

APMF Members Survey:
Response to Fuel Tax Credit Reform Initiative

1. The APMF has surveyed its members to ascertain their assessment of the impact on their companies of the proposed tax changes. Companies responding to the survey account for approximately 48% of total A&D and industrial paint sales.
2. Responses have been received from a significant number of coatings manufacturers ranging from Australia's largest paint manufacturers, Orica (Dulux) and Barloworld Coatings (Taubmans) to some of the country's smallest such as Sherwood Paints in Campbellfield Victoria and Concept Paints in St Mary New South Wales.

Carrying Period

3. Respondents have estimated the length of time they would have to carry the tax, during the course of the financial year, as between 30 and 120 days. Dulux has estimated their carry time at 40 days. The average for all respondents is 65 days.
4. It should be noted that while the majority of respondents submit their BAS statements monthly, some submit quarterly and some annually. Generally, the larger companies submit monthly while the smaller submit quarterly. Only one company said it would change its reporting period (from quarterly to monthly) should the changes come into effect.

Compliance Costs

5. Respondents have estimated that the proposals would increase their overall cost of funds, in respect of raw material purchases, by up to 8.5%. The average for all respondents is 4.54%.
6. Assuming a petroleum solvents usage of 42 474 176 litres per annum and an overdraft rate of 9.35% that translates into an industry wide cost of approximately \$16 326 240 per annum.

Members Specific Comments

7. The following specific comments have been offered by APMF members:
 - It will add additional cost and burden which will need to be covered in some form i.e: higher prices to the market
 - In addition to impact on cash flow, labour costs also increase via additional administrative burden ie; recording of transactions such as purchase orders, invoices, AP processing and additional BAS preparation.

- There will be a significant IT cost to update our system to cope with these changes. On top of this, there will also be additional administration costs to manage the handling of excise within our business. Suppliers who produce raw materials using petroleum solvents and those toll manufacture finished products on our behalf will also incur these additional costs and would most likely increase the sell price of products to us. All of these, plus the addition to the 2% increase to cost of funds, would reduce the profitability of our business, and hence the cost would need to be passed onto the marketplace.
- Every new cost has an impact on us being in a very competitive environment. Cash flow is the most important part of any business so it has a very adverse impact.
- This will create a cash flow problem and in turn will restrict the growth of the company.
- Reduction in cash flow (increased interest costs if financed from overdraft).
Increase in administrative work (40-60 man-hours p.a)
- We would have to introduce disciplines that would ensure the rebate was accumulated and deducted accurately and promptly. The current system is simple for end users.
- In these days of GST 60 day terms from suppliers are ancient history, in fact suppliers are reducing their terms from 30 days to 21 days in some cases.
- We currently do our BAS statements on a quarterly basis, to do it monthly would involve our admin staff in a lot of extra work.
- Our focus is to our customers and to maintain our quality despite economic fluctuations and stronger competition – we cannot pass on any more costs due to unnecessary reforms from eroding profitability.
- We have done a very rough calculation of both local and imported solvents and based on the last six months average usage have calculated that the impost on cash flow would be \$206,000. A figure which I must also say is depressed as current export volumes are significantly down compared to the second half of 2004.

Conclusion

8. The industry's fundamental argument is that paint manufacturers should not be financially penalised (and to a significant extent) as a result of administrative charges in the treatment of the fuel tax credit system.
9. The APMF can see no reason why paint manufacturers, in the same way as other bodies such as primary producers, charities etc. should not continue to be granted an up front exemption from the fuel excise tax where the products concerned are to be used in the manufacture of paint.
10. Whether the existing "certificate" based system is continued or whether some other exemption mechanism is devised is something Treasury is best able to determine.
11. The industry is confident that the logic of its arguments, coupled with its assessment of the financial impact of the proposals on the industry and on the consumer market, will be sufficient to persuade Government to grant an appropriate relief to Australia's coatings industry.