Parliamentary Budget Office

Policy costing

End public subsidies for the fossil fuel industry	
Party:	Australian Greens

Summary of proposal:

This proposal has four components.

- Component 1 – Abolish the fuel tax credit for all industries except agricultural businesses.
- Component 2 – Abolish accelerated asset depreciation for aircraft, the oil and gas industry, and motor vehicles (except for those used for agricultural purposes).
- Component 3 – Abolish the immediate deduction for exploration and prospecting expenses for the mining industry, including the mining Exploration Development Incentive.
- Component 4 – Abolish the Australia-China Science and Research Fund.

The proposal would have effect from 1 July 2019.

Costing overview

This proposal would be expected to increase the fiscal balance by $29,011 million and the underlying cash balance by $27,911 million over the 2019-20 Budget forward estimates period. The fiscal balance impact reflects an increase in revenue of $500 million and a decrease in expenses of $28,511 million.

The proposal would be expected to have an ongoing impact that extends beyond the 2019-20 Budget forward estimates period. A breakdown of the financial implications of the proposal over the period to 2029-30 is included at Attachment A.

Departmental expenses would be expected to decrease by $1.6 million over the 2019-20 Budget forward estimates period as a result of abolishing the Australia-China Science Research Fund. Departmental expenses relating to the other components of the proposal would not be expected to be significant.

The fiscal and underlying cash balance impacts are different due to a timing difference between when fuel tax credit liabilities are recognised and when payments are made.

This costing is subject to uncertainty around a number of assumptions and data relating to different components of the proposal.

- Growth in the fuel tax credit and accelerated asset depreciation components, which together make up the largest proportion of the financial implications of this proposal, have been based on historical growth rates. Variations in fossil fuel prices, technological developments, and other developments that change fuel usage, could have a significant impact on future growth rates.

- Growth in the exploration and prospecting component, which makes up a small proportion of the proposal's total impact, is more uncertain and likely to vary from year to year, reflecting the nature of activity in these industries.

Removing eligibility for claiming tax credits on business fuel expenses and removing accelerated asset depreciation has the potential to have a negative impact on the economy, particularly for the mining and transport industries, as it could increase costs across the production chain, affect investment decisions, and prices paid by consumers. The Parliamentary Budget Office (PBO) has not assessed these potential impacts as their timing and magnitude are too uncertain.

Table 1: Financial implications ($m)[(a)(b)]

	2019–20	2020–21	2021–22	2022–23	Total to 2022–23
Fiscal balance	6,802.2	6,903.2	7,403.0	7,902.6	**29,011.0**
Underlying cash balance	5,902.2	6,803.2	7,303.0	7,802.6	**27,911.0**

(a) A positive number represents an increase in the relevant budget balance; a negative number represents a decrease.
(b) Figures may not sum to totals due to rounding.

Key assumptions

The PBO has made the following assumptions in costing this proposal.

Component 1 – Abolition of fuel tax credits

- Businesses would not change fuel usage as a result of this proposal as demand for fuel is inelastic and so it would be difficult for affected businesses to reduce consumption significantly, and affected businesses would be able to deduct fuel excise expenses for corporate tax purposes after the removal of fuel tax credits.
- On an underlying cash balance basis, fuel tax credits are recognised when businesses receive them from the Australian Taxation Office (ATO). It is assumed that the majority of fuel tax credits are paid in the year of fuel purchases, with the remainder paid the following year. This reflects the fact that fuel tax credit payments are made by the ATO in arrears, and accounts for the fact that businesses generally submit their fuel tax credit claims along with their goods and services tax (GST) returns, either annually, quarterly, or monthly.
- Agriculture represents approximately 12 per cent of fuel tax credit claims, based on historical data.

Component 2 – Abolition of accelerated asset depreciation

- There would be no change to the overall level or timing of investments in assets as a result of this proposal. Investment decisions are based on a number of factors and affected businesses would still need to invest in these assets in the absence of accelerated depreciation.
- Where there are varying statutory effective life caps for the same category of asset, an average is taken to arrive at the statutory effective life.
- Assets are purchased evenly throughout the year.

- Taxpayers use deductions according to the following profile:
  - 75 per cent have a tax liability in the year they purchase the depreciable asset
  - 15 per cent have no tax liability in the year of purchase but have a tax liability in the year after they purchase the depreciable asset
  - 5 per cent have no tax liability in the year of purchase or the first year after purchase, but have a tax liability two years after they purchase the depreciable asset.
- 10 per cent of vehicles are used for agricultural purposes.

Component 3 – Abolition of the immediate deduction for exploration and prospecting

- Only taxable entities use deductions associated with exploration and prospecting.
- Exploration and prospecting assets have a 15 year effective life under the proposal.

Component 4 – Abolition of the Australia-China Science and Research Fund

- Contracts already signed by the Department of Industry, Innovation and Science would be honoured.
- The percentage of contracts that have been committed as at the start date would be the same as the historical average.

Methodology

Component 1 – Abolition of fuel tax credits

The 2019-20 Budget forward estimates for fuel tax credit expenses were projected over the period to 2029-30 with the PBO's estimated growth rates for fuel tax credits. The estimates were then adjusted to remove expected claims from agricultural entities. The costing includes a company tax impact as fuel excise would be deductible against company tax without fuel tax credits.

Components 2 and 3 – Abolition of accelerated asset depreciation, and the immediate deduction for exploration and prospecting

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

Component 4 – Abolition of the Australia-China Science and Research Fund

The impact of this component was estimated by reversing the 2019-20 Budget forward estimates for the Australia-China Science and Research Fund, less the estimated amount of funds that have been contractually committed. The amount of committed funds, and departmental savings, were based on data provided by the Department of Industry, Innovation and Science.

General

All estimates have been rounded to the nearest $100 million, except for the impacts resulting from abolishing the Australia-China Science and Research Fund, which have been rounded to the nearest $0.1 million.

Data sources

The ATO provided fuel excise data and fuel tax credit estimates as at the 2019-20 Budget. This is unchanged as at the 2019 Pre-election Economic and Fiscal Outlook.

The Department of Industry, Innovation and Science provided data relating to the Australia-China Science and Research Fund.

The Treasury provided the 2018 Tax Benchmarks and Variations Statement models on business expenditure from depreciating assets, and deductions related to exploration and prospecting.

Australian Taxation Office, 2019. *Taxation Statistics 2016-17*, Canberra: Commonwealth of Australia.

Attachment A – End public subsidies for the fossil fuel industry – financial implications

Table A1: End public subsidies for the fossil fuel industry – Fiscal balance ($m)[(a)(b)]

	2019–20	2020–21	2021–22	2022–23	2023–24	2024–25	2025–26	2026–27	2027–28	2028–29	2029–30	Total to 2022–23	Total to 2029–30
Revenue													
Component 1 - Abolish fuel tax credits - company tax deduction	*-*	*-1,600.0*	*-2,000.0*	*-2,100.0*	*-2,200.0*	*-2,400.0*	*-2,500.0*	*-2,700.0*	*-2,800.0*	*-3,000.0*	*-3,200.0*	***-5,700.0***	***-24,400.0***
Component 2 - Abolish accelerated depreciation	*100.0*	*500.0*	*1,000.0*	*1,400.0*	*1,700.0*	*2,000.0*	*2,200.0*	*2,400.0*	*2,500.0*	*2,600.0*	*2,600.0*	***3,000.0***	***19,000.0***
Component 3 - Abolish immediate deduction for exploration and prospecting	*200.0*	*1,100.0*	*1,100.0*	*800.0*	*700.0*	*600.0*	*600.0*	*500.0*	*400.0*	*400.0*	*300.0*	***3,200.0***	***6,800.0***
Total – revenue	**300.0**	**-**	**100.0**	**100.0**	**200.0**	**200.0**	**300.0**	**200.0**	**100.0**	**-**	**-300.0**	**500.0**	**1,400.0**
Expenses													
Administered													
Component 1 - Abolish fuel tax credits - company tax	*6,500.0*	*6,900.0*	*7,300.0*	*7,800.0*	*8,300.0*	*8,800.0*	*9,400.0*	*9,900.0*	*10,500.0*	*11,200.0*	*11,900.0*	***28,500.0***	***98,500.0***
Component 4 - Abolish the Australia-China Science and Research Fund	*1.8*	*2.8*	*2.6*	*2.2*	*2.2*	*2.2*	*2.2*	*2.2*	*2.2*	*2.2*	*2.2*	***9.4***	***24.8***
Total – administered	***6,501.8***	***6,902.8***	***7,302.6***	***7,802.2***	***8,302.2***	***8,802.2***	***9,402.2***	***9,902.2***	***10,502.2***	***11,202.2***	***11,902.2***	***28,509.4***	***98,524.8***
Departmental													
Component 4 - Abolish the Australia-China Science and Research Fund	*0.4*	*0.4*	*0.4*	*0.4*	*0.4*	*0.4*	*0.4*	*0.4*	*0.4*	*0.4*	*0.4*	***1.6***	***4.4***
Total – departmental	***0.4***	***0.4***	***0.4***	***0.4***	***0.4***	***0.4***	***0.4***	***0.4***	***0.4***	***0.4***	***0.4***	***1.6***	***4.4***
Total – expenses	**6,502.2**	**6,903.2**	**7,303.0**	**7,802.6**	**8,302.6**	**8,802.6**	**9,402.6**	**9,902.6**	**10,502.6**	**11,202.6**	**11,902.6**	**28,511.0**	**98,529.2**
Total	**6,802.2**	**6,903.2**	**7,403.0**	**7,902.6**	**8,502.6**	**9,002.6**	**9,702.6**	**10,102.6**	**10,602.6**	**11,202.6**	**11,602.6**	**29,011.0**	**99,929.2**

(a) 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.

(b) Figures may not sum to totals due to rounding.

\- Indicates nil.

Table A2: End public subsidies for the fossil fuel industry – Underlying cash balance ($m)[(a)(b)]

	2019–20	2020–21	2021–22	2022–23	2023–24	2024–25	2025–26	2026–27	2027–28	2028–29	2029–30	Total to 2022–23	Total to 2029–30
Receipts													
Component 1 - Abolish fuel tax credits - company tax deduction	*-*	*-1,600.0*	*-2,000.0*	*-2,100.0*	*-2,200.0*	*-2,400.0*	*-2,500.0*	*-2,700.0*	*-2,800.0*	*-3,000.0*	*-3,200.0*	***-5,700.0***	***-24,400.0***
Component 2 - Abolish accelerated depreciation	*100.0*	*500.0*	*1,000.0*	*1,400.0*	*1,700.0*	*2,000.0*	*2,200.0*	*2,400.0*	*2,500.0*	*2,600.0*	*2,600.0*	***3,000.0***	***19,000.0***
Component 3 - Abolish immediate deduction for exploration and prospecting	*200.0*	*1,100.0*	*1,100.0*	*800.0*	*700.0*	*600.0*	*600.0*	*500.0*	*400.0*	*400.0*	*300.0*	***3,200.0***	***6,800.0***
Total – receipts	**300.0**	**-**	**100.0**	**100.0**	**200.0**	**200.0**	**300.0**	**200.0**	**100.0**	**-**	**-300.0**	**500.0**	**1,400.0**
Payments													
Administered													
Component 1 - Abolish fuel tax credits - company tax	*5,600.0*	*6,800.0*	*7,200.0*	*7,700.0*	*8,200.0*	*8,700.0*	*9,300.0*	*9,900.0*	*10,500.0*	*11,000.0*	*11,700.0*	***27,400.0***	***96,800.0***
Component 4 - Abolish the Australia-China Science and Research Fund	*1.8*	*2.8*	*2.6*	*2.2*	*2.2*	*2.2*	*2.2*	*2.2*	*2.2*	*2.2*	*2.2*	***9.4***	***24.8***
Total – administered	***5,601.8***	***6,802.8***	***7,202.6***	***7,702.2***	***8,202.2***	***8,702.2***	***9,302.2***	***9,902.2***	***10,502.2***	***11,002.2***	***11,702.2***	***27,409.4***	***96,824.8***
Departmental													
Component 4 - Abolish the Australia-China Science and Research Fund	*0.4*	*0.4*	*0.4*	*0.4*	*0.4*	*0.4*	*0.4*	*0.4*	*0.4*	*0.4*	*0.4*	***1.6***	***4.4***
Total – departmental	***0.4***	***0.4***	***0.4***	***0.4***	***0.4***	***0.4***	***0.4***	***0.4***	***0.4***	***0.4***	***0.4***	***1.6***	***4.4***
Total – payments	**5,602.2**	**6,803.2**	**7,203.0**	**7,702.6**	**8,202.6**	**8,702.6**	**9,302.6**	**9,902.6**	**10,502.6**	**11,002.6**	**11,702.6**	**27,411.0**	**96,829.2**
Total	**5,902.2**	**6,803.2**	**7,303.0**	**7,802.6**	**8,402.6**	**8,902.6**	**9,602.6**	**10,102.6**	**10,602.6**	**11,002.6**	**11,402.6**	**27,911.0**	**98,229.2**

(a) A positive number for the underlying cash balance indicates an increase in receipts or a decrease in payments or net capital investment in cash terms. A negative number for the underlying cash balance indicates a decrease in receipts or an increase in payments or net capital investment in cash terms.

(b) Figures may not sum to totals due to rounding.

\- Indicates nil.