Attachment F: Glossary of fuel taxation terminology

Term:	Definition
Ad Valorem tax	An ad valorem tax is one that is applied to the value of a commodity produced or consumed. The GST is an ad valorem tax and is applied at a rate of 10% (or $1/11^{th}$ of the GST inclusive price).
Business activity statement (BAS)	GST-registered businesses are required to lodge a business activity statement (BAS). The BAS covers a number of regular tax obligations of businesses, including: • goods and services tax (GST) • pay as you go (PAYG) instalments • PAYG withholding tax • other taxes (e.g. Fringe benefits, luxury car and wine equalisation tax). Businesses also use the BAS to claim FTCs. The GST reporting and payment cycle determines the frequency with which a business lodges a BAS. These are: • quarterly for businesses with GST turnover less than $20 million • monthly for businesses with GST turnover of $20 million or more • annually for businesses voluntarily registered for GST and with GST turnover less than $75,000 ($150,000 for not-for-profit bodies).

Creditable purposes
(off public roads)
	Fuels used by registered businesses may qualify for a fuel tax credit where they are used for a creditable purpose.
	Businesses can claim fuel tax credits **equal to the full excise paid** for eligible fuels they use in business activities (including in light vehicles), such as on private roads, off public roads and for non-fuel uses.
	Below are examples of fully creditable off public road business activities:
	• agriculture
	• fishing
	• forestry
	• mining
	• marine and rail transport
	• nursing and medical services
	• burner applications
	• electricity generation by commercial generator plant, stationary generator, or a portable generator
	• construction
	• manufacturing
	• wholesale/retail
	• property management
	• landscaping
	• dredging
	• panel beating
	• greenhouse heating
	• cement kilns
	• quarrying
	• industrial furnaces
	• non-fuel uses, including
	  - fuel you use to clean machinery parts or drums
	  - diesel you spray directly onto a road as a sealant
	  - fuel you use as a mould release or as an input or ingredient – for example, printer inks, paint and adhesives.

Term:	Definition
Creditable purposes (on public roads)	Businesses can claim fuel tax credits for a portion of the excise paid on eligible fuels they use in heavy vehicles, including heavy emergency vehicles, travelling on public roads if the vehicle meets certain conditions. These include: • it is used in carrying on a business • it has a gross vehicle mass (GVM) greater than 4.5 tonnes (diesel vehicles acquired before 1 July 2006 can equal 4.5 tonnes). The credit that can be claimed is a partial credit, with the credit payable set equal to the excise paid *less* a road user charge. Eligibility to claim is also subject to other conditions such as meeting environmental conditions like noise and emissions standards.
Excisable fuels	Fuels subject to excise. See Attachment B for a list of excisable petroleum items and applicable rates (as at end July 2022).
Excise	Excise is a tax on the production of goods payable by the manufacturer when the goods pass a designated point in the supply chain. For fuel, the excise point is when fuel manufactured or imported into Australia passes the 'terminal gate' which is when the fuel leaves the manufacturer or importer's storage depot.
Externality	An externality is an indirect cost or benefit of an economic activity where the impact of the cost or benefit falls on a third party. In the absence of any corrective mechanism, the indirect cost or benefit is not reflected in the final price of the good or service produced. In the case of heavy vehicles using public roads, damage to public roads is a negative externality. Road user charging aims to include the cost of this externality in the price of heavy road transport services so that they are not subsidised to over-utilise roads and so they do not have an unfair advantage over other transport modes such as air, rail or sea.
Fiscal balance	The fiscal balance for a given financial year records revenue when it is earned and expenses when they are incurred, regardless of when any money is actually received or paid out during that financial year. For example, the fiscal balance records revenue from company taxes in the financial year a company earns the income even though it may not have to pay the tax until the following financial year. This accounting method is called accrual accounting and differs from the method used for another commonly used budget aggregate, the underlying cash balance, which is calculated on a cash accounting basis and records receipts and payments of cash when they occur.
Fuel tax credit (FTC)	A refundable tax offset that returns the excise paid on excisable fuels to eligible businesses. Businesses claim the FTC through their business activity statements. Different rates of FTC apply depending upon whether the fuel is used on a public road or not.

Term:	Definition
Goods and services tax (GST)	The GST is a tax on the supply of goods and services in Australia. All businesses with GST turnover (i.e. gross income from all businesses minus GST) greater than $75,000 must register for GST. The GST applies to the value of all supplies made in Australia. GST registered businesses are able to claim a credit for the value of GST included in the price of GST taxable inputs they receive (referred to as input tax credits). Input tax credits cancel out the GST imposed on business inputs, so for the most part, the GST is a tax on the final consumption of goods and services by households. In Australia GST applies under four broad regimes: • Fully taxable: The business imposes GST at 10% of the value of the supply (with the tax payable equal to 1/11th of the GST inclusive price) and claims input tax credits for GST included in the price of its inputs. • GST free: The business does not charge GST but claims input tax credits for GST included in the price of its inputs. No GST is included in the price of the final supply to households. This treatment applies to most food, education, health care, child care and exports. • Reduced rates: In some special cases, businesses may apply GST at a lower rate. For instance, long term accommodation in commercial premises (e.g. hotels, boarding houses) is taxable at 5.5%. • Input taxed: The business making the supply does not charge GST but cannot claim input tax credits for the inputs it uses to make the supply. This treatment mainly applies to financial supplies and supplies of rental housing.
Heavy vehicles	Heavy vehicles, including heavy emergency vehicles, are vehicles that have a gross vehicles mass (GVM) greater than 4.5 tonnes (diesel vehicles acquired before 1 July 2006 can be equal to 4.5 tonnes GVM). The GVM of a vehicle is the GVM accepted by the authority that registered the vehicle. Trailers cannot be included in the GVM of a rigid vehicle. For prime movers, the GVM is the gross combination mass – the mass of the vehicle and the trailer.
Households	A household consists of a person or a group of persons who share the same living accommodation, who pool some, or all, of their income and wealth and who consume certain types of goods and services collectively, mainly housing and food. (Source: *ABS 5514.0* *Australian System of Government Finance Statistics: Concepts, Sources and Methods, 2015*)
Indexation	Indexation is a method of adjusting an economic variable by the movement in a price index to account for inflation. Petroleum fuel excise is indexed every six months, on 1 February and 1 August, to movements in the consumer price index (CPI) with the objective of maintaining the real value of excise collections.
Input tax credit	In the GST system, a credit that a GST registered business can claim that refunds the amount of GST included in the price of business inputs the business acquires. If the value of input tax credits exceeds the GST payable, the excess can be offset first against other tax liabilities of the business and then any further excess paid as a refund. Such refunds are counted as a reduction in GST revenue.

Term:	Definition
Price elasticity	The proportionate amount by which the consumption of a good changes in response to a change in the price of the good. For instance, if the price of a good increases by a 10% and consumption of that good declines by 5%, the price elasticity will be -0.5. • A good is described as being *price elastic* if the change in consumption is large relative to the change in price (e.g. an elasticity of -2 where consumption changes by twice the change in price). • A good is described as *price inelastic* if there is little or no change in consumption in response to a price change. Fuel consumption tends to be price inelastic, especially in the short term.
Refundable tax offset	FTCs are refundable tax offsets. Refundable tax offsets are payments to taxpayers administered through the taxation system where the amount of offset calculated is first applied to reducing a tax obligation of the taxpayer and, if the offset calculated exceeds the tax payable in the relevant period, the excess amount (up to the full amount of the offset) is paid to the taxpayer. This contrasts with a non-refundable offset, where the amount of the offset that can be applied is limited to the tax payable. Under Government Finance Statistics framework, refundable tax offsets are classified as expenses for Budget purposes, whereas non-refundable offsets are classified as reductions in revenue.
Road user charge (RUC)	The road user charge is the amount by which the FTC payable to the operator of a heavy vehicle (GVM > 4.5 tonnes) is reduced from the full excise rate. If the RUC exceeds the full excise rate, the FTC credit payable is zero (in which case the RUC paid would by default equal the full excise rate). The RUC is set in an annual determination by the Ministers for Transport and Infrastructure on the advice of the *National Transport Commission* as part of setting the RUC for FTC and heavy vehicle registration charges. The RUC is part of a national system heavy vehicle charges that includes the RUC on fuel as well as components based on annual vehicle license fees.
Tariff	Fuel excise is collected on imports as an excise equivalent tariff. A tariff is a tax on imported goods, generally applied at the border when those goods are cleared by Customs for entry into Australia. Most tariffs are ad valorem taxes (see above), however, tariffs on fuel and other excisable goods (e.g. tobacco and alcohol) are applied on a excise equivalent basis. This means that the excise equivalent tariff on petroleum fuel is imposed as a volumetric tax (see below) per litre of fuel.

Term:	Definition
Tax	Fuel excise is a tax. Tax revenue is government income that is collected from individuals, corporate entities and some other sources. Payment of tax is compulsory, and importantly, there is no direct link between the payment made to the government and the provision of goods or services by the government to the payee. All tax revenue is paid into the Consolidated Revenue Fund. Taxes do not include payments from an entity to the government in exchange for the provision of goods or services at a market price (or cost of provision). Fees for goods, services or regulation may be treated as a tax if the level of the fee is well in excess of the market value or cost of provision of the good, service or regulation concerned. Taxes may be levied on a range of things such as the earning of income, consumption or production of goods, property and wealth or just being there. The taxpayer can be an individual, company, trust, partnerships or a defined group.
Underlying cash balance (and headline cash balance)	The underlying cash balance and headline cash balance for a given financial year record the cash that is actually received or paid out by the government, regardless of when these amounts are incurred. For example, these balances record company tax paid to the government in a financial year even though the amount may relate to a company's earnings from a previous financial year. This accounting method is called cash accounting and differs from the method used for the fiscal balance, which is calculated on an accrual accounting basis, and records revenue when it is earned and expenses when they are incurred.
Volumetric tax	Fuel excise is imposed as a volumetric tax. A volumetric tax is one that is applied to the quantity of a commodity produced or consumed. Petroleum fuel excise (and most other excises in Australia) are volumetric. Excise on petroleum fuel is applied at a rate per litre of fuel.