

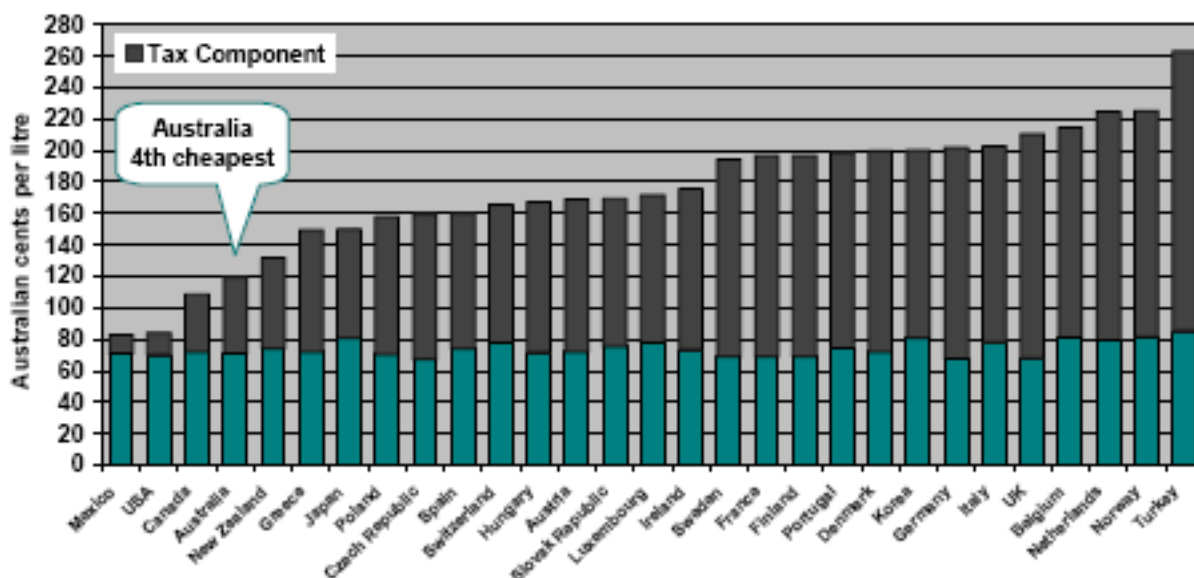
CHAPTER 5

Petrol, Excise and GST

Introduction

5.1 The matter of petrol prices and taxes attracted a significant amount of interest during the inquiry, with submissions from private citizens asking many questions about the current status of taxes on petrol. Figure 3.2 (Chapter 3 – The Petrol Price Rollercoaster) illustrates that taxes comprise around a third of the total cost of petrol at the pump. However, it also shows that Australia has the fourth lowest level of petrol taxation (and consequently the fourth lowest petrol prices) in the OECD, as illustrated in Figure 5.1.

Figure 5.1—OECD comparison of petrol prices and tax (March 2006 quarter)¹



5.2 Taxes account for approximately 34–39 per cent of the retail price of petrol and consist of two components, excise and the Goods and Services Tax (GST). Excise is capped at 38.143 cents per litre (cpl) and is levied on the domestic production of petrol and the corresponding customs duty which is levied on imported petrol. The rate was frozen in 2001 at that level, so in real terms the level of petrol excise is reducing with the passage of time. GST is charged at the standard rate of 10 per cent of the total purchase price.

5.3 Evidence received by the inquiry indicated divided opinions on whether taxes should be reduced to combat the rising price of petrol or alternatively, if petrol taxes should be restructured to encourage less reliance on petrol.

¹ Caltex Australia, *Submission 55*, p. 10.

Is GST a tax on a tax?

5.4 A number of submitters expressed views about the application of GST to petrol. Whilst some called for a blanket reduction in fuel taxes,² a common concern of witnesses and motoring organisations was that the application of GST on petrol (which includes excise) is a 'tax on a tax' and are calling for GST to be removed from petrol or that the taxation system be restructured so that excise does not attract GST.³ One witness submitted that:

Excise is a tax not goods not service and should be charged at the end after fuel price and GST. eg. Petrol + GST = [Sub] Total + Excise = Total. To do so any other way is breaching the rules of GST.⁴

5.5 The Motor Trades Association of Queensland stated simply:

Our position on GST, on the excise component, is that we regard it as inequitable. It just does not seem right to have a tax on a tax.⁵

5.6 However, a member of the Committee, Senator Andrew Murray highlighted that there are many instances—perhaps including all goods and services—in which the argument could be made that a 'tax on a tax' is applied, but the question remains as to whether some goods or services should be GST exempt:

...commonly the GST is always a tax on a tax because, if you take any final good or final service, included in that final good or service is the calculation the company makes with respect to what corporate tax it will pay. That is within its margin. Built in there are state taxes such as payroll taxes. All sorts of state, territory and federal taxes are set into what the company or the business decides as a final price for its good or service provided. Therefore, to my mind GST is always to some extent a tax on tax. Nevertheless, it is a very common statement—talkback radio, letter writers and commentators effectively argue that fuel should be GST-free, like health and educational goods.⁶

5.7 Submitters also discussed higher petrol prices leading to a greater amount of GST being collected because the tax is charged against the total purchase price. The NRMA argued that higher petrol prices means the Australian Government is generating even more GST from sales:

2 See for example, Mr David Blackwood, *Submission 9*, pp 1–2.

3 See for example, Mr Ange Kenos, *Submission 4*, p. 2; Mr Hans Verseema, *Submission 32*, p. 1; RACV, *Submission 30*, p. 6; Sudholz Pty Ltd, *Submission 57*, p. 1; and Mr Neville Pitt, *Submission 60*, p. 2.

4 Ms Fay Hicks, *Submission 25*, pp 3–4.

5 Mr Russell Delahaye, Motor Traders Association of Queensland, *Committee Hansard*, 23 August 2006, p. 44.

6 Senator Andrew Murray, *Committee Hansard*, 13 October 2006, pp 36–37.

...the GST levied on a litre of unleaded petrol in metropolitan Sydney in June 2006 is 12.58 cents per litre compared to only 8.83 cents per litre in January 2005. This means that Australian Governments are receiving a windfall gain of 3.75 cents per litre at the expense of the Australian motorists who are already hurting due to high petrol costs.⁷

5.8 Given that GST is collected against petrol purchases, the Royal Automobile Association of South Australia proposed that excise should be lifted:

With the GST, fuel excises are no longer justifiable to raise revenue. The appropriate tax on fuel for revenue raising purposes is, in our view, 10 per cent GST on all fuels, no indexation and no on-road/off-road distinction.⁸

5.9 Whilst the Royal Automobile Club of Victoria (RACV) suggested that GST should be removed from petrol as well as recommending a number of other modifications to the fuel taxation system, notably that:

- the Commonwealth reduce petrol excise by 10 cpl;
- in the longer term, fuel excise be replaced with an explicit road user charge; and
- investment in road infrastructure be increased to a figure corresponding to 12 cpl.⁹

5.10 When propositioned about the possibility of removing GST from fuel, Mr Michael Potter from the Australian Chamber of Commerce and Industry asserted that whilst this would possibly benefit consumers, it would provide no advantage to business:

But the important problem with making fuel GST-free is that that would have absolutely no effect on the price of fuel purchased by business. Businesses can claim an input tax credit for all the GST, so effectively they get a 10 per cent reduction in the cost of fuel. If you made fuel GST-free, of course it would reduce the price for the final consumer but it would keep it exactly the same for business. I am not sure that that is a particularly good public policy result.¹⁰

5.11 Furthermore, Mr Potter suggested that reviewing the application of excise to petrol would be a more appropriate course of action to reduce petrol prices:

We and businesses generally argued at the time of the introduction of the GST that it should be applied as broadly as possible. If you made fuel GST-free, that would be winding back on that particular position that we took and so we would not be supportive of that from an administrative point of view. It would cost a lot of money too. We think that if you want to do

7 NRMA, *Submission 33*, pp 17–18.

8 Royal Automobile Association of South Australia, *Submission 21*, p. 8.

9 RACV, *Submission 30*, p. 6.

10 Mr Michael Potter, ACCI, *Committee Hansard*, 13 October 2006, p. 37.

something, it would probably be better to look at the excise rather than at the GST.¹¹

5.12 However, in recognition of the impact of GST on petrol prices, the Australian Government undertook a series of steps to ensure that the GST would not lead to excessive levels of taxation. Following the introduction of the GST on 1 July 2000, the excise rate applied to petrol was reduced to compensate for the additional tax that would be imposed under the GST. This is discussed in more detail later in this chapter.

5.13 As a further measure to offset the impact of the GST and in recognition of the price differential that already existed between country and city petrol prices, the Fuel Sales Grants Scheme was introduced on 1 July 2000, providing grants to fuel retailers for the sale of petrol and diesel to consumers in regional and remote areas. However, this scheme ceased on 1 July 2006 in accordance with the findings of the Fuel Tax Inquiry in 2002 which found that there was little recognition of the scheme and uncertainty as to whether the benefits to regional Australians were fully accrued in proportion to the level of public expenditure.¹² Annual funding to the scheme of \$270 million was subsequently diverted to the Auslink road transport plan, Australia's National Land Transport Plan to improve transport infrastructure in outer metropolitan, rural and remote areas.¹³ The impact of GST on country residents is explored in further detail in Chapter 6 – Petrol Prices in Country Areas.

What is the impact of excise on petrol prices?

5.14 Excise describes taxation levied onto certain goods in Australia for the purposes of raising revenue or, in the case of some goods such as tobacco, to curb consumption of a product type. Excise on petrol and diesel are two of the most important sources of revenue for the Australian Government.¹⁴ Whilst the contribution of excise to the price of petrol is substantial, it is a fixed amount and is not subject to price movements.

5.15 Following the introduction of the GST in 2000, excise was dropped by 6.656 cpl in recognition of the additional tax that would be applicable to the commodity through the GST and on 2 March 2001, excise was reduced by a further 1.5 cpl. It was at this time that the biannual practice of updating the excise amount in

11 Mr Michael Potter, ACCI, *Committee Hansard*, 13 October 2006, p. 37.

12 Fuel Taxation Inquiry Committee, *Fuel Tax Inquiry Report*, Commonwealth of Australia, March 2002, pp 162–163.

13 Australian Taxation Office, *Fuel sales grants scheme closed*, (accessed November 2006): <http://www.ato.gov.au/businesses/content.asp?doc=/content/72337.htm&pc=001/003/044/004/008&mnu=&mfp=&st=&cy=1>

14 Webb, R. 'Excise taxation: Developments since the mid 1990s', *Research Brief*, Department of Parliamentary Services, 13 April 2006, p. 4.

accordance with the consumer price index also ceased.¹⁵ An additional one cpl excise was added onto the price of high-sulphur diesel on 1 July 2003 and again on 1 January 2004 to encourage the early adoption of ultra-low sulphur diesel.

5.16 The alternative fuels ethanol and biodiesel are also subject to excise. However, the domestic production of ethanol attracts a subsidy paid under contract by the Department of Industry, Tourism and Resources equal to the excise amount, therefore leading to effective excise-free treatment. Subsidies are not provided when ethanol is imported so as to offer a level of protection to the domestic market. Both the import and domestic production of biodiesel attracts grants under the *Energy Grants (Cleaner Fuels) Scheme Act 2004*, which effectively brings the rate to zero. A number of alternative fuel excise reforms were announced by the Australian Government on 16 December 2003.¹⁶ In amendments to the Energy Grants (Cleaner Fuels) Scheme Bill 2003,¹⁷ a three year extension on introducing the reforms was agreed, notably that:

- the ethanol subsidy will be phased out incrementally by increasing the effective rate of excise to 12.5 cpl over the period 1 July 2011 to 1 July 2015;
- the biodiesel grant will be progressively reduced by increasing the effective excise rate to 19.1 cpl over the period 1 July 2011 to 1 July 2015; and
- liquefied petroleum gas (LPG) is currently excise-exempt but will begin attracting 2.5 cpl excise after 1 July 2011, which will increase over five years to 12.5 cpl in 2015.¹⁸

5.17 To provide relief to some businesses and households, Fuel Tax Credits (FTC) was introduced on 1 July 2006, with the final changes applying from 1 July 2012. The FTC scheme delivers a credit for effective fuel tax paid, and in certain cases environmental criteria need to be met. Credits are currently available to entities using petrol, diesel, kerosene, heating oil and toluene as part of conducting their business.¹⁹ From 1 July 2008, the scheme will be expanded to provide a credit of half of the fuel excise incurred in currently ineligible off-road activities and from 1 July 2012, a full

15 Webb, R. 'Excise taxation: Developments since the mid 1990s', *Research Brief*, Department of Parliamentary Services, 13 April 2006, p. 5.

16 The Hon. John Howard, Prime Minister of Australia, 'Fuel excise reforms', Media release, 16 December 2003.

17 The *Energy Grants (Cleaner Fuels) Scheme Act 2004* was assented to on 21 April 2004 and taken to have commenced on 18 September 2003.

18 See Webb, R. 'Government assistance to alternative transport fuels', *Research Brief*, Department of Parliamentary Services, 9 November 2006, pp 1–2.

19 Eligible fuel use activities include: vehicles greater than 4.5 tonne gross vehicle mass travelling on a public road; off-road activities previously entitled to a grant under the Energy Grants Credits Scheme; burner applications and non-fuel uses; and, electricity generation. For more information, see Australian Taxation Office, *Fuel tax credit guide for businesses*, Commonwealth of Australia, July 2006, p. 4, 19.

credit will be provided so such activities are effectively excise-free.²⁰ Grants for the use of alternative fuels (for example, biodiesel, compressed natural gas, LPG) will continue to be provided under the Energy Grants Credits Scheme until 2010, but beginning 1 July 2006 and ending on 30 June 2010, the grants will be incrementally reduced to zero.²¹

5.18 The administration of the FTC scheme attracted criticism in evidence which argued it imposes a 'costly compliance burden' on farmers and is overly complicated, recommending that a number of changes be implemented to simplify excise collection on fuel.²² Fuel distributor Lowes Petroleum expressed concern about the method of collecting fuel excise, proposing that rural fuel distributors should be able to claim back excise in advance on fuel sales, rather than waiting until after the customer has settled their account before the distributor is able to lodge for a return.²³

5.19 Other evidence argued that the components of the FTC scheme to be introduced in the future should be brought forward to provide some relief today to rural and regional businesses and households.²⁴ This view was shared by the NSW Government, which suggested that the Australian Government reconsider elements of the FTC scheme:

Although the Commonwealth is introducing new fuel tax credits for large on-road vehicles (more than 4.5 tonnes) from 1 July 2006, the delayed introduction of fuel tax credits until 2008 for the business use of fuels off-road will affect many businesses, and in particular, primary industries. Reconsideration of the tax deductibility of motor cars for the small business sector (especially in regional areas) may also be a matter for the Commonwealth's consideration.²⁵

5.20 The Treasury advised that excise collection in 2006-07 is estimated to be around \$7.3 billion which is only \$30 million higher than 2005-06, indicating that excise is declining in real terms.²⁶ They advised the Committee that if half-yearly indexation had continued against fuel excise, the current rate of excise would be 54.9 cpl or 44 per cent higher so effectively, excise is falling in real terms.²⁷ Accordingly, it would appear that consumers are currently benefiting from the current

20 Australian Government, *Securing Australia's Energy Future*, Commonwealth of Australia, 2004, p. 178.

21 R. Webb, 'Fuel Tax Bill 2006', *Bills Digest*, Department of Parliamentary Services, 4 May 2006, p. 5.

22 Mr Robert Parry FCA, Chartered Accountant, *Submission 74*, pp 3–4.

23 Lowes Petroleum Service, *Submission 53*, p. 4.

24 Remote Area Planning and Development Board, *Submission 43*, p. 11.

25 NSW Government, *Submission 44*, p. 3.

26 'Real terms' refers to a figure adjusted to correct for the effects of inflation, thereby reflecting the time value of money.

27 Australian Treasury, *Submission 68*, p. 14.

system of taxation (a capped rate of excise plus ten per cent GST) as opposed to biannual indexation of the excise rate.

5.21 The Australian Automobile Association (AAA) argued that not enough of the total amount of fuel excise revenue collected is spent on roads. The Association suggested that fuel tax should be removed, and replaced with a system which imposes both an access charge for using the roads (including vehicle registration) and a user charge whereby transport users pay the full marginal costs they impose for using the roads which incorporates:

- a road wear and congestion charge calculated in relation to the type of vehicle and damage done through road usage (vehicle mass, distance travelled and location, and axle load);
- an environmental charge; and
- a charge to reflect the costs of vehicle accidents.²⁸

5.22 However, the Committee notes that such action is likely to have a greater impact on people in rural, regional and remote areas who generally travel much further distances, already experience higher transport costs and have limited opportunities for reducing their road usage (these matters are discussed further in Chapter 6 – Petrol Prices in Country Areas). Introduction of a transport user scheme would therefore require adjustments or concessions for people living outside of metropolitan centres.

5.23 The NRMA called for a greater amount of revenue generated from taxes to be spent on roads and transport:

The total tax paid on fuel by Australian motorists far exceeds what Australian governments give back in the form of road and transport funding. In 2005-06 the Federal Government collected some \$14.07 billion from the fuel excise of 38.14 cents per litre. Of this it returned just \$2.1 billion (or 15 per cent) to motorists in the form of better and safer roads. Moreover, it did not allocate any funding to public transport services in Australia's City's which are the home of the majority of Australian's and the hub of the nation's economic activity.²⁹

Are petrol taxes too low?

5.24 The inquiry received a number of submissions arguing that the tax rate on petrol in Australia is too low, encouraging over-reliance on petroleum consumption. The Sustainable Transport Coalition of Western Australia (STCWA) proposed that excise should be incrementally increased to moderate the demand for petrol and diesel and that taxation measures including reform of fringe benefits tax and the removal of

28 AAA, *Submission 29*, pp 14–15.

29 NRMA, *Submission 33*, p. 33.

import duty concessions to discourage the purchase of larger motor vehicles such as four wheel drives and six cylinder vehicles.³⁰

5.25 Mr Ben Rose proposed that increased fuel taxes could be used to further a number of aims, notably to:

- encourage greater use of public transport by subsidising fares;
- provide education on the impact of vehicle greenhouse emissions and the increasing scarcity of oil and gas; and
- fund a 'buy back' scheme for old, inefficient vehicles.³¹

5.26 Evidence submitted that the finite supply of petroleum means that it is a resource which should not be wasted and where possible, decreased vehicle usage should be encouraged through increasing taxes to alleviate air pollution and Australia's over-reliance on petroleum-based energy.³² To moderate demand for petrol the Public Transport Users Association called for the real value of fuel excise to be applied.³³ This could be achieved by re-introducing biannual indexation of excise with the consumer price index.

5.27 The STCWA asserted that a transport user system should be introduced which captures the real costs of motor vehicle use, including energy prices, road user charges and costs of repairing and maintaining transport systems:

Transport users do not pay the real cost of travel. Many costs are paid by the community (eg. health effects of air pollution and costs of road maintenance) are fixed (eg. vehicle registration and insurance) or, arguably, too low (eg. fuel prices compared with many other nations) and so distort the market, resulting in social and environmental costs for the community and increased costs for Government.³⁴

5.28 The Carbon Neutral program recommended that tax incentives be introduced to develop petrol replacement strategies.³⁵ Other suggestions included the introduction of a fuel tax escalator whereby fuel taxes are increased 'smoothly and incrementally' to reduce Australia's reliance on oil and to send out a clear message that fuel consumption must be reduced. The Australian Association for the Study of Peak Oil and Gas recommended that such a system be modelled on the one introduced in the United Kingdom in 1988, but that income tax relief be provided to counteract the

30 STCWA, *Submission 14*, p. 2.

31 Mr Ben Rose, *Submission 1*, p. 1.

32 Mr Michael Angelico, *Submission 59*, p. 1.

33 Public Transport Users Association, *Submission 40*, p. 5.

34 STCWA, *Submission 14*, p. 1.

35 Carbon Neutral – A Men of the Trees Program, *Submission 2*, p. 1.

additional revenue derived from the sale of fuel.³⁶ Mr Bruce Robinson from the Association discussed this proposal with the Committee:

CHAIR—His evidence—and I hope I do not do him an injustice by oversimplifying—was basically that government should take policy measures to increase the price of fuel so as to reduce usage so that (a) we can become less fuel dependent and (b) the available resources that are left will last for longer. Is that basically your position? Is that where you are coming from?

Mr Robinson—I certainly think that is an inevitable conclusion if we think about peak oil and we look at the next generation, the kids who are just in kindy now, and think about 20 years from now: what are they going to be using in 20 years time if they are setting up houses and things? One of Margaret Thatcher's important legacies to Britain was that she put Britain on a fuel tax escalator...³⁷

5.29 To reduce over-reliance on the petroleum industry and build robustness against escalating international oil prices, Mr Alan Kleidon asserted that:

We purchase petrol on a free market from private companies that exist to provide a return to shareholders. If we, as customers, do not like the high price of petrol then we have the power to purchase less or none of it. I would like the Government to focus its intention on assisting us to live with less petrol, rather than seeking cheaper petrol. This will have enduring economic, social and environmental benefits for all Australians.³⁸

5.30 Mr David Rice commented that broad-ranging action is needed to reduce Australia's dependence on petroleum and to change consumer behaviour:

...you bear in mind the need to prepare the Australian public for substantial global oil price rises (doubling or trebling, not just a few more cents/litre) in the medium term (say 5 to 15 years). This means sending the right price signals to vehicle purchasers to buy more fuel efficient vehicles, planning organisations to plan for accessibility by proximity rather than by mobility, and a myriad of other decisions which, collectively, will mean Australia is in as strong as possible a position to cope with high fuel prices. We need these signals now, propping up low petrol prices will send perverse signals.³⁹

5.31 Evidence also recommended that the Australian Government develop strategies for better managing Australia's fuel consumption requirements into the future:

36 Australian Association for the Study of Peak Oil and Gas, *Submission 15*, pp 6–7.

37 Senator George Brandis, Chair & Mr Bruce Robinson, *Committee Hansard*, 20 September 2006, p. 91.

38 Mr Alan Kleidon, *Submission 35*, p. 1.

39 Mr David Rice, *Submission 39*, p. 1.

I urge the Government to develop a comprehensive, strategic framework including tax incentives, promotion of research and new technologies, and the necessary infrastructure to ensure that Australia rapidly repositions itself to be less dependent on imported petroleum and a hostage to wild fluctuations in the world price of oil.⁴⁰

Conclusion

5.32 Judging from evidence submitted to the inquiry, the public is divided on how the current structure and level of taxes is applied to petrol. Two distinct perspectives arise: one in which the Government should seek to lower petrol taxes to reduce the impact of escalating petrol prices; and another which argues that the Government should increase the level of excise applied to petrol to reduce Australia's dependence on petroleum. The former would possibly provide advantage to consumers today but would erode over time. Furthermore, the loss of excise revenue generated through petrol taxes which help maintain and build transport networks would need to be obtained from elsewhere. The latter is likely to be highly unpopular with those most hurt by rapidly rising petrol prices and who have few options available to them to alter their fuel use patterns.

5.33 The large number of inquiries over the past decades into the petroleum industry and rising petrol prices demonstrates that these are issues that are unlikely to go away. With every substantial increase to the price of petrol, consumers express dissatisfaction and anger at rising prices as household budgets are again stretched and people struggle to pay higher prices for a commodity they are largely reliant upon. Rather than adopt short-term measures such as removing GST from petrol or reducing excise, or measures which will undoubtedly hurt consumers even more (for example, increasing excise) effort should be directed to promoting public understanding and awareness of how petrol consumption can be reduced.

5.34 Furthermore, calls for an increase in the level of petrol taxation on environmental grounds, tend to view the issue in isolation from other considerations. Appropriate and balanced environmental policy-making demands a holistic approach, not a sectoral or sub-sectoral approach. The Committee is not in a position to conclude that, in isolation from all other considerations, increases in the level of petrol taxation will be significant in improving the environmental outcomes sought by those who advocate that cause. When balanced against the likely economic dislocation of increasing the cost of a major factor of production (which might itself have unseen environmental consequences), the Committee is not persuaded to that approach.

5.35 The Committee is accordingly not persuaded by the evidence received which proposes any change to the system of excise and GST for petrol and does not make any recommendations in this regard.

40 Mr Steve Gibbons, Federal Member for Bendigo, *Submission 49*, p. 8.