



National Farmers' Federation

**Submission Senate Economics Legislation
Committee inquiry into the Fuel Indexation
(Road Funding) Bill 2014 and related bills.**



Senate Economics Legislation Committee
PO Box 6100
Parliament House
CANBERRA ACT 2600
By Email: economics.sen@aph.gov.au

Dear Committee Secretary

Inquiry into the Fuel Indexation (Road Funding) Bill 2014 and related bills

The National Farmers Federation (NFF) welcomes the opportunity to comment on the package of bills which propose amendments to the *Excise Tariff Act 1921* and the *Customs Tariff Act 1995* to index the rate of excise and excise-equivalent customs duty applied to fuels (the bills).

The NFF was established in 1979 and is the peak national body representing farmers, and more broadly, agriculture across Australia. The NFF's membership comprises all Australia's major agricultural commodities. Operating under a federated structure, individual farmers join their respective state farm organisation and/or national commodity council. Following a restructure of the organisation in 2009, NFF can now represent a broad cross section of the agricultural sector, encompassing the breadth and the length of the supply chain.

NFF has for 35 years consistently engaged in policy interaction with government regarding a range of issues of importance to the sector including workplace relations, trade, education, environment and innovation to name a few. The NFF represents the agriculture industry and provides high-level advice and guidance on issues of critical importance to the future of the Australian farm and agribusiness sector.

Fuel is a vital business input for a range of businesses. Agriculture is particularly fuel intensive because diesel fuel is a critical input for off-road vehicles, generators and heavy equipment used by the industry operating in remote areas off the electricity grid. As a result, the agriculture sector is a large user of Fuel Tax Credits (FTCs), commonly referred to as the 'Diesel Fuel Rebate', which refunds excise paid by farm businesses for fuel used as a business input in off-road vehicles and for power generation.

The *Fuel Tax Act 2006* automatically operates to ensure FTCs are available at the excise rate to fully offset excise for off-road use of diesel and petrol by the mining, agriculture and other industries. The legislation before the committee, as currently drafted, appropriately does not propose any change to these arrangements on the basis of sound tax policy.

Policy principle

Fuel Tax Credits are consistent with the tax policy principle that business inputs should not be taxed. This is the same principle that applies in the GST system which provides input tax credits for business to business transactions. FTCs simply reimburse businesses for excise tax paid on business inputs. Taxing business inputs is economically inefficient as it distorts production and consumption decisions. Australian

farmers are facing significant competition in both the domestic and international markets from rising costs and high exchange rate.

Fuel Tax Credits

Rebates for fuel excise are a long standing feature of Australia's tax system, existing in various forms for diesel since 1957. The current fuel tax credit scheme commenced in 2006 to create a single and administratively simple system of fuel tax credits.

FTCs are available to heavy vehicles used by any business and vehicles used off road in a number of industries including agriculture, forestry, fishing, manufacturing and construction. FTCs play an important role in underpinning production of goods and services in regional and remote Australia. Any move to reduce FTCs would introduce a tax distortion by imposing a tax on industries that are reliant on the use of diesel fuel because they operate large equipment off-road and generate their own power off the electricity grid in remote areas. Taxing such a key business input would impact the most farm businesses resulting in a less competitive sector. Importantly, a number of Australia's competitors do not levy taxes on fuels used in agriculture and mining.

Recommendation

Should the Senate decide to support the bills to index fuel excise, the NFF strongly recommends that no changes are made to remove indexation of FTCs in line with movements in excise rates.

The NFF appreciates the opportunity to provide these comments to the Committee. Any further information on the issues raised in this submission should be referred in the first instance to:

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