

House of Representatives Standing Committee on Economics

ANSWERS TO QUESTIONS ON NOTICE

Treasury Portfolio

Clean Energy Amendments Bills 2012

27 September 2012

Topic: Tax treatment of emissions permits

Mr CIOBO: I have just two more lines of questioning. How are the permits treated for GST purposes?

Ms McCulloch: We do not have any of our revenue group people here.

CHAIR: Take it on notice.

Ms McCulloch: We can take it on notice, but—

Mr Writer: Carbon units are GST-free—

Mr CIOBO: GST-free?

Mr Writer: That is right.

Mr CIOBO: Both domestic and international?

Mr Writer: Well, Australian carbon units are GST-free.

Mr CIOBO: I understand that, in the European Union, VAT is added on. Is that correct?

Mr Writer: There have been issues around VAT and I think some countries have taken VAT off as a consequence of some of those carousel fraud-

Mr CIOBO: That is exactly where I am going with this. So I am interested to know the tax treatment.

Ms McCulloch: We can take that on notice. We do not have the people from Treasury here who are the experts in the tax treatment of permits.

Mr CIOBO: Please do take it on notice because I would like to know how it is treated both domestically and internationally. Further, I would like to obtain both departments' comments about the implications of EU credits, or permits or whatever they are, coming into Australia, given that there seems to be a mixed tapestry of countries that apply VAT and countries that do not, and then obviously that would have a consequent impact in Australia in terms of tax, especially with respect to GST. I know that is a bit of a big tapestry issue but if you could respond to that.

Answer:

Under the carbon pricing mechanism, the supply of an 'eligible emissions unit' is GST-free and includes 'eligible international emissions units' which in turn includes a 'prescribed international unit'. *The Clean Energy Amendment (International Emissions Trading and Other Measures) Bill 2012* amends the definition of 'prescribed international unit' to include Australian Issued International Units (AIUs) and EUAs, thereby making these new categories of units 'eligible international emissions units', which are 'eligible emissions units' and therefore GST-free.

The European Union does not have a consistent policy on the VAT treatment of European allowances, with each Member State free to decide on the application and rate of VAT to apply. The European Commission has confirmed that European allowances purchased for compliance in the Australian ETS would not be subject to VAT.

House of Representatives Standing Committee on Economics

ANSWERS TO QUESTIONS ON NOTICE

Treasury Portfolio

Clean Energy Amendments Bills 2012

27 September 2012

VAT fraud (or 'carousel fraud') requires a system where VAT is added to a good at the point of sale, collected by the seller of the good, and remitted to the government. By omitting the third step, fraudulent persons can collect and then abscond with the tax. Eligible emissions units, including Australian and international units, are GST-free under the carbon pricing mechanism; hence there is no opportunity for this form of carousel fraud to occur in relation to these units.