

Dear Professor Garnaut

Thank you for the opportunity to make a submission on this important topic. I applaud your courage in making the bold reports and statements that you have made thus far and am grateful that you have been appointed to this very important task. My comments are as follows:

**Fringe Benefits Tax** - I have concerns about the current Australian Tax Office arrangements which send all the wrong signals to employees who have salary packaged fleet vehicles and are thus encouraged to drive to and from work on a daily basis and to drive more rather than less kilometres every year. This is not conducive to reducing greenhouse gas emission from Transport. There is now a huge number of fleet cars on the roads now that are driven to and from home everyday because the employee gets a car in their employment package - this is all state, federal, and local government employees and non government sector too...) I refer you to the [Report of the Senate Environment, Communications, Information Technology and the Arts References Committee](#)  
[The Heat Is On: Australia's Greenhouse Future](#)

Full report at

[http://www.aph.gov.au/SENATE/COMMITTEE/ecita\\_ctte/completed\\_inquiries/1999-02/gobalwarm/report/c06.htm](http://www.aph.gov.au/SENATE/COMMITTEE/ecita_ctte/completed_inquiries/1999-02/gobalwarm/report/c06.htm) which gives:

**Recommendation 47**

The Committee recommends that the Government carry out a review of Fringe Benefits Tax legislation to remove the incentive for employers to include motor vehicles for private use in salary packages, to remove financial rewards for travelling more kilometres in a vehicle under a novated lease, and to generally remove barriers to employees using alternatives to single occupancy of cars in commuting.

**Recommendation 48**

The Committee recommends that the Government introduce Fringe Benefits Tax deductions for the inclusion of public transport and cycling commuting expenses in salary packages.

**Recommendation 49**

The Committee recommends that public transport fares be considered for exemption from (or zero rated for) GST.

6.27 A number of witnesses raised the system of Fringe Benefits Tax (FBT) deductions as a problem. The ARA pointed out a discrepancy between the FBT applied to business motor vehicles versus public transport. They assert that while company and government cars represent 16.5 per cent of vehicle sales, they cause 40 per cent of peak hour traffic and 20 per cent of all traffic:

The FBT applying to motor cars as a proportion of salary packages is approximately 10 per cent of the vehicles purchase price. The FBT applying to a public transport ticket is approximately 95 per cent of the ticket price. This policy creates a significant disincentive for companies to include public transport fares in salary packages and encourages greater use of company cars for commuter use. In contrast, in the USA employers are encouraged to provide public transport tickets worth A\$100 per month, tax free. [25]

6.28 The University of NSW Transport Program (UNSWTP) pointed out that 'while an employee is unable to claim, as a tax deduction, for travel to and from work, nonetheless economic benefits for cars are available to employees offered a salary package':

Under certain circumstances, employees are able to improve their financial position by leasing a vehicle and reducing their taxable income (hence salary sacrificing). The fringe benefit tax (current rate being 48.5 per cent) subsequently paid is based on a concessional rate depending on kilometres

travelled per year... the statutory formula used to calculate the percentage to discount a car's value has a distorting effect. No additional cost is imposed on users as distance travelled increases - the taxable value and FBT payable actually falls the longer distance travelled - ranging from 26 per cent for under 15,000 km (the average distance travelled by a household car per year) to 7 per cent for over 40,000km. We have now verified anecdotes from people, who as beneficiaries of the FBT concessions, remark that their employers remind staff with novated leases to clock up more kilometres to reach the threshold before the end of the FBT year, 31st March each year - in practice, typically, cars are lent to friends to take long weekend trips. [26]

6.29 The UNSWTP suggest that not only do FBT concessions on business vehicles cost the Commonwealth needed revenue (an estimated \$740 m in 1996-97), but that the concessions directly cut across the Commonwealth's declared policy of travel demand management, as contained in Module 5 of the NGS. They also argued that such FBT deductions led to a growth in cars used to travel to work (with up to 50 per cent of cars travelling to the Sydney CBD receiving some form of FBT deduction) and has caused an increase in the number of cars per household. [27]

6.30 In evidence, the ARA recommended that government introduce 'salary packaging arrangements that are neutral with respect to employee choice of transport', and argued that economic policy, including tax policy, needed to be consistent with national fiscal and environmental policy. [28]

6.31 Such trends are exacerbated by the large proportion of company cars in Australia's fleet. Up to 60 per cent of new car purchases are for 'company cars', and because the drivers of these cars often do not pay for their own fuel there is little incentive to look for fuel efficiencies either in engine size or usage. This is of some concern to the Committee, given that these purchases to a large extent determine the profile of Australia's car fleet as they are handed down.

6.32 The Committee notes that many other countries have innovative and greenhouse friendly taxation arrangements for motor vehicles. The BFA point out that since the 1970s there had been steadily increasing levels of 'motorisation' and a collective decline of all the more sustainable forms of transport. They compare Australian trends with data from the Netherlands which has a similar population to Australia. The Netherlands National Environment Policy Plans (NEPP) have aimed to constrain motor vehicle dependence since 1989.

Without the NEPP it was expected that car kms would increase by 72 per cent over the period 1986 to 2010. With the NEPP this increase will be lowered to 48 per cent, a positive step towards ESD. Bicycle trips have substituted for short car trips and 28 per cent of all trips are made by bicycle.

The performance of the Dutch car fleet is far better. At present only 23 per cent of the Dutch car fleet is older than 10 years compared to 43 per cent of the Australian car fleet and Dutch cars are on average smaller. Another factor is the 41 per cent of passenger cars powered by LPG which produces 14 per cent less GHG and significantly less air pollution. [29]

6.33 The Netherlands charge a purchase tax on passenger cars and motorcycles. They are about to lower this and introduce a surcharge calculated on the CO<sub>2</sub> emitted per kilometre so the outcome is revenue neutral but provides incentives for fuel efficiency. Deductions will be made for built-in feedback instruments such as econometers and dashboard computers, cruise control, etc. which can lead to 5 to 10 per cent reductions in fuel use. [30]

6.34 The BFA was critical of the Commonwealth's failure to reverse the current trends or even constrain the growth of motorisation restructuring the tax system, pointing out that the NGS states:

`Economic policy instruments (both incentives and disincentives) will be examined to ensure they are consistent with fiscal, economic and environmental policy, including greenhouse objective... to be completed in 1999/2000', p. 56.

The Dutch experience shows that the NGS needs to be backed up by eco-taxes to replace current tax incentive to overuse cars if sustainable trends are to be reversed. [31]

6.35 The BFA lists 13 measures needed to supplement the NGS and National Bicycle Strategy:

- an annual petrol and diesel tax increase to encourage fuel conservation and efficiency;
- increased GST on energy wasteful vehicles and upgraded emissions standards to European levels by 2002;
- more government support for the gaseous fuels industry through excise exemptions for CNG and LPG and grants for conversions; also more funding for biofuels and ethanol/methanol;
- new design rules which stipulate that all new car and LCV engines be easily convertible to CNG;
- tax and policy measures to encourage an increasing proportion of CNG-fuelled vehicles in government and private fleets;
- salary packaging to encourage cycling and public transport, or Commonwealth rules to ensure salary packaged cars are CNG-fuelled;
- environmentally responsible taxation of workplace parking spaces;
- research funds for an analysis of the provision and pricing of parking spaces;
- GST exemptions for public transport, and greater accessibility to parking and public transport for bicycles;
- encouragement to employers to provide reimbursement for cycling on work business rather than driving;
- greater harmonisation of business developments with public transport facilities;
- urban planning regulations that include car-free housing; and
- \$200 million in Commonwealth funds in 2000 for Travelsmart and bicycle strategy plans. [32]

6.36 In their discussion paper *Key Greenhouse Response Strategy in Energy and Transport for Australia*, the Institute for Sustainable Futures, University of Technology, Sydney, argues that Australia should:

As a matter of urgency, remove tax benefits for the purchase and use of company cars and government cars, and increase the rate of import duty on 4-wheel drives to parity with that of ordinary passenger cars. ... . Allow only a fixed flat-rate income tax deduction for personal vehicle use, set at the marginal cost per km of use of a fuel-efficient car, not the total cost per km. Likewise, permit business to claim only fuel costs based on 8 litres/100km or some similar benchmark (ratcheting down over time). Standard fuel consumption data could be used to apply an adjustment to the proportion of fuel cost claimed. [33]

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6.39 The UNSWTP recommended that public transport travel passes be tax exempt, and claimed that `depending on conditions, we know from experience in other countries (and the TravelSmart Program in Perth) that a 10-30 per cent mode shift from car commuting to public transport can be achieved by offering tax exempt travel passes'. [36]

6.40 The UNSWTP has proposed a number of recommendations for tax reform in relation to transport:

- licence fees levied on parking bays, levied differentially according to the level of local congestion and the availability of public transport. Where public transport alternatives were not readily available, the fee would be zero or very low. Licence fees could then be applied to investments in public transport;
- amendments to FBT legislation to ensure that no financial advantage can be gained by travelling more kilometres in a vehicle under a novated lease;
- amendments to FBT legislation to provide exemption for employers who provide subsidised public transport fares or passes to their staff; and
- the introduction of road pricing in large cities 'where congestion costs and environmental impacts from road transport are the greatest. This would reflect the true social costs from motoring and put public transport in a more competitive situation in the urban transport market'

**Lower import tariffs for Four Wheel Drives** - It is my view that inefficient vehicles such as large 4WD should have higher than usually taxes placed on their import tariff to discourage consumer demand for these high fossil fuel usage and greenhouse gas emitting vehicles.

**Public Transport Funding** needs to be significantly increased in order to provide a frequent and timely service at a low cost to the user to encourage Public Transport usage. This could be accomplished through rebudgeting road funding schemes to allow a greater percentage of money to be spent on cycling and Public Transport infrastructure. Similarly there needs to be full Integration of Public Transport and cycling, i.e dedicated cycle storage on Trains anytime of the day and racks on some buses.

**Across the Board Parking fees.** At the local government, state government and Federal government level, parking fees should be introduced without FBT to prompt people to consider their alternative travel options.

Thank you for taking my comment into account and once again for the opportunity to make comment.

Yours sincerely

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