Senator Richard Di Natale

Leader of the Australian Greens

Parliament House

CANBERRA ACT 2600

Dear Senator Di Natale

Please find attached a response to your costing request, *Ending subsidies for fossil fuel use and extraction* (letter of 23 June 2016).

The response to this request will be released on the PBO website ([www.pbo.gov.au](http://www.aph.gov.au/pbo)).

If you have any queries about this costing, please contact Colin Brown on (02) 6277 9530.

Yours sincerely

Phil Bowen

25 June 2016

# Policy costing—during the caretaker period for the 2016 general election

|  |  |
| --- | --- |
| Name of proposal: | Ending subsidies for fossil fuel use and extraction |
| Summary of proposal: | The proposal would abolish:  Fuel Tax Credits (FTCs) for all industries except agricultural businesses  the frontier exploration uplift from the Petroleum Resource Rent Tax (PRRT)  accelerated asset depreciation for aircraft, the oil and gas industry and motor vehicles (except for those used for agricultural purposes)  the immediate deduction for exploration and prospecting expenses for the mining industry, including the Mining Exploration Development Incentive  the Australia-China Science and Research Fund (ACSRF).  The proposal would have effect from 1 September 2016. |
| Person/party requesting costing: | Senator Richard Di Natale, Australian Greens |
| Date of public release of policy: | 22 April 2016  <http://greens.org.au/news/vic/australian-greens-pledge-implement-paris-agreement> |
| Date costing request received: | 23 June 2016 |
| Date costing completed | 25 June 2016 |
| Expiry date for the costing: | Release of the next economic and fiscal outlook report |

## Costing overview

This proposal would be expected to increase the fiscal balance by $23,963 million and increase the underlying cash balance by $23,113 million over the 2016-17 Budget forward estimates period. The fiscal balance impact reflects a net increase in revenue of $1,600 million and a decrease in expenses of $22,363 million.

The underlying cash balance impact of this proposal differs from the fiscal balance impact because of a timing difference between when the FTC expense is recognised and when it is paid.

A detailed breakdown of the components of the costing is included at Attachment A.

The proposal would have an ongoing impact that extends beyond the 2016-17 Budget forward estimates period. The revenue impacts of the proposed abolition of accelerated depreciation and immediate deductions for exploration and prospecting would be expected to decline over time as the timing effect unwinds.

Departmental expenses as a result of abolishing the ACSRF would be expected to decrease by $1.2 million over the 2016-17 Budget forward estimates period. Departmental expenses for other components of this costing are not expected to be significant and have not been included in this costing.

This costing is considered to be of low reliability as it is based on a number of assumptions and projected aggregate data.

Table 1: Financial implications (outturn prices)(a)(b)

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Impact on ($m) | 2016–17 | 2017–18 | 2018–19 | 2019–20 | **Total** |
| Fiscal balance | 4,854.5 | 6,052.8 | 6,402.6 | 6,652.6 | **23,962.5** |
| Underlying cash balance | 4,254.5 | 5,902.8 | 6,352.6 | 6,602.6 | **23,112.5** |

1. A positive number indicates an increase in the relevant budget balance, a negative number a decrease.
2. Figures may not sum to totals due to rounding.

## Key assumptions

### Assumptions relating to the abolition of FTCs

The costing assumes that business fuel usage does not change as a result of the proposal.

Removing eligibility for claiming business fuel expenses has the potential to have a negative impact on the economy as it could increase costs across the production chain. However, consistent with *Charter of Budget Honesty Guidelines*, broader macroeconomic implications have not been included in this costing.

On an underlying cash balance basis, FTCs are recognised when they are paid by the Australian Taxation Office (ATO). It is assumed that most FTC is paid in the year the expense is incurred with the remainder paid in the following year. This reflects the fact that FTC payments are made by the ATO in arrears, and accounts for the fact that businesses can either submit their Goods and Services Tax (GST) annually, quarterly, or monthly.

Agriculture represents approximately 12 per cent of FTC claims.

### Assumptions relating to the abolition of the frontier exploration uplift from the PRRT

Data relating to 2014-15 petroleum project expenses and associated carry forward losses is assumed to be representative of PRRT operations across each financial year through the 2016-17 Budget forward estimates period.

PRRT project expenses will grow in line with the Consumer Price Index (CPI) each year and the base year data is adjusted to allow for changes in PRRT revenue collected since the base year.

The company tax rate for companies affected by the proposal is assumed to be 30 per cent over the 2016-17 Budget forward estimates period.

### Assumptions relating to the abolition of accelerated asset depreciation

The costing assumes that there is no change to the overall level or timing of investment as a result of this proposal.

Where there are varying safe harbour effective lives for the same category of asset, an average was taken to arrive at the safe harbour asset life.

Assets are assumed to be purchased evenly throughout the year.

Taxpayers are assumed to utilise deductions according to the following profile:

75 per cent are taxable in the year they purchase the depreciable assets

15 per cent become taxable in the year after they purchased the asset

5 per cent become taxable two years after they purchased the asset.

10 per cent of vehicles are assumed to be used for agricultural purposes.

### Assumptions relating to the abolition of the immediate deduction for exploration and prospecting

Taxpayers are assumed to utilise deductions associated with exploration and prospecting according to their taxable/non-taxable status.

Exploration and prospecting assets are assumed to have a 15 year effective life under the proposal.

### Assumptions relating to the abolition of the ACSRF

It is assumed that contracts already signed by the Department of Industry, Innovation and Science (DIIS) would be honoured.

The proportion of allocated funding that is contractually committed as at 1 September 2016 for the 2016-17 financial year is assumed to be consistent with the proportion committed at a similar point in time for the 2015-16 financial year.

## Methodology

All estimates have been rounded to the nearest $50 million, except for impacts resulting from the abolition of the ACSRF which have been rounded to the nearest $0.1 million.

### Methodology for the abolition of FTCs

The forward estimates for FTC expenses were adjusted to remove expected claims, except from agricultural entities. This amount was then adjusted to allow for the 1 September 2016 start date of the proposal.

### Methodology for abolishing the frontier exploration uplift from the PRRT

Project-level mining expenses were estimated based on 2014-15 data. Project-level revenues were adjusted such that total estimated PRRT revenue across the 2016‑17 Budget forward estimates period matched estimates from the 2016-17 Budget. The estimated uplift component of frontier expenditure was estimated by taking a percentage of expenditure that was reported under the relevant labels and calculating the impact on tax payable.

### Methodology for the abolition of accelerated asset depreciation and the immediate deduction for exploration and prospecting

The impact of these proposals was estimated by calculating the impact of total deductions expected under the proposal less the impact of total deductions currently expected.

### Methodology for the abolition of the ACSRF

The impact of this proposal was estimated by reversing the forward estimates for the ACSRF, less the estimated amount of funds that have been contractually obligated at 1 September 2016. The amount of committed funds was based on data provided by DIIS. Departmental savings for this part of the request were based on data provided by DIIS.

## Data sources

ATO Taxation Statistics.

Fuel excise data and FTC estimates from the 2016-17 Budget.

Data on business depreciating asset expenditure was obtained from the Treasury.

PRRT data was obtained from the ATO.

Data relating to the ACSRF was obtained from DIIS.

ACSRF forward estimates are as published in DIIS 2016-17 Portfolio Budget Statements.

# Attachment A: Ending subsidies for fossil fuel use and extraction—financial implications

Table A1: Ending subsidies for fossil fuel use and extraction—Fiscal balance(a)(b)

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| ($m) | 2016–17 | 2017–18 | 2018–19 | 2019–20 | **Total to 2019–20** |
| **Abolishing FTCs** | **4,550.0** | **4,550.0** | **4,300.0** | **4,500.0** | **17,900.0** |
| *Administered expense – FTC expenses* | *4,550.0* | *5,700.0* | *5,900.0* | *6,200.0* | ***22,350.0*** |
| *Revenue – Company Tax* | *-* | *-1,150.0* | *-1,600.0* | *-1,700.0* | ***-4,450.0*** |
| **Abolishing accelerated depreciation** | **100.0** | **500.0** | **1,000.0** | **1,400.0** | **3,000.0** |
| *Revenue – Company Tax* | *100.0* | *500.0* | *1,000.0* | *1,400.0* | ***3,000.0*** |
| **Abolishing the immediate deduction for exploration and prospecting** | **200.0** | **1,000.0** | **1,100.0** | **750.0** | **3,050.0** |
| *Revenue – Company Tax* | *200.0* | *1,000.0* | *1,100.0* | *750.0* | ***3,050.0*** |
| **Abolishing the ACSRF** | **4.5** | **2.8** | **2.6** | **2.6** | **12.5** |
| *Administered expense – Reduced funding for the ACSRF* | *4.5* | *2.4* | *2.2* | *2.2* | ***11.3*** |
| *Departmental expense – DIIS* | *-* | *0.4* | *0.4* | *0.4* | ***1.2*** |
| **Abolishing the frontier exploration uplift from the PRRT** | **..** | **..** | **..** | **..** | **..** |
| *Revenue – PRRT* | *..* | *..* | *..* | *..* | ***..*** |
| *Revenue – Company Tax* | *..* | *..* | *..* | *..* | ***..*** |
| **Total** | **4,854.5** | **6,052.8** | **6,402.6** | **6,652.6** | **23,962.5** |

1. A positive number for the fiscal balance indicates an increase in revenue or a decrease in expenses or net capital investment in accrual terms. A negative number for the fiscal balance indicates a decrease in revenue or an increase in expenses or net capital investment in accrual terms.
2. Figures may not sum to totals due to rounding.

.. Not zero, but rounded to zero.

Table A2: Ending subsidies for fossil fuel use and extraction—Underlying cash balance(a)(b)

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| ($m) | 2016–17 | 2017–18 | 2018–19 | 2019–20 | **Total to 2019–20** |
| **Abolishing FTCs** | **3,950.0** | **4,400.0** | **4,250.0** | **4,450.0** | **17,050.0** |
| *Administered payment - FTC payments* | *3,950.0* | *5,550.0* | *5,850.0* | *6,150.0* | ***21,500.0*** |
| *Receipts – Company Tax* | *-* | *-1,150.0* | *-1,600.0* | *-1,700.0* | ***-4,450.0*** |
| **Abolishing accelerated depreciation** | **100.0** | **500.0** | **1,000.0** | **1,400.0** | **3,000.0** |
| *Receipts – Company Tax* | *100.0* | *500.0* | *1,000.0* | *1,400.0* | ***3,000.0*** |
| **Abolishing the immediate deduction for exploration and prospecting** | **200.0** | **1,000.0** | **1,100.0** | **750.0** | **3,050.0** |
| *Receipts – Company Tax* | *200.0* | *1,000.0* | *1,100.0* | *750.0* | ***3,050.0*** |
| **Abolishing the ACSRF** | **4.5** | **2.8** | **2.6** | **2.6** | **12.5** |
| *Administered payments - Reduced funding for the ACSRF* | *4.5* | *2.4* | *2.2* | *2.2* | ***11.3*** |
| *Departmental payments DIIS* | *-* | *0.4* | *0.4* | *0.4* | ***1.2*** |
| **Abolishing the frontier exploration uplift from the PRRT** | **..** | **..** | **..** | **..** | **..** |
| *Receipts – PRRT* | *..* | *..* | *..* | *..* | ***..*** |
| *Receipts – Company Tax* | *..* | *..* | *..* | *..* | ***..*** |
| **Total** | **4,254.5** | **5,902.8** | **6,352.6** | **6,602.6** | **23,112.5** |

1. A positive number for the underlying cash balance indicates an increase in receipts or a decrease in outlays or net capital investment in cash terms. A negative number for the underlying cash balance indicates a decrease in receipts or an increase in outlays or net capital investment in cash terms.
2. Figures may not sum to totals due to rounding.

.. Not zero, but rounded to zero.