

Submission to: Senate Economics Legislation Committee

Title: Fuel Indexation (Road Funding) Bill 2014
Excise Tariff Amendment (Fuel Indexation) Bill 2014
Customs Tariff Amendment (Fuel Indexation) Bill 2014
Fuel Indexation (Road Funding) Special Account Bill 2014

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1. About the Australian Trucking Association

The Australian Trucking Association (ATA) is the peak body that represents the trucking industry. Its members include state and sector based trucking associations, some of the nation's largest transport companies and businesses with leading expertise in truck technology.

2. Recommendation

The Senate should pass schedule 4 of the Fuel Indexation (Road Funding) Bill 2014 as introduced.

3. Introduction

The Excise Tariff Amendment (Fuel Indexation) Bill 2014, the Customs Tariff Amendment (Fuel Indexation) Bill 2014, the Fuel Indexation (Road Funding) Special Account Bill 2014 and the Fuel Indexation (Road Funding) Bill 2014 would, if passed, implement the Australian Government's budget decision to reintroduce fuel tax indexation.

The bills would also:

- establish a special account to ensure that the net revenue raised from the reintroduction of fuel tax indexation is spent on roads¹
- round the fuel tax and road user charge rates to one decimal place in cents to simplify fuel tax credit calculations. Indexation calculations would nonetheless be worked out to three decimal places in cents.²

The bills would see the fuel tax rate increase twice a year in line with the consumer price index, starting on 1 August 2014. This is forecast to raise an additional \$2.2 billion in revenue over the next four years.

As the ATA has pointed out, the reintroduction of indexation would not increase the net fuel tax on heavy truck operations because of the fuel tax credits system.³

Under the *Fuel Tax Act*, businesses that operate trucks with a Gross Vehicle Mass (GVM) of more than 4.5 tonnes on public roads can claim fuel tax credits for each litre of fuel they buy for use in those vehicles. The trucks must meet one of four environmental criteria.

Businesses can claim for the full amount of tax they paid on the fuel when they acquired it (s43-5) minus the road user charge (s43-10(3)). The road user charge and the very high registration charges paid by trucking operators mean that the trucking industry more than pays for its impact on the road network.

The sample transaction on page 4 works through the impact of a hypothetical indexation increase of 0.4 cents per litre on a trucking operator entitled to claim fuel tax credits.

¹ Explanatory memorandum, p11.

² Explanatory memorandum, p10.

³ Australian Trucking Association. "Fuel tax indexation will not affect grocery prices." Media release, 13 May 2014. Accessible at www.truck.net.au.

Sample transaction: purchasing 1000L of diesel

	Before indexation	After indexation
Sample diesel price (cpl)	160	160.4
Fuel tax (cpl)	38.143	38.543
Rounded fuel tax (cpl)	--	38.5
Road user charge (cpl)	26.14	26.1*
Fuel tax credit rate (cpl)	12.003	12.4

Purchasing 1000L of diesel

Cost of fuel at pump (\$)	1600.00	1604.00
Tax paid at pump (\$)	381.43	385.00
Tax credit claimed on BAS (\$)	120.03	124.00
Net tax paid (\$)	261.40	261.00

* The 26.14 cpl road user charge set by the *Road User Charge Determination (No 1) 2013* would be rounded to one decimal place of a cent – see schedule 4, item 6(2) of FIRF 2014.

Although the bills would not change the net fuel tax on trucks, the ATA identified two potential issues for trucking operators with the introduction of fuel tax indexation. These issues are the focus of this submission, and are addressed in the Fuel Indexation (Road Funding) Bill 2014.

4. Issues with fuel tax indexation

4.1 Impact on quarterly BAS payers

At present, the *Fuel Tax Act* requires businesses to calculate their fuel tax credits based on the rate of fuel tax that applied on the day they acquired or imported the fuel (s43-5(2A)). As a result, an increase in the fuel tax rate due to indexation would immediately flow through to operators' fuel tax credits.

This arrangement is set to change on 1 July 2015. For fuel acquired, manufactured or imported from 1 July 2015, businesses will be required to calculate their fuel tax credits based on the tax rate that applied on the **first day of the tax period to which the credit is attributable** (s43-5(2A) row 3).

The effect of this method change would be as follows:

Monthly BAS payers	No effect. The 1 February and 1 August fuel tax indexations would apply on the first day of their February and August tax periods.
Quarterly BAS payers	Quarterly BAS payers would not be able to claim fuel tax credits at the higher rate until two months after the indexation occurred (ie: 1 April and 1 October instead of 1 February and 1 August).

This would obviously be undesirable. It would mean that quarterly BAS payers (businesses with a GST turnover of less than \$20 million) would be subject to a higher effective tax rate than monthly BAS payers.

4.2 Reducing the number of fuel tax credit adjustments in a year

Many fuel levies, contracts and cost calculators used in the trucking industry are based on the fuel tax credit rate. The reintroduction of fuel tax indexation would mean they would need to be altered up to three times a year: on 1 February and 1 August due to indexation and on 1 July in some years due to adjustments to the road user charge. The Australian Government has announced it will not adjust the road user charge in 2014.⁴

⁴ Transport and Infrastructure Council communique, 9 May 2014. Accessible at www.transportinfrastructurecouncil.gov.au.
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To reduce the red tape burden on the industry, the ATA considers it would be appropriate for the Government to adjust the road user charge on 1 August rather than 1 July in those years where the road user charge needs to be altered.

To enable this to occur, there would need to be a technical amendment to section 43-10(6) of the *Fuel Tax Act*. This section provides that a business's entitlement to fuel tax credits is reduced by the road user charge that applied at the **beginning of the tax period to which is the credit is attributable**.

If the Government adjusted the road user charge on 1 August, monthly BAS payers would be subject to the adjusted rate immediately. Quarterly BAS payers would not become subject to the adjusted rate until 1 October (the start of their next tax period).

To make a 1 August road user charge adjustment date work, the section would need to be amended to provide that road user charge adjustments take effect immediately.

5. How the Bill addresses these issues

The ATA raised these issues after the Budget with the ATO through the Fuel Schemes Stakeholder Group and Treasury. As a result of the ATA's advocacy, the Fuel Indexation (Road Funding) Bill 2014 addresses both these issues.

Schedule 4, item 1 of the Bill replaces the table in s43-5(2A) of the *Fuel Tax Act* to remove the 1 July 2015 changeover. As a result, businesses would continue to calculate their fuel tax credits based on the fuel tax rate applying on the day they acquired or imported the relevant fuel.

Schedule 4, item 2 would make a similar change to how businesses would determine the relevant road user charge rate. They would use the road user charge rate in force on the day prescribed by the amended table in s43-5(2A).

As a result of these amendments:

- quarterly BAS payers would be able to claim fuel tax credits at the correct rate; and
- the Government would have the scope, if it wished, to adjust the road user charge on 1 August without the adjustment causing issues for quarterly BAS payers.

The amendments fully address the concerns that the ATA raised with the ATO and Treasury.

Accordingly, the ATA recommends the Senate should pass schedule 4 of the Fuel Indexation (Road Funding) Bill 2014 as introduced.