



A U S T R A L I A N C H A M B E R
O F C O M M E R C E A N D I N D U S T R Y

Fuel Tax Bill 2006

ACCI Submission to Senate Economic Committee

May 2006



BACKGROUND

1. The Australian Chamber of Commerce and Industry (ACCI) has been the peak council of Australian business associations for over 100 years.
2. ACCI is Australia's largest and most representative business association.
3. Through our membership, ACCI represents over 350,000 businesses nationwide, including:
 - Australia's top 100 companies
 - Over 55,000 medium sized enterprises employing 20 to 100 people
 - Over 280,000 smaller enterprises employing less than 20 people
4. These businesses collectively employ over 4 million people.
5. ACCI's 37 member organisations include the State and Territory Chambers of Commerce and Australia's leading national employer and industry associations. Our members represent all major sectors of Australian industry including small employers and sole traders as well as medium and larger businesses.
6. A list of ACCI members is attached.

SUMMARY

7. ACCI supports many of the provisions in the Fuel Tax Bill 2006, which will significantly reduce fuel taxes and compliance costs on many businesses.
8. However, we have concerns that the removal of the excise exemptions for businesses that use fuel for non-combustion purposes (ie for manufacturing) will be subject to major cost increases because of the Bill.
9. The removal of the excise exemption will increase cashflow costs for these businesses. It is unlikely that these costs will be fully offset by a passthrough of reduced cashflow costs from upstream businesses.
10. The proposal will also increase compliance costs without any clear reduction in tax evasion - in fact, it may increase Budget costs because many businesses will submit BAS returns more frequently.

BACKGROUND

Government proposal

11. The Government has introduced the Fuel Tax Bill 2006, which is designed to implement major fuel taxation reforms, particularly the implementation of a single unified system of fuel tax credits. This includes:
 - The expansion of offroad fuel grants to all offroad business activities (at the moment offroad grants are generally only available to some agriculture and mining activities) and some private uses;

- The expansion of the onroad fuel grants to all fuels and all locations (currently, the onroad grant is only available for diesel used in non-metropolitan areas)
 - The replacement of various fuel tax concessions, refunds and remissions with a unified credit system delivered through the Business Activity Statement (BAS).
12. Businesses that make significant claims (more than \$3m per year) will be required to be a member of the Greenhouse Challenge Plus Program.
 13. Further details on the proposals are contained in the Explanatory Memorandum to the Bill¹.

ACCI member submissions

14. A number of ACCI's members have made submissions to this inquiry, in particular Accord (the advocate for the consumer, cosmetic, hygiene and specialty products industry) and the Australian Paint Manufacturers' Federation (APMF). We understand that the Plastics and Chemicals Industry Association (PACIA) is also making representations to this inquiry. In addition, the Printing Industries Association of Australia (PIAA) shares many of these concerns.
15. Details of the effect of the reforms on these particular industries should be found in these submissions.

BUSINESSES THAT BENEFIT FROM THE BILL

16. ACCI represents a wide range of businesses. Many of these businesses will receive major benefits from this Bill:
 - The offroad grant will be extended to cover other offroad activities, including building, manufacturing and power generation;
 - The onroad grant will be extended to metropolitan areas; and
 - The onroad grant will be extended to fuels other than diesel.
17. There are a large number of businesses that will benefit from these changes and ACCI supports the reductions in tax and compliance costs that will result.
18. The Bill will simplify compliance costs for many businesses because:
 - the claim mechanism through the BAS is simpler;
 - the complex eligibility criteria for existing grants will be simplified; and
 - the administrative and compliance arrangements for the fuel tax system will be aligned with the arrangements for other indirect taxes.

1. Available from:
<http://parlinfoweb.aph.gov.au/piweb/browse.aspx?path=Legislation%20%20Current%20Bills%20by%20Title%20%20Fuel%20Tax%20Bill%202006%20%20Explanatory%20memoranda>

19. ACCI does not consider that mandatory membership of the Greenhouse Challenge Plus Program will impose significant costs, and the businesses that are subject to this requirement are likely to have significant benefits from the other changes in the package. However, Accord argues that this requirement should not apply to businesses that use fuel for a non-combustion purpose.

BUSINESSES BEARING COSTS FROM THE BILL

20. Some businesses will be adversely affected by the changes in the Bill. In particular, many businesses that can currently buy fuel without excise will be required to buy fuel with excise included in the price and claim this excise back through the BAS (currently, many businesses can buy fuel without excise because they use the fuel for non-combustion purposes – for example, manufacturing of paints, solvents and plastics).
21. The Bill will impose major cashflow and compliance cost on these businesses. Accord, APMF and PACIA represent companies that will be subject to this adverse change and their submissions indicate the costs that will be borne by their industries.
22. Costs will also be imposed on businesses that have simpler processes for claiming fuel credits – particularly the e-grant system to obtain the offroad grant.

Cashflow costs

23. The loss of excise exemption will effectively mean that businesses have to pay 38 cents per litre (cpl) more for fuel and wait weeks or months to claim this back through the BAS. The cashflow costs of this will be substantial.
24. The Accord submission indicates that just one of their members will have to increase working capital by \$0.7m per year, while APMF calculates that the cashflow costs on their industry will be around \$16.3m per year (this is the increase in interest costs, not just an increase in working capital).
25. A natural response to these costs is for businesses to submit BAS returns more frequently. While this will reduce cashflow costs, it will increase compliance costs – see below.

Compliance Costs

26. The Explanatory Memorandum to the Bill argues that the changes will “lower compliance costs, reduce tax on business and remove the burden of fuel tax from thousands of individual businesses and households.” This is undoubtedly true for many businesses.
27. However, the Bill will increase compliance costs for the businesses who will have to pay excise for the first time. They will need to keep much more detailed records of fuel purchases, implement new accounting procedures to claim the excise back and ensure that claims are included in BAS returns.
28. In addition, many businesses will submit BASs more frequently to minimise cashflow costs.

Analysis

29. This change occurs at a very poor time for the manufacturing industry which is facing major challenges from a strong dollar, high input costs, strong wage growth and increasing competition from China. Of particular importance is the high price for oil and fuel, which will only be compounded by the proposed changes.
30. The Government has not provided any reasonable explanation of why this substantial impost is needed. The following points have been raised in support of the changes.

Cashflow costs will be offset by cashflow benefits

31. It has been argued that the removal of excise exemptions will reduce cashflow costs for businesses upstream (ie the businesses that currently sell excise with an exemption), which will offset the cashflow costs for downstream businesses.
32. However, it is likely that these upstream businesses will have lower borrowing costs (because they are larger businesses). So it is likely that there will be a net increase in financing costs. It has also not been shown that the lower upstream costs will be passed on to customers.

Compliance costs will be offset by compliance benefits

33. The changes will clearly increase tax compliance costs, because:
 - Some businesses will have to register for the GST who were previously unregistered; and
 - hundreds (perhaps thousands) of businesses will put in more frequent BASs than previously.
34. However, the reduction in compliance costs for upstream businesses is likely to be smaller because they are larger businesses.

Net benefit across the economy

35. The Government also argues that the costs on particular industries will be much smaller than the benefit to businesses as a whole.
36. This argument is clearly contrary to other Government policy. The Government did not ignore those who bore costs as a result of the introduction of the GST, because the benefits to the rest of the economy were greater.
37. Economic policy is littered with examples of the Government providing assistance to particular industries that are bearing costs from a change, even when the whole of the economy is benefiting from the change.
38. In any case, this argument assumes that the proposal to remove the excise exemption is inseparable from the other changes, which is clearly not correct. The removal of the excise exemption can be retained while the rest of the changes proceed.

Reduce tax evasion

39. Some businesses may be buying fuel using an exemption and then not using the fuel for an exempted purpose – for example, the fuel could be used for transport.
40. The proposed changes are likely to reduce this tax evasion. However, the size of any evasion has not been made clear and it is unknown whether the significant compliance costs from the proposal offset any possible evasion that is occurring.
41. Therefore, it is unclear that the removal of the excise exemption will generate significant revenue. In fact, it may increase Budget costs because many businesses will submit BAS returns more frequently, increasing costs for the ATO.

RECOMMENDATION

42. As a result of these concerns, ACCI recommends that the removal of excise exemptions should not proceed. The excise exemption for fuel used in non-combustion purposes should be retained.
43. If the excise exemption is removed, ACCI recommends that greatly simplified claim methods should be introduced, in particular the e-grant system for farmers should be retained and extended to businesses using fuel for non-combustion purposes.

ACCI MEMBERSHIP

ACT and Region Chamber of Commerce and Industry
Australian Business Ltd
Business SA
Chamber of Commerce and Industry Western Australia
Chamber of Commerce Northern Territory
Commerce Queensland
Employers' First TM
State Chamber of Commerce (New South Wales)
Tasmanian Chamber of Commerce and Industry
Victorian Employers' Chamber of Commerce and Industry
Agribusiness Employers' Federation
Air Conditioning and Mechanical Contractors' Association of Australia
Association of Consulting Engineers Australia
Australian Beverages Council
Australian Consumer and Specialty Products Association
Australian Entertainment Industry Association
Australian Hotels Association
Australian International Airlines Operations Group
Australian Made Campaign Limited
Australian Mines and Metals Association
Australian Paint Manufacturers' Federation
Australian Retailers Association
Housing Industry Association
Insurance Council of Australia
Investment and Financial Services Association
Master Builders Australia
Master Plumbers and Mechanical Services Association Australia
National Electrical and Communications Association
National Retail Association Limited
NSW Farmers Industrial Association
Oil Industry Industrial Association
Pharmacy Guild of Australia
Plastics and Chemicals Industries Association
Printing Industries Association of Australia
Restaurant and Catering Australia
Standards Australia Limited
Victorian Automobile Chamber of Commerce