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THE TREASURY

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12 March, 2003

The Secretary
Economics Legislation Committee
Department of the Senate
Suite SG.64
Parliament House
Canberra ACT 2600



Dear Sir/Madam

ENERGY GRANTS (CREDITS) SCHEME BILL 2003

ENERGY GRANTS (CREDITS) SCHEME (CONSEQUENTIAL AMENDMENTS) BILL 2003

Thankyou for your invitation to make a written submission to the inquiry by the Economics
Legislation Committee into the provisions of the above bills.

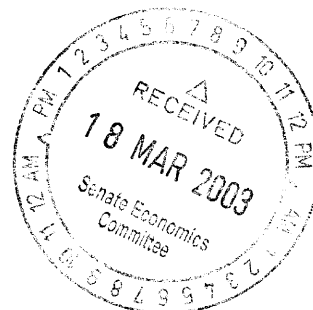
The submission on behalf of the Department of Treasury is attached.

Yours sincerely

Patrick Colmer
General Manager
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THE TREASURY



**SUBMISSION TO
SENATE ECONOMICS LEGISLATION COMMITTEE**

**Energy Grants (Credits) Scheme Bill 2003
Energy Grants (Credits) Scheme (Consequential
Amendments) Bill 2003**

18 MARCH 2003

The Commonwealth Treasury has prepared this submission.

The views expressed in this submission are those of the Treasury and do not necessarily reflect those of the Treasurer or of the Government.

BACKGROUND

The Government's initial commitment to the Energy Grants (Credits) Scheme (EGCS) was part of the *Measures for a Better Environment* (MBE) package agreed between the Prime Minister and the Australian Democrats in May 1999.

The commitment was acknowledged in section 4 of the *Diesel and Alternative Fuels Grants Scheme Act 1999* (DAFGS Act) which states that the Commonwealth intends to replace the Diesel Fuel Rebate Scheme (DFRS) and the Diesel and Alternative Fuels Grants Scheme (DAFGS) with an EGCS to start in July 2003 or earlier.

The DAFGS Act states that the purpose of the EGCS "will be to provide active encouragement for the move to the use of cleaner fuels by measures additional to those under this Act, while at the same time maintaining entitlements that are equivalent to those under this Act and the Diesel Fuel Rebate Scheme, including for use of alternative fuels".

The Government's commitment to introduce the EGCS involves two components:

- firstly, maintaining benefits equivalent to those available under the DAFGS and DFRS, including for use of alternative fuels; and
- secondly, pursuing options to provide encouragement for the conversion to cleaner fuels. The Government's approach on this aspect is being considered by the Energy Task Force, as announced by the Treasurer in press release No. 4 on 13 February 2003.

The Energy Grants (Credits) Scheme Bill 2003 and the Energy Grants (Credits) Scheme (Consequential Amendments) Bill 2003 give effect to the Government's commitment to replace the DFRS and the DAFGS with an EGCS and maintain benefits equivalent to those under the existing schemes.

As noted in the second reading speech, the current bills are not intended to address the commitment concerning cleaner fuels, but progress is required on DAFGS and DFRS successors to maintain benefits beyond 30 June 2003.

This submission seeks to provide an overview of the purpose of the bills.

PURPOSE OF THE EGCS

The EGCS will apply from 1 July 2003 and will replicate entitlements under the existing DFRS and DAFGS, consistent with the Government's 1999 agreement with the Australian Democrats.

The new scheme does not intend to extend the general range of activities that currently qualify for a grant or rebate under the existing schemes, although minor amendments have been made to clarify the Government's position on eligibility in certain areas.

The EGCS simplifies administration of the schemes by removing the inconsistencies that currently exist because the DFRS and the DAFGS are administered under different legislation, by bringing the two schemes together under the unified administration and compliance framework of the *Product Grants and Benefits Administration Act 2000* (PGBAA).

THE ENERGY GRANTS (CREDITS) SCHEME BILL 2003

The entitlement provisions of the Energy Grants (Credits) Scheme Bill 2003 (the EGCS bill) essentially replicate the eligibility criteria contained in the DFRS provisions in the *Customs Act 1901* and the DAFGS Act with minor amendments to clarify the eligibility of certain activities. These amendments do not affect current entitlements.

The major change to entitlement for an on-road credit in comparison with the DAFGS is that it will become prospective. Claimants will be able to make a claim for an on-road credit in relation to fuel they have purchased or imported into Australia, that they propose to use in an eligible activity, but which may not have yet been used. This will bring it into line with the current DFRS under which benefits are claimed prospectively. Currently under the DAFGS the fuel must have been used before a claim for the on-road grant can be made.

THE ENERGY GRANTS (CREDITS) SCHEME (CONSEQUENTIAL AMENDMENTS) BILL 2003

The Energy Grants (Credits) Scheme (Consequential Amendments) Bill 2003 (the amendment bill) amends or repeals certain acts as a consequence of the implementation of the EGCS. The amendment bill brings the EGCS under the administration of the PGBAA to align it with the compliance and administrative framework of the other grant programs administered by the ATO, namely the Fuel Sales Grants Scheme and the Product Stewardship Oil arrangements. The amendment bill updates the PGBAA provisions to address certain administrative issues that have been identified as a result of the ATO's experience in administering the schemes, and provides for a seamless transition of existing DFRS and DAFGS claimants to the new administrative framework.

The amendment bill also brings the PGBAA within the scope of the public and private rulings regime in the Taxation Administration Act 1953.

Three new offence provisions are inserted into the PGBAA. These provisions are essential to ensure the integrity of the EGCS and provide effective compliance measures.

MATTERS TO BE PRESCRIBED BY REGULATION

Some matters will be prescribed by regulation under the EGCS Act as is currently the case with the DFRS and DAFGS. Current entitlements will not be affected by the regulations.

The Energy Grants (Credits) Scheme Regulations 2003 (the EGCS Regulations) will replicate the definitions of diesel fuel (on-road diesel) and emergency vehicle contained in the Diesel and Alternative Fuels Grants Scheme Regulations 2000 (the DAFGS Regulations) and will specify the metropolitan areas in the same way as the DAFGS regulations. The EGCS Regulations will also replicate the definition of diesel fuel (off-road diesel) contained in the Customs Regulations 1926.

The EGCS Regulations will also prescribe methods for the calculation of eligible fuel similar to those prescribed by the DAFGS Regulations and will prescribe the grant rates for the on-road and off road credit.

MEASURES FOR CLEANER FUELS

The purpose of the EGCS is to provide certainty to the business community by ensuring that entitlements under the current schemes are maintained. These bills do not contain measures to encourage the conversion to cleaner fuels as options to do so are being examined as part of the consideration of alternative fuels within the Energy Task Force

IMPLICATIONS OF DELAYED PASSAGE

The sunset provisions of the DFRS and the DAFGS take effect on 30 June 2003.

The passage of the bills in the Autumn sitting of Parliament is critical to provide certainty in the business community and to allow sufficient lead time for the implementation of the EGCS from 1 July 2003.