

Chapter 2

History of the excise levy

2.1 An excise is 'a commodity-based tax levied on the manufacture or production of selected goods in Australia'.¹ They include liquid fuel, tobacco and some alcoholic beverages. An excise-equivalent customs duty is imposed on imported equivalents.

Introduction of excise and duty on fuels

2.2 Since Federation, customs duty has been imposed on imported gasoline and other oils used generally as industrial solvents. As cars became more popular in the 1920s, revenue from this duty was 'effectively a tax on petroleum products used as fuel'.² According to a history of fuel taxation in Australia, excise duty on oil was not imposed until the late 1920s when Australia began to refine oil domestically. It stated:

In 1929, when domestic refineries were established and locally produced petroleum products entered the market, the Government of the day introduced an excise on petrol at the rate of one penny per gallon—0.18 cents per litre (cpl). This excise was hypothecated to road funding.³

2.3 Periodic changes to arrangements for imposing duties and excise continued throughout the century. For example, in 1940 rates on excise were increased and an excise introduced on heavy fuel with the revenue raised to assist in funding the war effort. Also, in 1957 excise on diesel was introduced for on-road use only—the revenue to be used for road funding—with an exemption certificate scheme established for off-road diesel users. Two years later, the formal hypothecation of fuel taxes was abolished so that excise became 'a form of general revenue'.⁴

Indexation of excise—1983

2.4 Two major changes occurred to the excise system in the 1983 Budget—the then Labor government introduced an excise duty on heating oil, kerosene and fuel oil

1 Ken Henry, *Australia's future tax system*, Report to the Treasurer, Part One, December 2009, p. 172.

2 Background Papers, Fuel Taxation Inquiry, History of Fuel Taxation In Australia, 2001, p. 2, <http://fueltaxinquiry.treasury.gov.au/content/backgnd/download/002.pdf> (accessed 30 June 2014).

3 Background Papers, Fuel Taxation Inquiry, History of Fuel Taxation In Australia, 2001, p. 2, <http://fueltaxinquiry.treasury.gov.au/content/backgnd/download/002.pdf> (accessed 30 June 2014).

4 Background Papers, Fuel Taxation Inquiry, History of Fuel Taxation In Australia, 2001, p. 2, <http://fueltaxinquiry.treasury.gov.au/content/backgnd/download/002.pdf> (accessed 30 June 2014).

and the introduction of indexation of excise rates with the CPI.⁵ The Hon. Paul Keating, then Treasurer, explained that in the past discretionary increases in traditional excise rates (beer, potable spirits, tobacco products and certain petroleum products) had 'not been sufficiently frequent or, in aggregate, large enough to counteract the eroding effects of inflation'. As a consequence, real rates of excise had tended to fall.⁶

2.5 At that time, the government decided to initiate two measures intended to counter the declining trend in excise revenues—increase certain nominal excises and introduce a system of six-monthly indexation of traditional excise rates in line with CPI. The indexation of excise, including the excise-equivalent component of customs duties on imports of comparable products, was to 'allow for the maintenance of the real value of excise rates in a non-destabilising fashion'. According to the then Treasurer:

The new system will afford a greater degree of stability for consumers and industry alike.

These traditional excises will rise gradually in line with inflation and as wages and other incomes themselves increase.⁷

2.6 Indexation remained until 2001 when the government abolished indexation for petroleum products excise rates as part of a package of decisions relating to fuel taxation.⁸

Abolition of indexation of excise—2001

2.7 In 2001, the automatic indexation of rates and customs duty was provided for in specific provisions of the *Excise Tariff Act 1921* and the *Customs Tariff Act 1995*.⁹

2.8 On 1 March 2001, the then Prime Minister, the Hon. John Howard, announced a package of measures to cut fuel prices.¹⁰ They included a reduction of 1.5 cents a litre in excise and the abolition of future indexation which was then indexed to

5 The Hon John Anderson MP, Speech delivered at the Natroad and Queensland Trucking Association, 2001 Annual Conference, ANA Hotel, Gold Coast, 1 September 2001.

6 The Hon Paul Keating, *House of Representatives Hansard*, 23 August 1983, p. 52.

7 The Hon Paul Keating, *House of Representatives Hansard*, 23 August 1983, p. 53.

8 Background Papers, Fuel Taxation Inquiry, History of Fuel Taxation In Australia, 2001, p. 11, <http://fueltaxinquiry.treasury.gov.au/content/backgnd/download/002.pdf> (accessed 30 June 2014).

9 Explanatory Memorandum, *Excise Tariff Amendment Bill (No. 2) 2001, Customs Tariff Amendment Bill (No. 3) 2001*, 1998–1999–2000–2001, paragraph 2.3.

10 Explanatory Memorandum, *Excise Tariff Amendment Bill (No. 2) 2001, Customs Tariff Amendment Bill (No. 3) 2001*, 1998–1999–2000–2001, paragraphs 2.1–2.2.

movements in the consumer price index (CPI) twice a year. This decision came after community discontent with high petrol prices, especially in the bush.¹¹

2.9 That year legislation was introduced and passed in the parliament that abolished indexation of excise and customs duty for all petroleum fuels.¹² The cost to the Budget of the abolition of this indexation for petroleum fuels was expected to be \$150 million in 2001–2002, \$425 million in 2002–2003, \$785 million in 2003–2004 and \$1,135 million in 2004–2005.¹³ The 2001 Explanatory Memorandum noted that:

Retail prices of fuels used by individual non-business consumers, for example, petrol and home heating oil, should in the future be lower than they otherwise would be, had indexation not been abolished. This could affect consumption patterns.

Industries that use duty-paid petroleum fuels as inputs to production, including the aviation and transportation industries, should benefit from lower costs than would otherwise be the case. The extent of the impact across industry sectors and for individual operators will vary. Lower input costs could result in lower retail prices for products and could affect consumption patterns.¹⁴

2.10 Mr Howard also announced the establishment of an inquiry into the total structure of fuel indexation in Australia. Interestingly, the inquiry, which handed down its report in 2002, recommended the reintroduction of twice yearly fuel excise 'to preserve the real value of fuel taxation revenue'. It stated:

If fuel taxation is to continue as a source of revenue for government, it should not be eroded by inflation over time.¹⁵

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- 11 See for example, 7.30 report, <http://www.abc.net.au/7.30/stories/s249853.htm>; 7.30 report, Transcript, 1/3/2001, 'Howard and Anderson perform backflip on petrol pricing', <http://www.abc.net.au/7.30/stories/s253466.htm> and Transcript No. 2001/016, Transcript of the Hon. Peter Costello MP, Treasurer, Doorstop, Melbourne, Friday 2 March 2001, http://parlinfo.parl.net/parlInfo/download/media/pressrel/WVK36/upload_binary/wvk362.pdf;fileType=application%2Fpdf#search=%22fuel%20indexation%22 and Peter Aldren MP, Independent Member for Calare, Media Release, 1 March 2001, 'Excise Cut Welcome—But What About the Differential?', http://parlinfo.parl.net/parlInfo/download/media/pressrel/IYK36/upload_binary/iyk361.pdf;fileType=application%2Fpdf#search=%22fuel%20indexation%22 (accessed 23 June 2014).
- 12 Explanatory Memorandum, *Excise Tariff Amendment Bill (No. 2) 2001, Customs Tariff Amendment Bill (No. 3) 2001*, 1998–1999–2000–2001, paragraph 2.2.
- 13 Explanatory Memorandum, *Excise Tariff Amendment Bill (No. 2) 2001, Customs Tariff Amendment Bill (No. 3) 2001*, 1998–1999–2000–2001, paragraph 2.8.
- 14 Explanatory Memorandum, *Excise Tariff Amendment Bill (No. 2) 2001, Customs Tariff Amendment Bill (No. 3) 2001*, 1998–1999–2000–2001, paragraphs 2.9–2.10.
- 15 David Trebeck, Chairman, *Fuel Tax Inquiry*, Commonwealth of Australia, 2002, p. 19.

Review of Australia's future tax system—2009

2.11 In 2009, the review of Australia's future tax system recommended that revenue from fuel tax imposed for general government purposes 'should be replaced over time with revenue from more efficient broad-based taxes'. The review explained:

If a decision were made to recover costs of roads from road users through fuel tax, it should be linked to the cost of efficiently financing the road network, less costs that can be charged directly to road users or collected through a network access charge. Fuel tax should apply to all fuels used in road transport on the basis of energy content, and be indexed to the CPI. Heavy vehicles should be exempt from fuel tax and the network access component of registration fees if full replacement charges are introduced.¹⁶

2.12 This review also noted that current road tax arrangements would 'not meet Australia's future transport challenges'. It stated:

Poorly functioning road networks harm the amenity, sustainability, liveability and productivity of our society. Moving from indiscriminate taxes to efficient prices would allow Australia to leverage the value of its existing transport infrastructure. Less congested roads, shorter travel times and investment in road infrastructure that addresses user demand would provide a foundation for further productivity growth, improved living standards and more sustainable cities.¹⁷

2.13 According to the review, transport in Australia faced significant challenges. It noted, in particular, that under 'business as usual' assumptions, 'the avoidable costs of urban congestion may grow to around \$20 billion in 2020'. The review argued that this problem could not be reduced 'simply by building more city infrastructure, as most new road space induces new traffic'. In its assessment:

Helping to manage road use, through efficient prices, provides the best long-term approach to reducing congestion.

If fuel tax is used as a variable road charge, it should apply to all transport fuels. Equally, fuel taxes should not exceed the levels justified by broadly defined social costs of use (whether of roads or environmental costs).¹⁸

Proposed reintroduction of indexation and road infrastructure

2.14 As noted in the previous chapter, the Treasurer announced in his May 2014 budget speech the reintroduction of fuel indexation in line with CPI. The Regulation impact statement on the package of bills noted that since the cessation of fuel

16 Ken Henry, *Australia's future tax system*, Report to the Treasurer, Part One, December 2009, p. 93.

17 Ken Henry, *Australia's future tax system*, Report to the Treasurer, Part One, December 2009, p. 53.

18 Ken Henry, *Australia's future tax system*, Report to the Treasurer, Part One, December 2009, p. 53.

indexation in March 2001, the real value of fuel tax had declined with inflation, 'creating significant difficulties for the government to fund spending commitments, such as new road infrastructure projects'. It pointed out:

At the time of the indexation freeze, fuel tax represented 43.4 per cent of the average national petrol price. By March 2014 this proportion had fallen to 25 per cent.¹⁹

2.15 In respect of funding infrastructure, the Regulation impact statement referred to the government's commitment in its 2014–15 Budget to increasing road expenditure. It also drew attention to the connection between the revenue to be raised from the indexation and road infrastructure projects:

An increase in the rate of fuel tax would be used to help these infrastructure projects. This would create a link between users of the road infrastructure and the payers of fuel tax whilst ensuring a predictable and growing source of revenue.²⁰

2.16 The Treasurer explained that to pay for building the productive infrastructure that is going to make Australia more efficient and productive into the future, the government had to make hard decisions, including reintroducing a fuel indexation. He noted that the increase in the excise on fuel represented for the average family 40 cents a week:

Forty cents a week increase in the cost of fuel to start getting the roads, getting the infrastructure that is going to build our economy and build the jobs. And the infrastructure package we've put in place, we're spending \$50 billion over the next six years that's going to lead to \$125 billion of new infrastructure in six years.²¹

2.17 In the following chapter, the committee examines the provisions of each of the four bills.

19 Regulation impact statement, *CPI indexation of fuel excise and excise-equivalent customs duty*, paragraph 2.5.

20 Regulation impact statement, *CPI indexation of fuel excise and excise-equivalent customs duty*, paragraph 2.6.

21 Hon. J.B. Hockey, Treasurer, Post-Budget Address to Higgins 200 Club, Melbourne, Friday, 16 May 2014, http://parlinfo.parl.net/parlInfo/download/media/pressrel/3175103/upload_binary/3175103.pdf;fileType=application%2Fpdf#search=%22fuel%20indexation%22 (accessed 20 June 2014).

