

The voice of Australian farmers since 1979



24 May 2005

The Secretary
Senate Economics Legislation Committee
Suite SG.64, Parliament House
CANBERRA ACT 2600

Dear Secretary,

The National Farmers' Federation (NFF) welcomes the opportunity to provide input into the Senate Committee's Inquiry into the *Fuel Tax Bill 2006*. After reviewing the draft *Fuel Tax Bill 2006*, NFF has concerns that the proposed changes outlined in the Bill will have a substantial impact on Australian farmers cash flow. These changes have the potential to leaving some farm businesses out of pocket for a considerably longer period than under the current e-Grant or Energy Credits Grants Scheme claiming arrangements, resulting in real costs for Australian farm businesses.

NFF contributed to the development of the Government's Energy White Paper and provided a detailed submission in August 2005 in response the *Treasury Fuel Tax Credit Reform Discussion Paper*. This Submission, provided at *Attachment A*, raised a number of concerns about Treasury's proposed implementation of the Government Fuel Credit Reforms and sought additional clarification on certain aspects of the proposed new arrangements. NFF has not been provided this clarification and the draft *Fuel Tax Bill 2006* and associated explanatory memorandum appear to have overlooked a number of the key concerns raised in NFF's submission.

With price of diesel having risen by around 15% in the 9 months since NFF lodged its original submission (refer to Fig 1.1), the concerns identified in NFF's original submission are more pertinent than ever. This has been reflected in the level of concern NFF members have raised over the potential impacts of the Bill. The continuation of severe drought in many regions is also placing heightened pressure on farm cash flows and relationships with financiers.

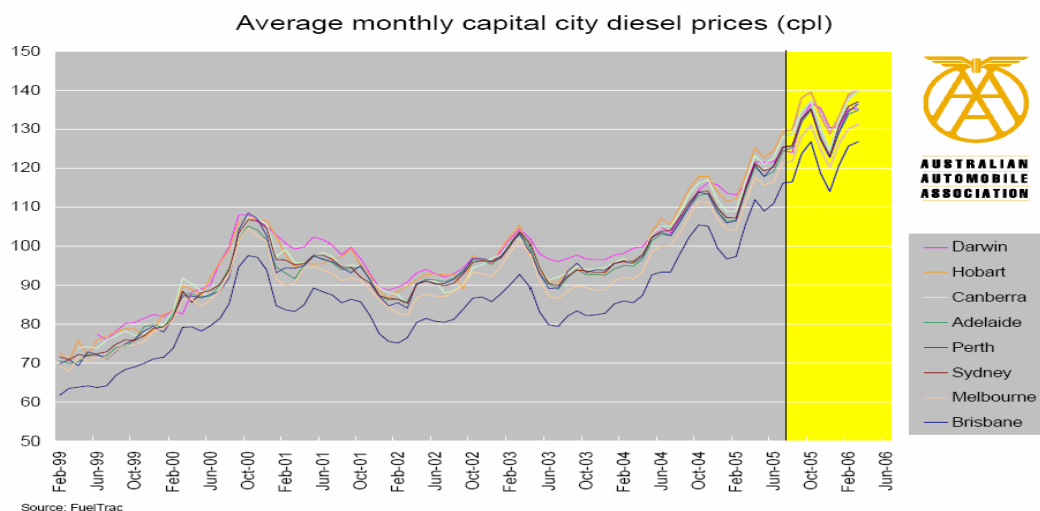


Figure 1.1

Implications of the Fuel Tax Bill 2006 on farmers' cash flow

NFF's major concern in relation to the *Fuel Tax Bill 2006* relates to the impact of the fuel tax credit reforms on farmers cash flow and the real costs that may arise from these changes. Under the arrangements outlined in the Bill, farm businesses will have no other alternative but to claim their fuel tax credit through their Business Activity Statements (BAS).

The impact of the new fuel tax credit arrangements on a farm business' cash flow will be influenced by a range of factors. These factors include the BAS arrangements of a farm business (monthly, quarterly, annually), their chosen accounting method (cash or accrual), and the point at which they purchase fuel relative to their BAS cycle. NFF acknowledges Treasury's argument that in some instances the new fuel credit system may result in farmers being paid sooner, however there are contrary scenarios that will result in farmers waiting over three months and conceivably up to 12 months before they can claim their fuel tax credit. The attached case studies, provided by NFF member organisations, highlight the potential impact of the proposed changes on individual farm member's businesses.

It is true that a farm manager through aligning their fuel purchases with their GST cycle may be able to minimise cash flow impacts, however NFF believes that by way of principle a farm business should be allowed the opportunity to make fuel purchasing decisions on the basis of market conditions (price opportunities) and the immediate needs of their business, rather than having to commit to a purchasing cycle dictated by the ATO.

NFF's original submission did recognise that a claim system based around the business activity statement (BAS) system may prove a simpler and more beneficial way for some farm businesses, and on this basis supported the BAS system as one future option for farmers to claim. However this support was clearly conditional on farm businesses retaining other options for claiming their fuel tax credits, in particular through the e-Grant program.

Retention of the E-Grant

The *Fuel Tax Bill 2006* in its current form abolishes the e-Grant System, meaning that farmers will have no alternative but to claim their fuel tax rebate through the BAS system

The popular e-Grant system has been in operation since 2003, and has provided farmers with the option of receiving their fuel tax credits electronically, with a fuel supplier lodging a claim automatically on their behalf (this is typically in line with the fuel suppliers monthly billing cycle). The e-Grant system has effectively eliminated any paperwork or red tape burden on farm businesses claiming their fuel credits and has ensured farmers were refunded their credits in a timely manner. Although uptake of the e-Grant among farm businesses was limited, a greater than five-fold increase in the value of rebate claimed through the e-Grant was observed between 2003-04 and 2004-05, and NFF has observed growing interest amongst its members in relation to the Scheme.

In contrast to the direction outlined in the *Fuel Tax Bill 2006*, NFF has strongly argued that the Australian Government should be looking to expand the e-Grant system as an option for farmers to claim their credits. NFF questions Treasury's claim that the retention of the e-Grant Scheme is inconsistent (or not possible) with the delivery of fuel credits through the BAS system, and calls on the Senate Committee to investigate how the e-Grant Scheme may be retained in conjunction with the BAS system, to offer farmers a number of options in claiming their fuel credits.

Additional Fuel Tax to fund Cleaner Fuels Grants Scheme

The *Fuel Tax Bill 2006* gives effect to the Australian Government previous stated intention to increase fuel tax by 0.7 cents per litre from 1 July 2007 on diesel for a period of two years to fund a cleaner fuel grant for diesel with less than 10 parts per million sulphur. NFF opposes the introduction of this additional tax on diesel, and while acknowledging the proposal will be reviewed in prior to its introduction to take account of market conditions, given the high cost of diesel and the medium term outlook for continued high fuel prices, NFF calls on the Federal Government to scrap this proposal and to fund the cleaner fuels grants from consolidated revenue.

Definition of Primary Production Vehicles for the Emission Performance Exemption

NFF welcomes the exemption of primary production vehicles under the environmental criteria [subsection 41-25(2)]. The current legislation states "*a vehicle is considered to be used primarily on an agricultural property where, in carrying on a primary production business, the vehicle, for example, is used to transport the primary produce to and from the market, or crosses property that is not defined as agricultural property when travelling from or onto agricultural property*". The legislation may benefit from further clarification of the term "primarily used on an agricultural property", in particular to explicitly allow a farmer to use their vehicle to collect and transport inputs into a primary production business (eg: fertilisers, farm chemicals feed etc).

Impacts of the changes on the development of Australia's renewable fuels industry

NFF is concerned about the potential for the changes outlined in the *Fuel Tax Bill 2006* to reduce the relative competitiveness of biodiesel and renewable fuels in comparison to normal diesel products. NFF encourages the Senate Committee to address any aspects of the Bill which may potentially create a disincentive for the production, or use of biodiesel or renewable fuels.

Broader Fuel Excise Reforms

NFF strongly supports the aspects of the Bill that give effect to the Government's Energy White Paper commitments to extend the diesel fuel excise scheme to include a rebate for 100 per cent of the tax paid on all fuels for all off road business activities.

NFF continues to argue that given the benefits at stake and the strong fiscal position of Government, these reforms should be brought forward, rather than wait until 2012 for the full off road 100 per cent extension to come into effect.

Thank you for the opportunity for NFF to contribute to the Inquiry and I look forward to the opportunity to elaborate on the issues raised in NFF's submission through the hearing process.

Yours Sincerely,

A handwritten signature in black ink, appearing to read "Charles Burke". The signature is fluid and cursive, written on a light-colored background.

CHARLES BURKE
Chair, Farm Business and Economics Committee

Attachment A – Submission in response to the Treasury Fuel Tax Credit Reform Discussion Paper
Attachment B –Case studies on the impact of fuel tax credit changes on farm cash flow