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Submission

to the

Inquiry into the Price of Petrol in Australia

conducted by the

Senate Economics Legislation Committee

September 28, 2006

INTRODUCTION

I have been following the submissions to this inquiry for some time and wish to comment on some aspects as well as make recommendations.

Recently the Prime Minister (Mr. John Howard) said that he would like to hear from anyone who could tell him how to reduce the price of petrol – I wrote to him on 22nd August 2006 (copy attached) but to date have not received a reply.

On the **8th September 2005 Mr. Howard**, in answering a question about petrol prices, said (Hansard page 39) “Can I remind the Leader of the Opposition that the cause of high petrol prices is due to the high price of oil. Any attempt to argue otherwise by the Leader of the Opposition flies in the face, amongst other things, of the arguments of the chairman of the caucus economic committee, the honourable member for Franklin. Writing in the Age on 20 July this year, this is what Dr. Emerson had to say: Australia’s record petrol prices have one cause and one cause only – high world oil prices.

“I say to the motorists of Australia and to the Australian public that I fully understand their anger at the price of petrol. I wish it were lower. I do not take this matter lightly. I sympathise with them. I am glad that strong economic conditions mean that the pain of high petrol prices is not as great as it might otherwise have been. But I am not going to mislead them. I am not going to pretend that by having an inquiry, by setting up a committee or by referring this to some other body we will miraculously be able to bring the price down.

“I notice that some of the state premiers are running around saying ‘Something has got to be done.’ If they can collectively control the supply of world crude oil and if they collectively can do something to bring down the price of world crude oil, I will convene a weekend meeting of the Council of Australian Governments and take their advice. I will put off everything to hear their views.....

“Can I say to my fellow Australians: if there were a way that I could bring down the price of petrol I would move heaven and earth to do so.”

There have been some important submissions to this inquiry and I would like to refer to three of them:

The RACV has asked for “the GST on the excise component of petrol be removed immediately” - but it did not say how it could be done.

Boyce Chartered Accountants referred to the “increasing burden of rising fuel prices on farmers” – but did not suggest how it could be eased.

Lowes Petroleum Service referred to their “costly compliance burden” – but its suggested way of minimising it did not go far enough.

RECOMENDATIONS

I have three recommendations to make:

1. **Abolish the GST on petroleum fuels.**
2. **Increase the excise by 7-cents per litre and increase the Fuel Tax Credit by the same amount.**
3. **Drastically simplify the method of collecting the excise.**

My aforementioned letter to Mr. Howard (a full copy of which together with the attachment thereto is included with this submission) fully explains the virtues of 1. and 2.

Lowes Petroleum Service explained the compliance costs which they incur and pass on to their farming and other customers. Their disclosure that the number of “off road” claimants for a Fuel Rebate will increase from 185,000 to 1.2 million highlights the massive compliance problem created by the Federal Treasury.

What was not mentioned was the **new** very costly compliance burden being imposed on farmers regarding the fuel they use in their farming activities.

Lowes has to **pay** the full excise of 38.143c per litre on all diesel fuel at the time it takes delivery at the bulk fuel depot and **charges** the farmer the same excise amount in the price of fuel delivered for use on the farm.

The farmer has to pay Lowes the full amount and claims back from the Australian Tax Office the whole of the excise payable.

Up until the 30th June 2006 farmers could lodge their claim for the refund as soon as the fuel was delivered (whether or not it had been paid for) and the ATO would pay the farmer within 5 days. Thus the Tax Credit on fuel delivered on the 30th June 2006 would be refunded by July 6 and cash-strapped farmers could use the refund to pay Lowes. Under the arrangements applicable from the 1st July 2006 the farmer will claim his refund on his Business Activity Statement. Thus fuel delivered on July 1 2006 would not be refunded to the farmer until his quarterly BAS for the three months ended 30th September 2006 is lodged and processed – probably about 15th November.

The severity of this change was recognised by the Federal Treasury and it has introduced a TEMPORARY option for farmers to stay on the old method for the next two years **provided they apply to do so** (yet more red tape).

The real cost of this compliance burden on distributors such as Lowes is exemplified by the fact that one of my farming clients gets a 3c per litre discount by paying COD for his fuel.

In their submission, Lowes also mentioned the fact that GST was a similar compliance cost.

It must be remembered that the way the excise and GST is collected and refunded through the ATO provides no accurate accounting method to record the amounts which will actually stay in the treasury coffers. Billions of dollars are being bounced around with only the retail collections actually remaining with the ATO as real revenue.

With the excise, the ATO collects the excise from the petroleum companies long before the farmer claims the full amount back. The timing differences give the Treasury a false figure for real excise revenue.

In the future this inaccuracy will be dramatically expanded with the extension of Fuel Rebates to six times the number of businesses claiming partial and full Fuel Rebates.

MY RECOMMENDATION TO SIMPLIFY EXISE COLLECTIONS:

1. All businesses entitled to claim a Fuel Tax Credit be registered with the ATO and issued with a Fuel Tax Credit Registration Number.
2. When purchasing fuel such businesses will quote their Credit Registration Number and the extent of their Tax Credit entitlement.
3. The supplier will deduct the amount of the credit from the invoiced price and report the claim to the ATO (so as to enable the ATO to monitor the claims).
4. The suppliers will remit all excise collected to the ATO weekly.
5. The ATO will transfer the 7c per litre extra excise (collected under my proposal number 2.) to the State Treasuries in the agreed GST ratios.

Such a method would slash the costly red tape while at the same time the Federal Treasury would only be receiving the real revenue it is entitled to keep.

CONCLUSION

The GST on petrol and diesel fuel quite unfairly imposes higher tax on country and remote residents (due to the higher prices in those areas) as well as adding to inflationary pressures (by adding 10% to all price rises due to increases in world oil prices and other cost increases).

Mr. Howard and Dr. Emerson are clearly wrong in believing that “Australia’s record petrol prices have one cause and one cause only – high world oil prices”.

The Senate Economics Legislation Committee should explain to Mr. Howard and parliament how my proposals would immediately and permanently bring down the price of petrol.

Mr. Howard would not need to move heaven and earth to do so, but he would have to contend with a very obstinate Federal Treasury which has produced the present unwieldy system.

ATTACHMENTS

- A. Letter to Mr. John Howard 22.8.2006
- B. Petrol Prices in Australia 9.8.2006
- C. Petrol Prices in Australia 10.8.2006
- D. Letter to Mr. John Howard 26.2.2001
- E. Pages 23 and 86 from booklet “Tax Reform : not a new tax, a new tax system”
- F. Taxing Petroleum Fuels 26.2.2001