The statutory formula method is designed to provide employers with a low compliance cost alternative to the operating cost method, eliminating the need to maintain a vehicle log book. The statutory formula method removes the need to explicitly distinguish between the business and private use of a vehicle. Under the statutory formula method, a person's car fringe benefit is determined by multiplying the relevant statutory rate by the cost of the car.

Energy security fund - payments and free permits to the most carbon intensive power stations

Under the carbon price mechanism, "transitional assistance" to Australia's most carbon intensive coal-fired power stations is being provided in the form of cash handouts and free carbon permits. This package is valued at \$5.5 billion over five years, and began with an early payment of \$1 billion in cash to eligible electricity generators prior to the 2012-13 financial year. This measure has been found to reap Victoria's brown coal generators a windfall gain of \$2.3-5.4 billion.

Exploration and prospecting deduction

Expenditure on exploration or prospecting for the purpose of mining and quarrying is immediately deductible. In addition, the cost of a depreciating asset is immediately deductible if the taxpayer first uses the asset for exploration or prospecting for minerals or quarry materials obtainable by mining operations, the asset is not used for petroleum development drilling or for operations in the course of working a mining or quarrying operation, and when the taxpayer starts to use the asset, the taxpayer either carries on mining operations, or proposes to carry on such operations, or carries on a business that includes exploration and prospecting for which the cost of the asset was necessarily incurred.



Carbon Price Mechanism thresholds for obligations

In most covered sectors under the CPM, only entities producing above 25,000 tonnes of emissions per year are liable. This is largely for practical reasons — participation thresholds are designed to balance the benefits of increased CPM coverage against the costs of scheme compliance.

Fringe Benefits Tax - Exemption for employee taxi travel to or from their place of work

Any benefit arising from taxi travel by an employee is exempt from fringe benefits tax if the travel is a single trip beginning or ending at the employee's place of work.

Goods and services tax – Tourism; domestic air or sea travel

Domestic air or sea travel within Australia by residents or non-residents as part of a wider international arrangement is not subject to GST. Domestic air travel within Australia by non-residents is also GST-free if the ticket is purchased outside Australia. Transport insurance for the above supplies is also GST free.

Petroleum Resources Rent Tax - expenditure uplift rate

Under the PRRT regime, expenditure is uplifted at a number of different rates depending on when the expenditure took place and the nature of the expenditure. For example exploration expenditure is uplifted at the long term bond rate plus 15 per cent and general expenditure is uplifted at the long term bond rate plus 5 per cent. These uplift rates are beyond the appropriate benchmark rate of the long term bond rate.

Petroleum Resources Rent Tax - gas transfer price regulations

For PRRT purposes, the gas transfer price regulations stipulate rules for calculating the gas transfer price where there is no arm's length transaction. The regulations provide an allowance for capital expenditure which is based on the long term bond rate plus 7 percentage points rather than the applicable benchmark rate. The regulations also provide further concessions in the calculation of the gas transfer price by reducing the estimated upstream gas price by half the difference between the estimated 'upstream' price and the estimated 'downstream' price where the upstream price is the higher.

Petroleum Resources Rent Tax – starting base and uplift rate for capital assets

Under the PRRT regime, existing investments of projects brought under the PRRT on 1 July 2012 are recognised through the provision of a starting base allowance. The starting base allowance recognises assets relating to the upstream assets of the PRRT project on 2 May 2010. The starting base may be calculated using the market value method, the accounting book value method or the 'look back' value method. Unused starting base losses are uplifted at the long term bond rate plus 5 per cent. Unused exploration expenditure under the look back valuation option is uplifted at long term bond rate plus 15 per cent.

Shipping — Investment incentives

From 1 July 2012, the following incentives are provided to encourage investment in Australian shipping:

- an income tax exemption on qualifying income for ship operators;
- a royalty withholding tax exemption;
- accelerated depreciation, under which Australian ship owners will be able to depreciate vessels over an effective life that is capped at 10 years; and
- balancing adjustment roll-over relief for Australian ship owners if they cease to hold a vessel and purchase another eligible vessel within two years.



Carbon Price Mechanism uncovered sectors – Decommissioned mines

Fugitive emissions from decommissioned coal mines will be excluded from the CPM. This is partly because of measurement difficulties caused by sealing a mine, but also because fugitive emissions from most decommissioned mines are expected to be below the 25,000 tonne emissions threshold. Decommissioned mines that may initially exceed the threshold are expected to fall below it within a few years.

Fringe Benefits Tax - Discounted valuation for car parking fringe benefits

A car parking fringe benefit arises if within a one kilometre radius of the premises on which the car is parked there is a commercial parking station that charges a fee for all day parking that is more than a specified car parking threshold calculated by reference to movements in the Consumer Price Index. The threshold for the fringe benefits tax year commencing 1 April 2012 is \$7.83. For fees under the threshold no parking fringe benefit arises.

Fringe Benefits Tax - Discounted valuation of travel for airline employees and travel agents

The taxable value of an airline transport fringe benefit for airline employees and travel agents is the stand-by value less the employee contribution. For domestic travel, the stand-by value is 37.5 per cent of the lowest publicly advertised, economy airfare charged by the provider, at or about the time of travel, over that route.

Alternatives to the logbook method of substantiating car expenses

Three alternative methods to the logbook method (which is based on actual expenditure) are available to value car expense deductions:

- the one third of actual expenses method (only available if business use exceeds 5,000 kilometres);
- the 12 per cent of original value method (only available if business use exceeds 5,000 kilometres); and
- the cents per kilometre method (only available up to a maximum of 5,000 business kilometres).

Fringe Benefits Tax - Exemption for minor private use of company motor vehicle

Where an employee is provided with the use of a motor vehicle that is not a car, such use is exempt from fringe benefits tax if any private use is restricted to travel to and from work, use which is incidental to travel in the course of duties of employment, and non-work-related use that is minor, infrequent and irregular.

Fringe Benefits Tax - Exemption for transport for oil rig and remote area employees in certain circumstances

Transport provided to employees in remote areas in Australia or who work on oil rigs or other installations at sea may be exempt from fringe benefits tax. The exemption applies where the employees are provided with accommodation at or near the work site on working days and it would be unreasonable to expect the employees to travel to and from work on a daily basis.

Capital expenditure deduction for mining, quarrying and petroleum operations

Certain capital expenditure incurred in carrying on a mining, petroleum or quarrying operation can be deducted over the lesser of the life of the project or 10 years (20 years for quarrying). The deduction is available for expenditure incurred before 1 July 2001 or expenditure relating to a depreciating asset acquired before 1 July 2001 (excluding plant and equipment). Expenditure incurred on or after 1 July 2001 can be deducted over the life of the project.