



Policy costing

Securing the Value of Our Resources – End Fossil Fuel Subsidies	
Person/party requesting the costing:	Senator Richard Di Natale, Australian Greens
Date costing completed:	9 August 2018
Expiry date of the costing:	Release of the next economic and fiscal outlook report.
Status at time of request:	Submitted outside the caretaker period <input checked="" type="checkbox"/> Confidential <input type="checkbox"/> Not confidential
<p>Summary of proposal:</p> <p>The proposal has four components.</p> <p>Component 1 – Abolish the fuel tax credit for all industries except agricultural businesses.</p> <p>Component 2 – Abolish accelerated asset depreciation for aircraft, the oil and gas industry, and motor vehicles (except for those used for agricultural purposes).</p> <p>Component 3 – Abolish the immediate deduction for exploration and prospecting expenses for the mining industry, including the Mining Exploration Development Incentive.</p> <p>Component 4 – Abolish the Australia-China Science and Research Fund.</p> <p>The proposal would have effect from 1 July 2019.</p>	

Costing overview

This proposal would be expected to increase the fiscal balance by \$20,608 million and the underlying cash balance by \$19,708 million over the 2018-19 Budget forward estimates period. The fiscal balance impact reflects a net increase in revenue of \$500 million and a decrease in expenses of \$20,108 million over this period.

The proposal would be expected to have an ongoing impact that extends beyond the 2018-19 Budget forward estimates period. A breakdown of the financial implications of the proposal over the period to 2028-29 is included at [Attachment A](#).

Departmental expenses would be expected to decrease by \$1.2 million over the 2018-19 Budget forward estimates period as a result of abolishing the Australia-China Science and Research Fund. Departmental expenses relating to the other components of the proposal would not be expected to be significant.

The difference between the fiscal and underlying cash balance impacts reflects timing differences between when fuel tax credit liabilities are recognised and when the actual payments occur.

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

- The fuel tax credit and accelerated depreciation components, which together make up the largest proportion of the financial implications of this proposal, are modelled based on aggregate historical data which is subject to uncertainty in expected growth over the medium term.
- The exploration and prospecting component, which makes up a small proportion of the proposal's total impact, involves a higher level of uncertainty as future growth is expected to be more volatile, reflecting the uncertain nature of activity in these industries.

Removing eligibility for claiming tax credits on business fuel expenses has the potential to have a negative impact on the economy, particularly with regard to the mining and transport industries, as it could increase costs across the production chain 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: Securing the Value of Our Resources – End Fossil Fuel Subsidies – Financial implications (\$m)^{(a)(b)}

	2018–19	2019–20	2020–21	2021–22	Total to 2021–22
Fiscal balance	-	6,603	6,703	7,303	20,608
Underlying cash balance	-	5,803	6,703	7,303	19,708

(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.

- Indicates nil.

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.
- 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 in 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 investment in assets as a result of this proposal.
- 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.

Sensitive

- 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.

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

- Only taxable entities are assumed to utilise deductions associated with exploration and prospecting.
- Exploration and prospecting assets are assumed to 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 (DIIS) would be honoured.
- The percentage of contracts that have been committed as of the start date would be the same as the historical average.

Methodology

Component 1 – Abolition of fuel tax credits

The 2018-19 Budget forward estimates for fuel tax credit expenses were projected over the period to 2028-29 with the PBO's estimated growth rates for fuel tax credits. The estimates were then adjusted to remove expected claims from agricultural entities.

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 2018-19 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 was based on data provided by DIIS. Departmental savings for this component of the proposal were based on data provided by DIIS.

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 2018-19 Budget.

The DIIS provided data relating to the Australia-China Science and Research Fund.

The Treasury provided the 2017 Tax Expenditures Statement models on business depreciating asset expenditure and exploration and prospecting deductions.

ATO, 2018. *Taxation Statistics 2015-16*, Canberra: Commonwealth of Australia.

Commonwealth of Australia, 2018. *Budget 2018-19*, Canberra: Commonwealth of Australia.

Commonwealth of Australia, 2018. *Budget 2018-19 — Portfolio Budget Statements 2018-19 — Budget Related Paper No. 1.13A: Jobs and Innovation Portfolio (Industry, Innovation and Science)*, Canberra: Commonwealth of Australia.

DIIS, 2018. *Resources and Energy Quarterly*, March 2018.

The Treasury, 2009. *Australia's Future Tax System – Part 2 — Detailed Analysis*, Canberra: Commonwealth of Australia.

Attachment A – Securing the Value of Our Resources – End Fossil Fuel Subsidies – financial implications

Table A1: Securing the Value of Our Resources – End Fossil Fuel Subsidies – Fiscal balance (\$m)^{(a)(b)}

	2018–19	2019–20	2020–21	2021–22	2022–23	2023–24	2024–25	2025–26	2026–27	2027–28	2028–29	Total to 2021–22	Total to 2028–29
Revenue													
<i>Component 1 – Abolish fuel tax credits – Company Tax</i>	-	-	-1,600	-1,900	-2,000	-2,200	-2,200	-2,300	-2,300	-2,400	-2,500	-3,500	-19,500
<i>Component 2 – Abolish accelerated depreciation</i>	-	100	500	1,000	1,400	1,700	1,900	2,000	2,100	2,200	2,200	1,600	15,100
<i>Component 3 – Abolish immediate deduction for exploration and prospecting</i>	-	200	1,100	1,100	700	600	500	500	400	300	300	2,400	5,700
Total – revenue	-	300	-	200	100	100	200	200	200	100	-	500	1,300
Expenses													
<i>Administered</i>													
<i>Component 1 – Abolish fuel tax credits</i>	-	6,300	6,700	7,100	7,500	8,000	8,500	9,100	9,600	10,200	10,800	20,100	84,000
<i>Component 4 – Abolish the Australia-China Science and Research Fund</i>	-	2.1	2.2	2.2	2.2	2.2	2.2	2.2	2.2	2.2	2.2	6.5	21.9
Total – administered	-	6,302	6,702	7,102	7,502	8,002	8,502	9,102	9,602	10,202	10,802	20,107	84,022
<i>Departmental</i>													
<i>Component 4 – Abolish the Australia-China Science and Research Fund</i>	-	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	1.2	4.0
Total – departmental	-	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	1.2	4.0
Total – expenses	-	6,303	6,703	7,103	7,503	8,003	8,503	9,103	9,603	10,203	10,803	20,108	84,026
Total	-	6,603	6,703	7,303	7,603	8,103	8,703	9,303	9,803	10,303	10,803	20,608	85,326

(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: Securing the Value of Our Resources – End Fossil Fuel Subsidies – Underlying cash balance (\$m)^{(a)(b)}

	2018–19	2019–20	2020–21	2021–22	2022–23	2023–24	2024–25	2025–26	2026–27	2027–28	2028–29	Total to 2021–22	Total to 2028–29
Receipts													
<i>Component 1 – Abolish fuel tax credits – Company Tax</i>	-	-	-1,600	-1,900	-2,000	-2,200	-2,200	-2,300	-2,300	-2,400	-2,500	-3,500	-19,500
<i>Component 2 – Abolish accelerated depreciation</i>	-	100	500	1,000	1,400	1,700	1,900	2,000	2,100	2,200	2,200	1,600	15,100
<i>Component 3 – Abolish immediate deduction for exploration and prospecting</i>	-	200	1,100	1,100	700	600	500	500	400	300	300	2,400	5,700
Total – revenue	-	300	-	200	100	100	200	200	200	100	-	500	1,300
Expenses													
<i>Administered</i>													
<i>Component 1 – Abolish fuel tax credits</i>	-	5,500	6,700	7,100	7,500	8,000	8,500	9,000	9,600	10,100	10,700	19,200	82,500
<i>Component 4 – Abolish the Australia-China Science and Research Fund</i>	-	2.1	2.2	2.2	2.2	2.2	2.2	2.2	2.2	2.2	2.2	6.5	21.9
Total – administered	-	5,502	6,702	7,102	7,502	8,002	8,502	9,002	9,602	10,102	10,702	19,207	82,522
<i>Departmental</i>													
<i>Component 4 – Abolish the Australia-China Science and Research Fund</i>	-	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	1.2	4.0
Total – departmental	-	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	1.2	4.0
Total – payments	-	5,503	6,703	7,103	7,503	8,003	8,503	9,003	9,603	10,103	10,703	19,208	82,526
Total	-	5,803	6,703	7,303	7,603	8,103	8,703	9,203	9,803	10,203	10,703	19,708	83,826

(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.