

CHAPTER 2

THE BILLS

The Bills

2.1 On 15 June 2004 the Prime Minister, the Hon. John Howard MP, released a white paper on energy policy, *Securing Australia's Energy Future*. This paper announced the Government's implementation of a major program of reform to modernise and simplify the fuel excise system, commencing on 1 July 2006 with the introduction of a single fuel tax credit system to replace the current system of fuel tax concessions, refunds and remissions.

2.2 The Bills also provide a framework for the taxation of gaseous fuels from 1 July 2011.

2.3 The Fuel Tax Bill 2006:

Sets out the general principles that a taxpayer is entitled to a fuel tax credit for fuel acquired or manufactured in, or imported into, Australia for use in carrying on their enterprise, as well as setting out further rules affecting eligibility and how credits are claimed.¹

2.4 The Fuel Tax (Consequential and Transitional Provisions) Bill 2006 is a companion bill to the Fuel Tax Bill 2006 and:

Provides for the phased implementation of the fuel tax credit system to particular uses of fuel at certain times from 1 July 2006 to 1 July 2012, when the final changes are in place.²

2.5 Schedules 1 to 3 of the Fuel Tax (Consequential and Transitional Provisions) Bill 2006 amend the:

- *Fuel Sales Grants Act 2000*;
- *Energy Grants (Credits) Scheme Act 2003*;
- *Products Grants and Benefits Administration Act 2000*;
- *States Grants (Petroleum Products) Act 1965*; and
- Fuel Tax Bill 2006.³

1 Explanatory Memorandum, p. 71.

2 Explanatory Memorandum, p. 71.

2.6 The Government anticipates that the introduction of a single fuel tax system to replace the current complex system of fuel tax concessions will:

Lower compliance costs, reduce tax on business and remove the burden of fuel tax from thousands of individual businesses and households. Under fuel tax reform the effective application of fuel tax will be limited to:

- business use of fuel in on-road applications in motor vehicles with a gross vehicle mass of 4.5 tonnes or less;
- business use on-road in motor vehicles with a gross vehicle mass of more than 4.5 tonnes (with the exception of a carve-out intending to preserve previous entitlements for eligible fuel use in vehicles with a gross vehicle mass of 4.5 tonnes) but only to the extent of the road-user charge;
- for private use on-road in motor vehicles and in certain off-road applications; and
- aviation fuels (where tax is imposed for cost recovery reasons).⁴

Existing schemes of fuel tax relief

2.7 The Energy Grants (Credits) Scheme (EGCS) was introduced to help reduce the costs for businesses who use diesel and alternative fuels. To be eligible to claim a grant under the scheme businesses must undertake an eligible activity using an eligible fuel.

2.8 The Fuel Sales Grants Scheme is a grant to fuel retailers for the sale of petrol and diesel to consumers in regional and remote areas where fuel prices are generally higher.

2.9 The *States Grants (Petroleum Products) Act 1965* gives financial assistance to users of petroleum-based fuels in designated remote regional and rural locations in Australia who would otherwise have to pay higher prices for fuels due to the additional costs in transport and distributing fuel to those locations.⁵

Changes to the existing system

2.10 The entitlement to an energy grant for diesel under the EGCS will only apply to fuel purchased or imported before 1 July 2006. Fuel purchased after this time will be subject to excise which businesses can claim back through their Business Activity Statements (BAS).

3 Explanatory Memorandum, p. 69.

4 Explanatory Memorandum, p. 7.

5 Explanatory Memorandum, p. 70.

2.11 Similarly, the entitlement to a fuel sales grant under the Fuel Sales Grants Scheme will only apply to fuel sales before 1 July 2006.

2.12 The States and Territories administered Petroleum Products Freight Subsidy Scheme will cease to apply to fuel sales and deliveries of petroleum products after 30 June 2006.

2.13 The *States Grants (Petroleum Products) Act 1965* will be repealed on 1 July 2007, thereby allowing outstanding claims to be made until 30 June 2007.

Excise payable on fuel used other than in an internal combustion engine

2.14 The Explanatory Memorandum explains:

All fuels acquired or manufactured in, or imported into, Australia for use other than in an internal combustion engine will be effectively fuel tax-free from 1 July 2006. Use of fuel other than in an internal combustion engine includes:

- fuel used in burner applications such as heating (use as a fuel);
- diesel fuel used in the manufacture of explosives, in the calcination process for the production of alumina and as a flocculent in coal washeries; and
- non-fuel uses such as use as a solvent or in the manufacture of products such as paint and certain solvents, cleaning agents and the like.⁶

2.15 Under the fuel tax credit system, fuel tax will apply to all petroleum products suitable for use in an internal combustion engine. Effective fuel tax-free treatment for products which will be used other than in an internal combustion engine will be delivered by a fuel tax credit to either the user of the fuel, or at another point in the supply chain, depending on whether the use is business or private.⁷

2.16 For example, when a petroleum product is used as an ingredient in the manufacture of another product that cannot be used as a fuel in an internal combustion engine, for example paint and certain solvents, printing inks, cleaning agents, adhesives and the like, the manufacturer can claim a fuel tax credit on the petroleum component.⁸

2.17 The direct result of this change is that some users of fuel products who were not required to pay excise on their purchase of petroleum products will now be required to pay excise up front and then claim it back through their BAS.

6 Explanatory Memorandum, p. 3.

7 Explanatory Memorandum, p. 12.

8 Explanatory Memorandum, p. 12.

Alternative fuels

2.18 Alternative fuels which are currently excise free (liquefied petroleum gas, compressed natural gas and liquefied natural gas) or effectively so, (biodiesel and ethanol) will lose their excise-free status, and will be subject to excise from 1 July 2011.⁹ The Explanatory Memorandum explains:

Fuel tax will be applied to currently untaxed fuels from 1 July 2011. Effective fuel tax on these fuels will phase in over five equal annual steps commencing on 1 July 2011 and ending on 1 July 2015. The final fuel tax rate applying to these fuels will incorporate a 50 per cent discount on the energy content fuel tax rates that would otherwise apply.¹⁰

2.19 The Explanatory Memorandum sets out the effective fuel tax rates applicable to alternative fuels during the period from 1 July 2011 to 1 July 2015.¹¹

<i>Fuel type</i>	<i>1 July 2011</i>	<i>1 July 2012</i>	<i>1 July 2013</i>	<i>1 July 2014</i>	<i>1 July 2015</i>
Biodiesel (cents per litre)	3.8	7.6	11.4	15.3	19.1
Ethanol (cents per litre)	2.5	5.0	7.5	10.0	12.5
Methanol (cents per litre)	1.7	3.4	5.1	6.8	8.5
Liquefied petroleum gas (cents per litre)	2.5	5.0	7.5	10.0	12.5
Liquefied natural gas (cents per litre)	2.5	5.0	7.5	10.0	12.5
Compressed natural gas (cents per m ³)	3.8	7.6	11.4	15.2	19.0

9 Bills Digest , No. 117, 4 May 2006, p. 5.

10 Explanatory Memorandum, p. 8.

11 Reproduced from Explanatory Memorandum, p. 14.

Membership of the Greenhouse Challenge Plus Programme

2.20 Under the fuel tax credit system, businesses that claim over \$3 million each year in fuel tax credits are required to be a member of the Greenhouse Challenge Plus Program. Members of this program are required to measure their greenhouse gas emissions, develop action plans for greenhouse gas abatement and report to the Government on their actions.¹²

12 Explanatory Memorandum, p. 19.

