

The policy basis for fuel tax credits

It's a long-standing policy principle that governments do not tax business inputs.

Fuel tax credits remove the effect of fuel tax on business inputs. This is the same principle that underpins the GST.

Imposing a tax on fuel – a vital input for many businesses – would add to business costs and create economic distortions by disadvantaging businesses that are reliant on diesel fuel use. Economists have long recognised that taxes on business inputs are inefficient.

'...the rebate is designed to relieve businesses of input taxes that can reduce output and living standards.' (Parliamentary Library)

Fuel excise is a road tax. It does not apply to diesel used off publicly funded roads.

Fuel tax credits also recognise that excise is an implicit road user charge introduced to fund public roads. Farmers and miners operate machinery on privately funded roads. Fishing fleets, tourism craft, ferries and tug boats should not pay a road tax.

'...the principal rationale behind the fuel tax credit system... was to ensure that a number of industries that used fuel off-road were not subject to double tax.' (Treasury, June 2014)

A road tax does not apply to electricity generation in remote regions located off the electricity grid.

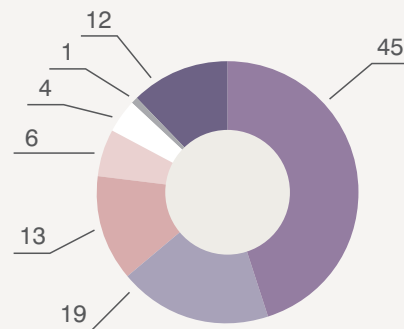
Fuel tax credits recognise that excise should not apply to the use of fuel in electricity generation in remote areas of Australia.

Regional industries such as mining, agriculture, fishing, forestry and tourism rely on diesel to operate in remote areas off the electricity grid.

Tourist resorts on islands in the Great Barrier Reef, for example, are not connected to the electricity grid. In towns such as Weipa, North Queensland diesel fuel generators keep the lights on. Farms rely on diesel fuel generators to power irrigation equipment.

'...virtually since the inception of taxes on diesel, policy has tried to quarantine 'off-road' use of diesel through the use of exemptions or a rebate scheme – if you aren't using the diesel on roads, then there's no case to hit you with an implicit road user charge.' (Chris Richardson, Deloitte Access Economics)

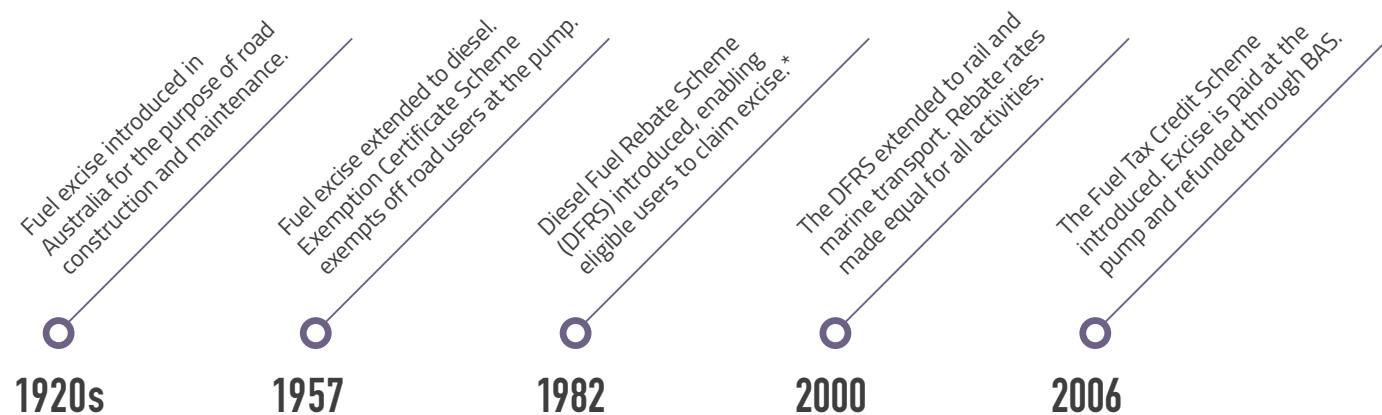
Number of claims by industry (%)



Source: ATO Tax Statistics

Fuel excise is a public road user charge. Farmers and miners operate machinery on privately funded roads. Fishing fleets, tourism craft, ferries and tug boats should not pay a road tax.

The history of fuel tax credits



* The DFRS was limited to primary producers, miners, users of diesel for heating, lighting, hot water, air-conditioning and cooking for domestic purposes and diesel fuel used at hospitals and aged care homes.

Powering Regional Australia

FUEL TAX CREDITS

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Fuel tax credits power regional industries

Reducing fuel tax credits would undermine the competitiveness of major export industries and would simply be a new tax on regional Australia.

Fuel tax credits recognise that excise is an implicit road user charge originally introduced to fund public roads.

Credits are claimed by a range of industries and households. They are vital to the competitiveness of industries operating in regional Australia.

Mining, agriculture, fishing, forestry and tourism rely on diesel to operate heavy machinery off road and generate electricity in remote areas off the grid.

Fishing fleets, tourism craft, farming machinery, mining vehicles, ferries and tug boats should not pay a road tax.

Any reduction in fuel tax credits would significantly undermine the competitiveness of these industries and impact jobs in regional Australia.

Imposing a road tax would damage Australia's biggest export industries because they operate in global

'Global markets don't play nice. If our policies are bad, then we'll lose out – and do so at a considerable cost to national well-being.'

Chris Richardson
Economist

commodity markets where prices are set by world markets.

Treasury has long accepted the rationale behind fuel tax credits: '... tax that is on the business input is relieved from the business activity. It is particularly important from a tax policy point of view. Certainly, with export competing industries, that double taxation obviously would be problematic.'

Australia's biggest export industries rely on diesel

Top 10 export industries

Mining (\$169 billion)

Agriculture, fishing & forestry (\$50 billion)

Tourism (\$39 billion)

Manufacturing (\$30 billion)

Oil & gas (\$24 billion)

Education (\$19 billion)

Business services (\$9 billion)

Chemicals (\$8 billion)

Transport (\$7 billion)

Financial services (\$4 billion)

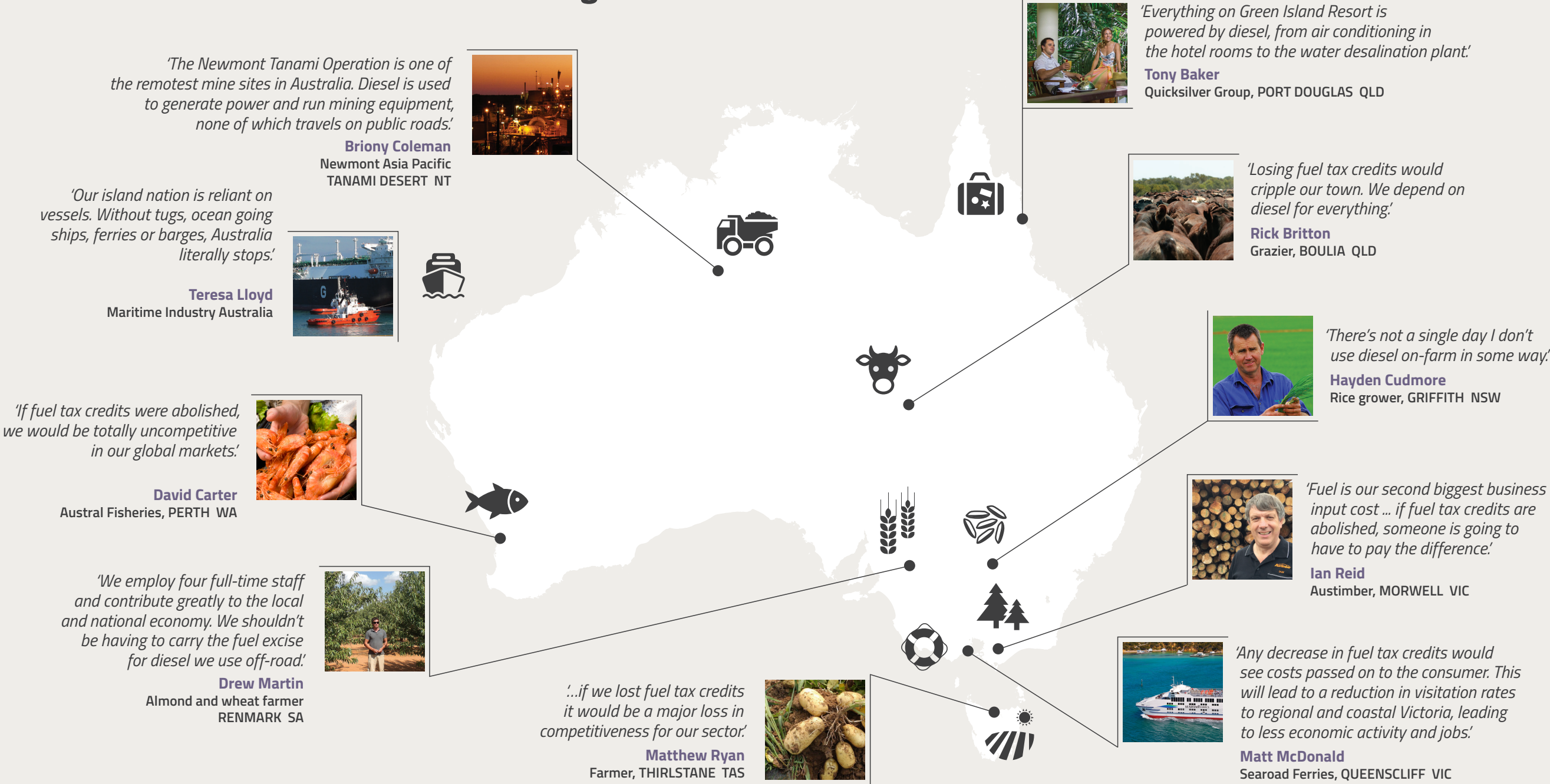
Source: Australian Bureau of Statistics

The Fuel Tax Credit Alliance:



Diesel and fuel tax credits are vital in regional Australia

FUEL TAX CREDITS



Jobs by industry

580,000
Tourism
302,000
Agriculture, fishing and forestry
229,000
Mining
41,000
Rail transport
31,000
Maritime transport



Equipment eligible for fuel tax credits

- Tug boats and dredgers
- Mining trucks
- Harvesting equipment
- Irrigation pumps
- Fishing boats
- Electricity generators
- Construction equipment
- Ferries, tourism boats, barges

Fuel tax credits

THE FACTS

Fuel tax credits are not a subsidy or form of corporate assistance. They simply remove fuel tax from business inputs and ensure an implicit road tax is not charged on off-road use of diesel.

MYTH

Fuel tax credits are a 'subsidy'

FACT

Treasury has repeatedly stated that the Fuel Tax Credit Scheme is not a 'subsidy'.

'Fuel tax credits are not a subsidy for fuel use, but a mechanism to reduce or remove the incidence of excise or duty levied on the fuel used by business off-road or in heavy on-road vehicles.' (2011 submission to G20 Energy Experts Group)

'It is not a subsidy. It is just what the base ought to be.' (Senate hearing, June 2014)

Fuel tax credits are not considered a tax expenditure by Treasury, nor assistance by the Productivity Commission.

MYTH

Excise is not tied directly to road funding, so off-road users should pay

FACT

Fuel excise is an implicit road user charge. That's why a 'road user charge' applies to businesses using public roads in the form of reduced fuel tax credits.

The Henry Review :

'This combination of annual motor vehicle registration and fuel excise could be viewed as a crude 'two-part tariff' for road usage. While road taxes are not hypothecated (that is, earmarked) to road spending, revenue from these taxes does cover the direct cost of infrastructure spending on roads and bridges...'

MYTH

Capping fuel tax credit claims would leave most diesel users unaffected

FACT

Most farmers, irrigators and tourism operators use large amounts of diesel and would be hit by arbitrary caps, especially the most remote operators.

Any attempt to cap or carve out industries would undermine the sound policy basis of the fuel tax credit system.

Charging a road tax for diesel used off publicly funded roads is simply bad tax policy and would primarily hit regional industries and communities.

MYTH

Fuel tax credits encourage the use of fossil fuels

FACT

All businesses have an incentive to minimise costs including by limiting fuel usage. Diesel is an essential input that cannot be avoided for use in many regional businesses.

Large agricultural and mining equipment, ships, fishing vessels and ferries require diesel.

Businesses and homes in remote areas located off the electricity grid also rely on diesel generators.



'These sectors represent future growth waves for Australia. It would be a particularly costly error to get the tax policy settings for such sectors wrong.'

Deloitte Access Economics