AUSTRALIAN AUTOMOBILE ASSOCIATION

Submission to the Australian Government's Taxation White Paper

JUNE 2015

NRMA MOTORING + SERVICES · RACV · RACQ · RAA · RAC · RACT

Contents

Executive Summary

The AAA appreciates the opportunity to provide input into the Australian Government's Tax White Paper process. The Government's Infrastructure Audit clearly outlines the need for ongoing infrastructure investment that will allow new economic and social opportunities to be realised. Future funding constraints therefore present a core challenge to realising these opportunities and this Tax White Paper is an opportunity to outline the required program of reform.

Existing institutional arrangements, especially in the transport sector, do not provide sufficient funding to address future infrastructure needs[1]. The combined expenditure of the public and private sectors on infrastructure will need to be expanded, all at a time when spending by governments is being constrained by other legitimate competing demands (notably health services and welfare).

In order to address future challenges it is essential that we consider all available funding options to deliver the infrastructure which will drive growth, improve productivity and generate additional economic benefits for future generations.

In line with the Government's stated objective of developing a national taxation framework that is transparent, fair and efficient, the AAA makes the following recommendations.

Transparent

The AAA estimates that more than $34 billion will be collected from motorists in a range of taxes and charges from all Australian governments in 2015-16. As part of this revenue, Australian motorists contribute $15.2 billion dollars towards the Commonwealth's revenue base through fuel excise. Furthermore, they pay GST on fuel including on the fuel excise component of the fuel price. The 2015-16 Budget estimates that motorists will pay almost $17.6 billion in fuel taxes (fuel excise and GST) in that year.

The return motorists get in terms of infrastructure has historically been low. Throughout the period 1998-2018, motorists will receive only 47.4 cents in the dollar on roads from fuel excise paid.

The AAA recommends that the Tax White Paper:

- **Phase out fuel excise as the primary source of motoring revenue for the Australian Government and replace it with a road user charge.** This would alleviate much of the regressive nature of the taxes on motorists and provide a clear link to the revenue raised and the funding spent on infrastructure.
- **Outline as an interim measure, the importance of allocating no less than 50 per cent of fuel excise receipts, net of fuel tax credits, to road funding; as this will generate a greater link between the revenue raised and demand for roads.** Over time the AAA would like to see this funding provided to an independent road fund that would make long-term decisions regarding road investment priorities and de-politicise the funding allocation process.

[1] Infrastructure Australia. Infrastructure Audit 2015. Page 5

Fair

Motorists deserve a fair return for the taxes they pay and the AAA recommends that the Tax White Paper:

- **Abolish Customs Duty and the Luxury Car Tax immediately.** With no domestic vehicle manufacturing industry to remain in Australia beyond 2017, there is absolutely no policy rationale to support the maintenance of these protectionist and inefficient taxes.
- **Work with state and territory governments to phase out registration and stamp duty and outline the need for them to be replaced with a road user charge.** State and territory jurisdictions are using registration and stamp duty charges as a revenue source in lieu of a system which offers a price signal that reflects congestion, road-wear and environmental costs These charges should be phased out and replaced with a broad charge that is reflective of the cost of motoring.

Efficient

A more efficient tax system for motorists would offer a more direct link between motorists' usage and expenditure on infrastructure. Replacing existing inefficient and regressive motoring taxes with a road user charging system could produce both improved usage of existing roads, and on-going infrastructure revenue.

The AAA recommends that the Tax White Paper:

- **Recommend a trial of a road user charge with a phase out of fuel excise for the participants.** A road user charge should only be implemented as a part of genuine reform of taxation on motorists and should not be imposed on top of the existing fuel excise charges.
- **Work with state and territory governments to develop a set of community service obligations for roads to ensure that governments and private operators provide a minimum level of service.** Road infrastructure should be set at a minimum standard and consumers should expect to receive a level of service consummate with the level of charges they pay.

1. The Case for Reform
Introduction

By 2030, Australia's population will grow from 23 million to 30 million with a trend towards urban living, even in regional Australia[2]. Today there are four and a half working age people for every person aged over 65 years, by 2050 there will be only three. This will put pressure on budgets as government revenues fall relative to expenditure.

Demographic trends indicate that spending on health, age-related pensions and aged care will rise from a quarter to almost half of government spending by 2049–50[3]. The ability of all governments to fund productivity producing transport infrastructure will be constrained over time unless there is a new approach to taxation.

Close to 90 per cent of all urban passenger movements within Australia occur on roads[4]. Based on current trends, congestion will increase, imposing burdens on those living in Australian cities, those seeking to move goods through Australian cities and to the national economy. Particular constraints on freeways and highways will emerge, constraining productivity within cities and regions. The estimated congestion cost to the economy is currently $15 billion per year and this figure is projected to grow by around 290 per cent to $53.3 billion in 2031[5]. Combined with the effects of road safety and trauma, estimated at $27 billion per year[6], there is a potential $42 billion of efficiencies available today to all governments to improve transport infrastructure.

More than 75 per cent[7] of non-bulk domestic freight is carried on roads, dominating freight movements between Sydney, Melbourne, Brisbane and Adelaide. Heavy vehicle traffic is predicted to increase by around 50 per cent to 2030[8]. Governments face challenges gaining community acceptance of larger heavy vehicles and funding road infrastructure improvements to service both a larger freight task and a growing light commercial vehicle task.

With these trends in mind, investment in roads will need to remain a priority for the short to medium-term. Finding the funding available to deliver these projects will be an important task for governments – a viable, long-term revenue source will be required to deliver on future infrastructure projects that will drive the economy.

Current road tax arrangements will not meet Australia's future transport challenges. This much was made clear in reviews undertaken over the past decade by the Commonwealth Government, including Australia's Future Tax System (2009) and the Productivity Commission inquiry into Public Infrastructure (2014), and the Australian Infrastructure Audit (2015).

Unlike other forms of national infrastructure such as telecommunications, gas, water, electricity and other forms of transport, where charges include an access charge and usage charges–some of which vary by time of day–roads are the last public utility that is not subject to a user paying system. Roads are, for the most part, funded by Governments out of consolidated revenue and motorists are charged for their use through a variety of mechanisms, some of which are only loosely related to their use. There is no link between revenue collected and spending on roads, which allows for inefficiency and cross-subsidisation.

[2] Australian Government. Department of Infrastructure and Regional Development. Trends: Infrastructure and Transport to 2030. Page 8.
[3] Ibid. Page 9.
[4] BITRE Information Sheet 60: Long-term trends in public transport. 2015. Page 2.
[5] Infrastructure Australia. Infrastructure Audit 2015. Page 2.
[6] Trends: Infrastructure and Transport to 2030. Page 15.
[7] Ibid. Page 10.
[8] Ibid. Page 10.

The AAA and its constituent clubs, which collectively represent more than 7.5 million motorists, have long argued for the removal of the current arrangements for charging motorists and replacing them with a market-based solution. The way motorists should be charged and the way revenue collected should be used to build and maintain new road infrastructure was clearly set out in a report funded by the AAA, NRMA, RACV, RACQ and Infrastructure Partnerships Australia and authored by Deloitte "Road Pricing and Transport Infrastructure Funding: Reform Pathways for Australia". We have attached this report to our submission as a blueprint for reforms in this regard.

2. Transparent Motoring Taxation: What do Motorists Pay?

Each year, motorists pay billions of dollars to the federal, state and territory governments. This money is made up of potentially four taxes when a motorist purchases a vehicle (stamp duty, GST, customs duty on cars purchased overseas, and possibly the Luxury Car Tax) and then five taxes or charges to run the vehicle (state based registration, drivers licence fees, excise duty, GST on excise, compulsory third-party insurance and potentially Fringe Benefits Tax and toll roads). It is difficult to find another area of economic activity in Australia that is taxed as often as motoring.

The AAA estimates that more than $32 billion was collected from motorists in a range of taxes and charges from all Australian governments in 2012-13. The table below gives a breakdown on the range of taxes paid by motorists at a federal and state/territory level. The data is limited to 2012-13 from state and territory governments, (for the sake of completion we have assumed that there will be no growth in state taxes) and this table does not take into account Fringe Benefit Tax raised from motorists (which is not readily available), which was last estimated to be $1.7 billion in 2008-09. As a result it is likely that motorists will pay in excess of $35 billion in 2015-16.

Table 1: All Taxes and Charges Paid by Australian Motorists

FY	Rego	Licence	Stamp Duty	Tolls	Petrol associated GST**	New vehicle associated GST**	Fleet related GST**	Luxury car tax	Excise duty petrol	Excise duty diesel	Passenger MV customs	Total Taxation
2005-06	3,647.0	311.9	1,922.0	996.3	1,515.0	2,294.0	1,686.0	320.0	7,280.0	6,240.0	1,258.0	27,470.2
2006-07	3,911.0	252.3	2,005.0	1,140.3	1,663.0	2,517.0	1,850.0	340.0	7,310.0	6,420.0	1,300.0	28,708.6
2007-08	3,411.4	240.9	2,208.0	1,156.9	1,751.0	2,651.0	1,949.0	464.0	6,959.0	6,674.0	1,400.0	28,865.2
2008-09	3,665.2	295.5	2,026.0	1,199.7	1,886.0	2,855.0	2,099.0	384.0	6,461.0	6,687.0	1,135.0	28,693.4
2009-10	4,219.7	323.8	2,117.0	1,430.2	1,812.0	2,742.0	2,016.0	499.0	6,339.0	6,886.0	1,226.0	29,610.7
2010-11	4,423.2	354.6	2,167.0	1,450.7	2,008.0	3,039.0	2,234.0	540.0	5,910.0	7,080.0	600.0	29,806.5
2011-12	4,735.8	389.6	2,280.0	1,481.9	1,949.0	2,950.0	2,169.0	435.0	6,036.0	8,231.0	805.0	31,462.3
2012-13	5,165.1	445.9	2,471.0	1,271.8	2,065.0	3,126.0	2,298.0	434.0	5,990.0	8,594.0	892.0	32,752.8
2013-14*	5,165.1	445.9	2,471.0	1,271.8	2,168.0	3,281.0	2,412.0	464.0	6,053.0	8,940.0	700.0	33,371.8
2014-15*	5,165.1	445.9	2,471.0	1,271.8	2,294.0	3,473.0	2,553.0	500.0	6,000.0	8,800	420.0	33,393.8
2015-16*	5,165.1	445.9	2,471.0	1,271.8	2,435.0	3,686.0	2,709.0	450.0	6,100.0	9,110.0	400.0	34,243.8
2016-17*	5,165.1	445.9	2,471.0	1,271.8	2,581.0	3,907.0	2,872.0	400.0	6,250.0	9,520.0	400.0	35,283.8
2017-18*	5,165.1	445.9	2,471.0	1,271.8	2,724.0	4,124.0	3,031.0	410.0	6,600.0	9,930.0	450.0	36,622.8

*State and territory taxation data is only available to 2012-13 from BITRE (Infrastructure Yearbook 2014, Table 1.2). We have assumed no growth in state taxes from 2013-14 as a conservative estimate.
**GST information estimated by ACIL-Allen in Consulting, Motorist Taxation Revenue and Road Spending report, August 2014.
***2015-16 Federal Budget, Statement 5 of Budget Paper 1.

2.1 Fuel Taxation

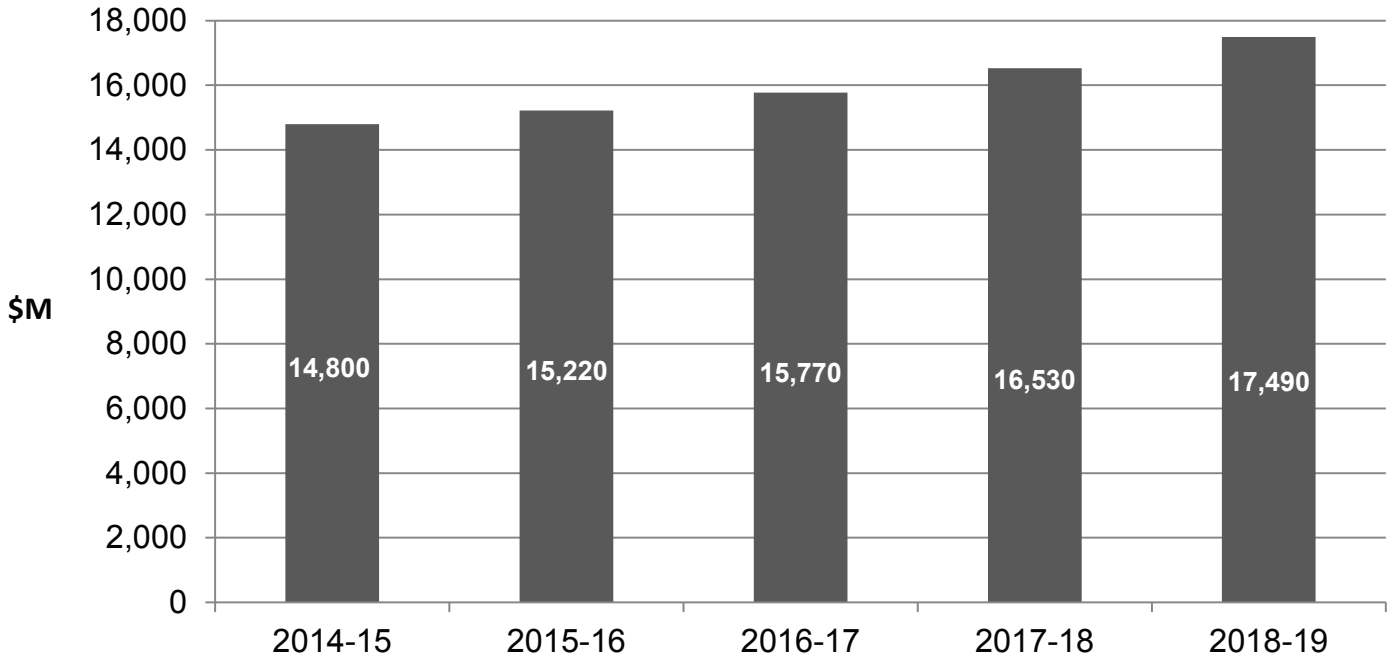
Each year Australian motorists contribute billions of dollars towards the Commonwealth's revenue base through taxation on Fuel. The fuel excise is a charge of 38.9 cents per litre on every litre of fuel sold (except LPG which is taxed at 12.5 cents per litre from 1 July 2015). The rate is due to increase in line with inflation on 1 August 2015 and every six months after that if the Government's proposal to permanently index this tax is realised. Furthermore, motorists pay 10 per cent GST on fuel including on the fuel excise component of the fuel price which amounted to $2.435 billion in 2015-16. It is estimated that motorists will pay almost $17.1 billion in fuel taxes (fuel excise and GST) in the 2014-15 financial year.

Fuel Excise

Excise is a tax levied on certain goods produced in Australia. The main goods from which excise duty revenue derives are petroleum and other fuel products, crude oil, alcoholic beverages, and tobacco. The largest excise tax levied in Australia is on fuel (petrol and diesel). The Constitution gives the Commonwealth exclusive power to levy excise.

Fuel excise consists of the largest amount of taxation applied to motorists. In 2015-16 fuel excise will raise over $15.2 billion from motorists. It raises the most revenue of any tax levied on goods and services by the Australian Government with the exception of GST.

Chart 1: Fuel Excise Revenue



Source: Statement 5 of Budget Paper 1

The recent history of fuel excise has been of ad-hoc changes. Changes to fuel excise since the 1990s have been:

- February 1994, the Government imposed an additional one cent per litre on leaded petrol to discourage its use in favour of unleaded petrol;
- 6 August 1997, the Government increased the excise on petrol and diesel by 8.1 cents per litre in response to the High Court's ruling on the constitutional validity of state business franchise fees.

The Commonwealth paid the additional revenue to the states as revenue replacement payments. The payments ceased when the GST was introduced;

- 1 July 2000, the Howard Government reduced excise on petrol and diesel as part of its tax reforms. The Government reduced excise by 6.656 cents per litre to compensate for the imposition of the GST. The Government did not reduce excise by the full 8.354 cents per litre because it claimed that its tax reforms would result in cost savings at refineries. When these savings did not appear to be forthcoming, the Government reduced excise by a further 1.5 cents per litre on 2 March 2001;
- 1 March 2001, the Government ended the biannual indexation of excise on petrol and diesel to the consumer price index leaving the rate fixed at 38.146 cents per litre.
- 1 July 2003 and again on 1 January 2004, the Government imposed an additional one cent per litre on high-sulphur diesel to encourage the early adoption of ultra-low-sulphur diesel (50 parts per million or less of sulphur), which became standard on 1 January 2006[9].
- October 2014, the Government announced it would give practical effect to bi-annual fuel excise indexation by way of tariff proposals. The proposals will need to be validated by Parliament within 12 months of the date of effect which was 10 November 2014. The rate of fuel excise is currently 38.9 cents per litre.

Fuel excise, is a regressive tax placing a disproportionately high burden on low-income households. This is because the price elasticity of demand for fuel used in cars is low. In a large country with sometimes limited public transport, private vehicles are an essential mode of transport for many citizens. The households with lower incomes live further out of our urban areas and allocate a greater share of their income to taxes such as fuel excise. **This runs counter to government objectives of vertical equity, as instanced by Australia's current system of progressive income taxation.**

Fuel excise is also not a perfect substitute for a road user charge, largely because it penalises regional motorists relative to urban motorists because the social costs of road use in regional areas (such as congestion and air pollution) are lower.

Effects of the Reintroduction of Indexation

At the 2014–15 Federal Budget the Government announced its intention to reapply indexation to fuel excise. It has since used a tariff proposal to realise its goal and as of 10 November 2014, the fuel excise increased from 38.143 cents per litre to 38.6 cents per litre. On 1 February 2015 it increased to 38.9 cents per litre and it is due to increase again on 1 August and every six months after that if the Parliament confirms this proposal.

The highest cost increases will ultimately be borne by those living in outer metropolitan areas and rural and regional areas–often of a lower socio-economic demographic–who must travel longer distances and who are often reliant on a private car for the majority of their transport requirements.

Table 2, below, provides an indicative analysis of the additional costs faced by Australian motorists as a result of the reintroduction of indexation. Based on the Treasury's annual Consumer Price Index (CPI) forecast, a consumer refuelling a vehicle with a 60 litre tank is currently paying an additional 50 cents in taxes per tank which will increase to an additional $2.49 by February 2018. Refuelling that vehicle once a week would result in the consumer paying an additional $129.39 annually by February 2018.

However, the average Australian travels 13,200 kilometres per year in a vehicle with an average fuel consumption of 11.1L/100km[10] and will pay $60.77 in additional tax by February 2018.

[9] Department of Parliamentary Services Research Brief, Excise taxation: developments since the mid-1990s

[10] Australian Bureau of Statistics, Survey of Motor Vehicle Use, 2012

Table 2: Consumer Impacts - Fuel Excise Indexation

Date	Excise Rate (Cents Per Litre)	Change Excise (Cents Per Litre)	Change GST (Cents Per Litre)	Change Total (Cents Per Litre)	Increase in annual taxes for motorists travelling 13,200 km at 11.1 L/100km*	Increase in taxes per 60Litre Tank ($)	Annual Taxation increase based on filling a 60L tank once a week ($)
Pre-Nov 2014	38.14						
10-Nov-14	38.60	0.46	0.05	0.51	7.41	0.30	15.79
Feb-15	38.90	0.76	0.08	0.84	12.25	0.50	26.08
Aug-15	39.39	1.25	0.12	1.37	20.09	0.82	42.77
Feb-16	39.88	1.74	0.17	1.91	28.02	1.15	59.67
Aug-16	40.38	2.24	0.22	2.46	36.06	1.48	76.78
Feb-17	40.88	2.74	0.27	3.02	44.19	1.81	94.10
Aug-17	41.39	3.25	0.33	3.58	52.43	2.15	111.64
Feb-18	41.91	3.77	0.38	4.15	60.77	2.49	129.39

Source: AAA, Budget Paper No. 1, Statement, 1 2014-15
*ABS Survey of Motor Vehicle Use 2012 - based on average kilometers per passenger vehicle and average fuel consumption per passenger vehicle.
** Any discrepancies in tables between totals and sums of components are due to rounding

Interim Step – Revenue & Expenditure on Roads to be More Closely Linked

Research conducted by the AAA in 2012 found that around 90 per cent of Australian motorists believed that most of the fuel excise revenue raised should be spent on major land transport projects.

While the Government has committed to dedicating the additional revenue raised through excise to road projects, the AAA's major concern with this proposal is that motorists have no guarantee, beyond the current forward estimates, that the amount credited to the special account will not be offset by diverting an increased proportion of the existing base of fuel excise indexation revenue to other purposes.

Table 3 outlines the revenue expected to be raised by fuel excise over the near term, including the net excise revenue which accounts for payments made to the Fuel Tax Credit Scheme. The table shows a comparison of the hypothecated expenditure model suggested by the Government as part of the infrastructure reforms in the 2014-15 Budget. We have compared this model with the 50 per cent net funding model for hypothecation which is proposed by the AAA as both providing certainty for funding roads and being more sustainable. Funds from the Government's proposed special account are only due to be spent on roads from 1 July 2015. The Government's proposed model does little to provide a meaningful base for expenditure on roads.

Table 3: Fuel Excise Revenue and Road Funding

Financial Year	Total Excise Revenue ($m)	Net Excise Revenue (i.e. less Fuel Tax Credits) ($m)	50% Net Fuel Excise ($m)	Government's Proposed Funding model ($m)	Budget Expenditure on Roads ($m)
2014-15	14,800	8,530.0	4,265.0	167.5	4,214.0
2015-16	15,210	8,388.0	4,194.0	380.0	5,935.0
2016-17	15,770	8,559.0	4,279.5	680.0	8,402.0
2017-18	16,530	8,915.0	4,457.5	990.0	6,899.0
2018-19	17,490	9,684.6	4,842.3	1,439.5*	4,236.0
2019-20	17,927*	9,926.7*	4,963.4	1,673.5*	
2020-21	18,375*	10,174.9*	5,087.5	1,913.3*	

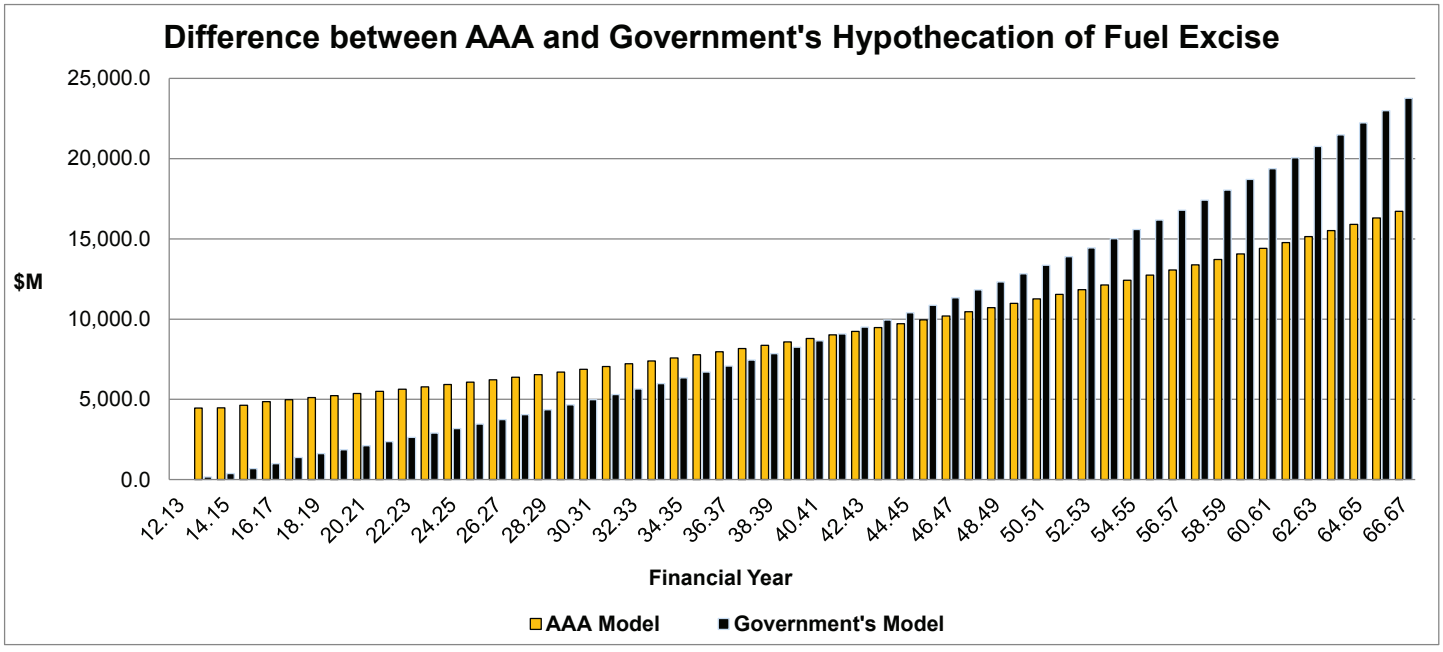
Source: 2014-15 and 2015-16 Federal Budget

Chart 2 illustrates the projected growth in minimum road funding under the proposed special account and compares this with the AAA's proposed alternative, based on a 50% share of net fuel excise revenue.

In the near term, the guaranteed level of funding under the Government's proposed model is inadequate and is only a fraction of the current levels of road funding.

In the longer term, there is a concern about the sustainability of the special account as it attracts an increasing proportion of the total fuel excise revenue. In particular, given that it is specified that funds allocated from the special account must be paid to the states and territories through the COAG Reform Fund there is a question as to whether in the longer term this will result in increasing pressure to displace other mechanisms for Federal Government funding of roads, principally, the Infrastructure Investment Program, which itself is made up of a number of smaller programs each providing targeted funding for particular projects, including the Investment Road and Rail program, Roads to Recovery program, the Black Spot program and the Bridges Renewal Program.

Chart 2: Projected Minimum Road Funding



Source: AAA

Fuel Tax Credits

The Federal Government provides generous subsidies across a range of industries and fuel uses via the Fuel Tax Credit Scheme. The Scheme allows eligible businesses engaging in off-road activities to receive an effective rebate on their fuel excise expenditure[11]. This implies a link between fuel excise revenue and road funding, when there is in fact no clear link. In 2012-13, total Fuel Tax Credits cost the Federal Government in excess of $5.4 billion, with the mining industry claiming over $2.1 billion from 8,045 claims[12]. With the reintroduction of indexation to fuel excise, the effective subsidy to those claiming under the Fuel Tax Credit Scheme will also rise in line with indexation. It is estimated that Government spending on the Fuel Tax Credit Scheme will be in excess of $7 billion by 2018-19[13].

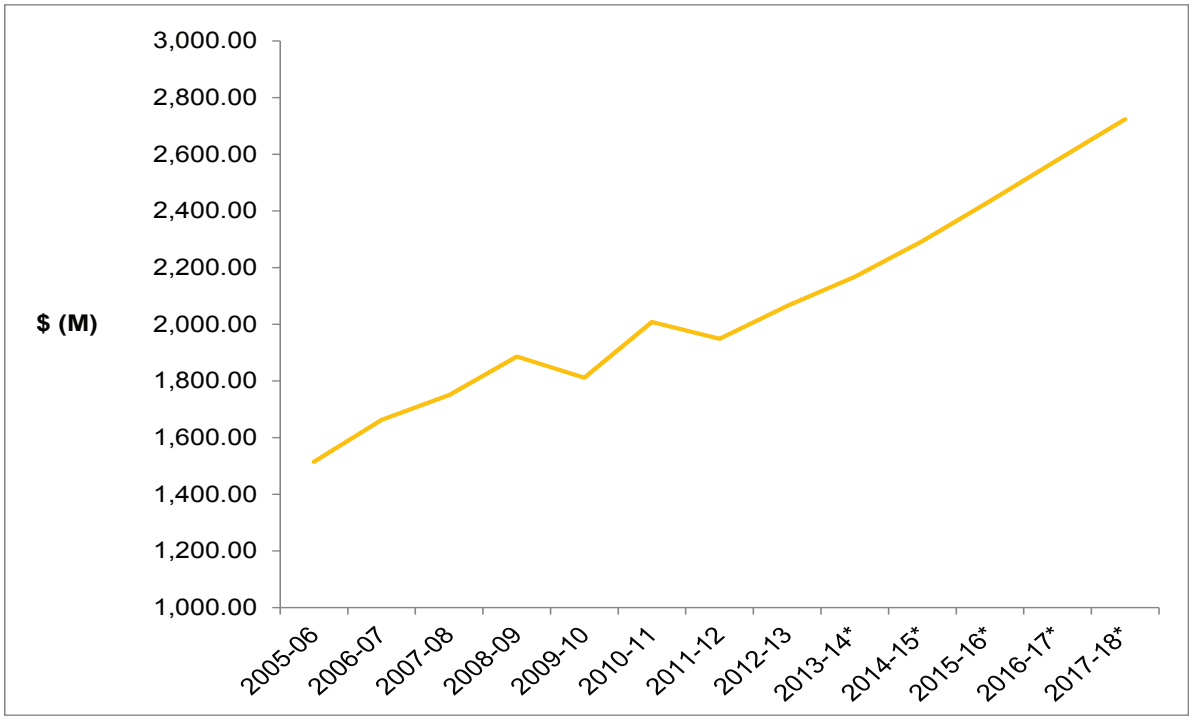
GST

GST is applied to the retail price of petrol. Since the retail price incorporates fuel excise of 39.6 cents per litre, the GST is also applied on the fuel excise component – i.e. the 'tax on a tax' is equivalent to around 3.9cpl.

When the GST was introduced in July 2000, the so-called strike price of petrol for the purpose of calculating the GST impact was around 90cpl. To ensure prices remained unchanged, the Government announced that it would reduce excise by 8.156cpl less an amount of 1.5cpl that it argued would be returned over the long term through efficiency gains in refining. Consequently, a reduction of only 6.656cpl was implemented. By ensuring that prices remained largely unchanged, implicitly the 'tax on a tax' was taken into account[14].

Chart 3 shows the growth in petrol related GST revenue which by 2017-18 is estimated to be in excess of $2.7 billion. It should be noted that if fuel excise indexation is made permanent in the coming months, the GST levied on the fuel excise component will increase every six months.

Chart 3: Petrol Associated GST Revenue



Source: ACIL-Allen in Consulting, Motorist Taxation Revenue and Road Spending report, August 2014

[11] Department of Parliamentary Services Research Brief, Excise taxation: developments since the mid-1990s

[12] Australian Taxation Office Taxation Statistics 2011-12

[13] 2015-16 Federal Budget, Statement 5 of Budget Paper 1

[14] The Government subsequently cut excise further, in March 2001, by 1.5cpl that it had previously argued would flow through in reduced prices over the long term, and it also abolished excise indexation at that time.

Recommendations:

The AAA considers motorists are taxed disproportionally from the rest of economic activity within the nation. What's more, there is little transparency to what motorists pay across a range of Commonwealth and state government taxes. Reform is needed to provide a transparent account of how motorists' taxes are being collected and spent.

The Tax White Paper should:

- **Phase out fuel excise as a source of revenue for the Australian Government and replace it with a road user charge on motorists.** This would alleviate much of the regressive nature of the taxes on motorists and provide a clear link to the taxes raised from motorists and where the funding for infrastructure is spent.
- **Outline as an interim measure, the importance of allocating no less than 50 per cent of fuel excise receipts, net of fuel tax credits, to road funding; as this will generate a greater link between the revenue raised and demand for roads.** Over time the AAA would like to see this funding provided to an independent road fund that would make long-term decisions regarding road investment priorities and de-politicise the funding allocation process.

Fair

Customs duty on imported passenger vehicles and the Luxury Car Tax have both served to protect Australia's local vehicle manufacturing industry. All three of the car brands currently manufacturing vehicles in Australia have announced plans to cease production in Australia by the end of 2017. As a result there is no basis for the Government to continue to collect revenue through taxation measures that contain little policy rationale other than that to protect a domestic manufacturing capability. The Productivity Commission recently concluded an inquiry into Australia's automotive manufacturing industry and concluded that this taxation review should consider:

- removing tariffs on imported passenger and light commercial vehicles once vehicle manufacturing ceases in Australia; and,
- removing the luxury car tax[15].

A Future Tax System also recommended the removal the Luxury Car Tax[16].

Customs Duty

Currently, a five per cent tariff applies on imported vehicles unless Australia has a free trade agreement with the vehicle's country of origin. In general, consumers have benefitted from the gradual reduction of tariffs on imported vehicles that occurred since the mid-1980s when tariffs were at 57.5 per cent.

While a great deal of progress has been achieved by the lowering of tariffs and the conclusion of free trade agreements, many motorists still have the cost of an import tariff factored into the price of their new vehicles. The Australian Government estimates that it will receive $700 million in revenue in 2014-15 from the customs duty imposed on passenger motor vehicles.

The amount is projected to decrease to around $400 million before increasing to $450 million in the final year of the forward estimates[17].

[15] Productivity Commission Inquiry into Australia's Automotive Manufacturing

[16] A Future Tax System. 2009. Volume 2. Page 476.

[17] 2015-16 Federal Budget, Statement 4 of Budget Paper 1

This relatively steep decline in revenue is a result of recent free trade agreements concluded between the Government and a number of prominent car manufacturing countries. Customs duty doesn't appear to be a long term sustainable taxation measure given successive government's trade liberalisation agenda.

The Productivity Commission's 2014 inquiry into Australia's Automotive Manufacturing Industry concluded that :

> *Tariffs can distort resource allocation decisions in the economy; raise input costs for businesses that use imports (or locally manufactured equivalents), raise consumer prices and impose costs on governments and businesses through administration of the tariff schedules and rules of origin. There is a strong in principle argument for the removal of the tariff once Ford, Holden and Toyota cease manufacturing in Australia[18].*

With the withdrawal of local vehicle manufacturing, there is no rationale for a customs duty to be applied on imported vehicles.

Luxury Car Tax

The LCT applies a cost of 33 per cent on the GST-exclusive value of domestic or imported car in excess of a threshold, which is currently $61,884 and $75,375 for fuel-efficient cars (will rise to $63,184 and $75,375 in 2015-16). In certain circumstances primary producers and tourism operators can claim a refund on the value of off-road vehicles.

The luxury car tax (LCT) is the only Commonwealth tax which targets luxury goods or services. It was first introduced in 2000, along with the GST. Prior to 2000, luxury cars were highly taxed under the wholesale sales tax, along with a range of luxury goods. After 2000 luxury goods became subject to the GST only, but luxury cars, became subject to the LCT as well as the GST. The LCT is particularly illogical as it targets people purchasing expensive cars, but not on those purchasing other luxury items such as yachts or jets.

The LCT severely constrains consumer choice by pricing a significant portion of buyers out of the market for vehicles priced at the higher end of the market. It is an inefficient tax with a high compliance cost which targets vehicles which embrace new safety and environmental technologies. Vehicles subject to the tax are generally the leaders in introducing technologies which enhance safety and environmental outcomes, and the LCT only serves to constrain the development and utilisation of such features.

Vehicles targeted under the LCT are generally safer than lower-cost vehicles and as such, the AAA is particularly concerned that the LCT is incompatible with the Government's National Road Safety Strategy which aims to reduce the nation's road toll by at least 30 per cent between 2011 and 2020.

To demonstrate the adverse effects of LCT on safety, consider that purchasing the base model of vehicle which falls under the LCT threshold may not include ground breaking safety technologies. The cost of adding safety enhancing features, such as adaptive cruise control, a lane departure warning system or a blind spot monitor, may push the price of vehicle over the LCT threshold, potentially affecting a buyer's decision whether or not to include such features.

In 2014-15 the Government expects to raise $500 million in revenue from the LCT with similar amounts per year over the forward estimates. The Henry Review of Taxation considered the LCT to be an inefficient and discriminatory form of taxation and recommended its abolition[19]. The Productivity Commission similarly recommended that the Government remove the LCT[20].

[18] Productivity Commission Inquiry into Australia's Automotive Manufacturing

[19] A Future Tax System. 2009. Volume 2. Page 476.

[20] Productivity Commission Inquiry into Australia's Automotive Manufacturing

State and Territory Taxes

Registration

State based taxes should also be considered for reform. We call on the Australian Government to work with the state and territory jurisdictions to reform taxes such as registration charges and stamp duty. There is potential to reform both of these inefficient taxes and replace them with a broader, fairer revenue source such as a road user charge.

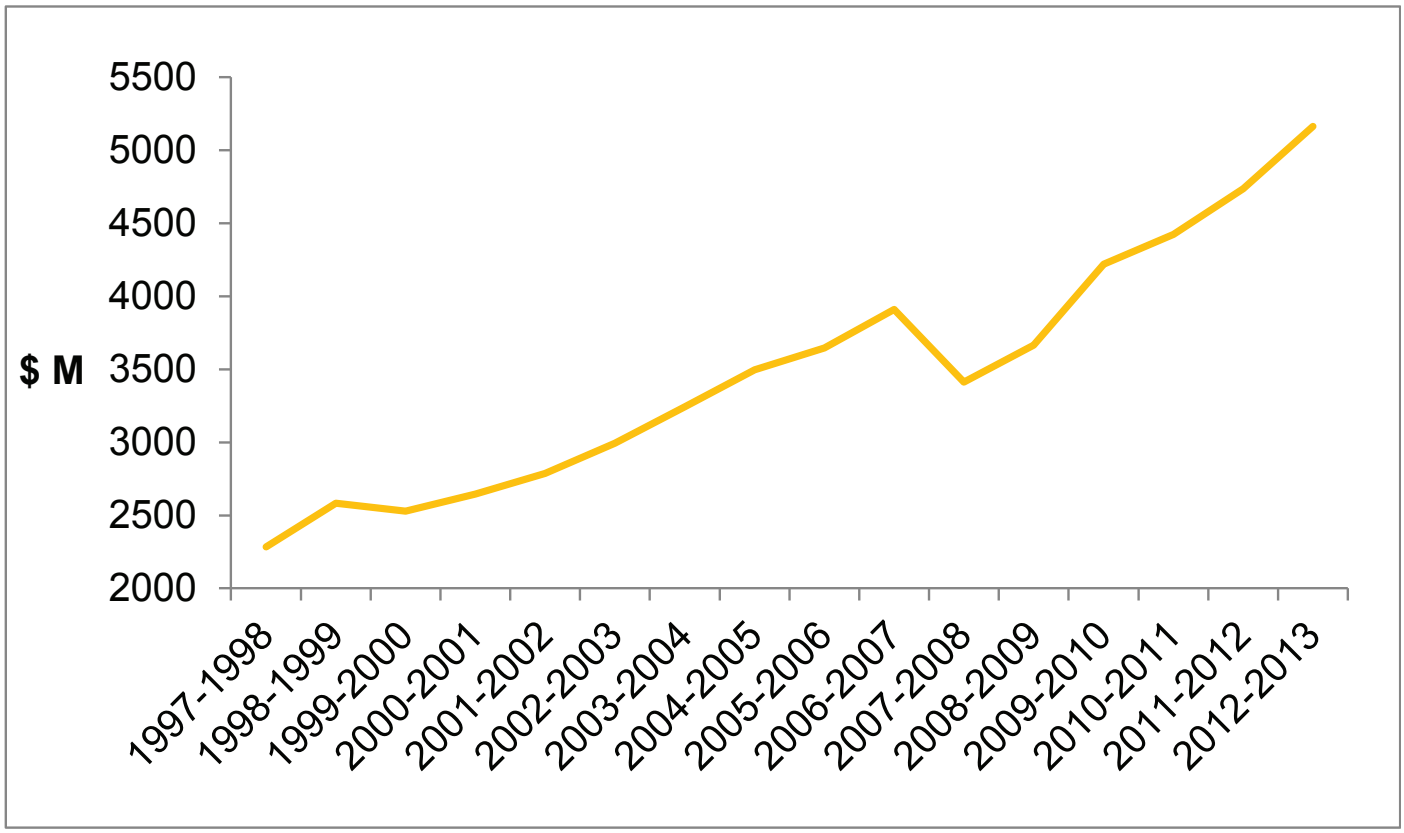
Motor vehicle registration charges vary by jurisdiction, not only in the amounts that are charged, but also the basis on which they are levied and in how they are defined. The basis for levying the charge includes weight, number of cylinders and engine capacity. Some states also offer discounts for certain concession classes, such as electric vehicles or fuel efficient vehicles. Table 4 demonstrates the differences in registration costs in a snap shot of the different vehicle classes taken from New South Wales, Victoria and Queensland in 2011.

Table 4: Sample of Registration Charges by State in 2011

State	Small	Medium	Large	Commercial
NSW	$266.00	$313.00	$447.00	$664.00
VIC	$191.60	$191.60	$191.60	$191.60
QLD	$328.90	$492.30	$669.80	$328.90

Source: Deloitte, Road Pricing and Transport Infrastructure Funding

Chart 4: Trend in State Registration Charges



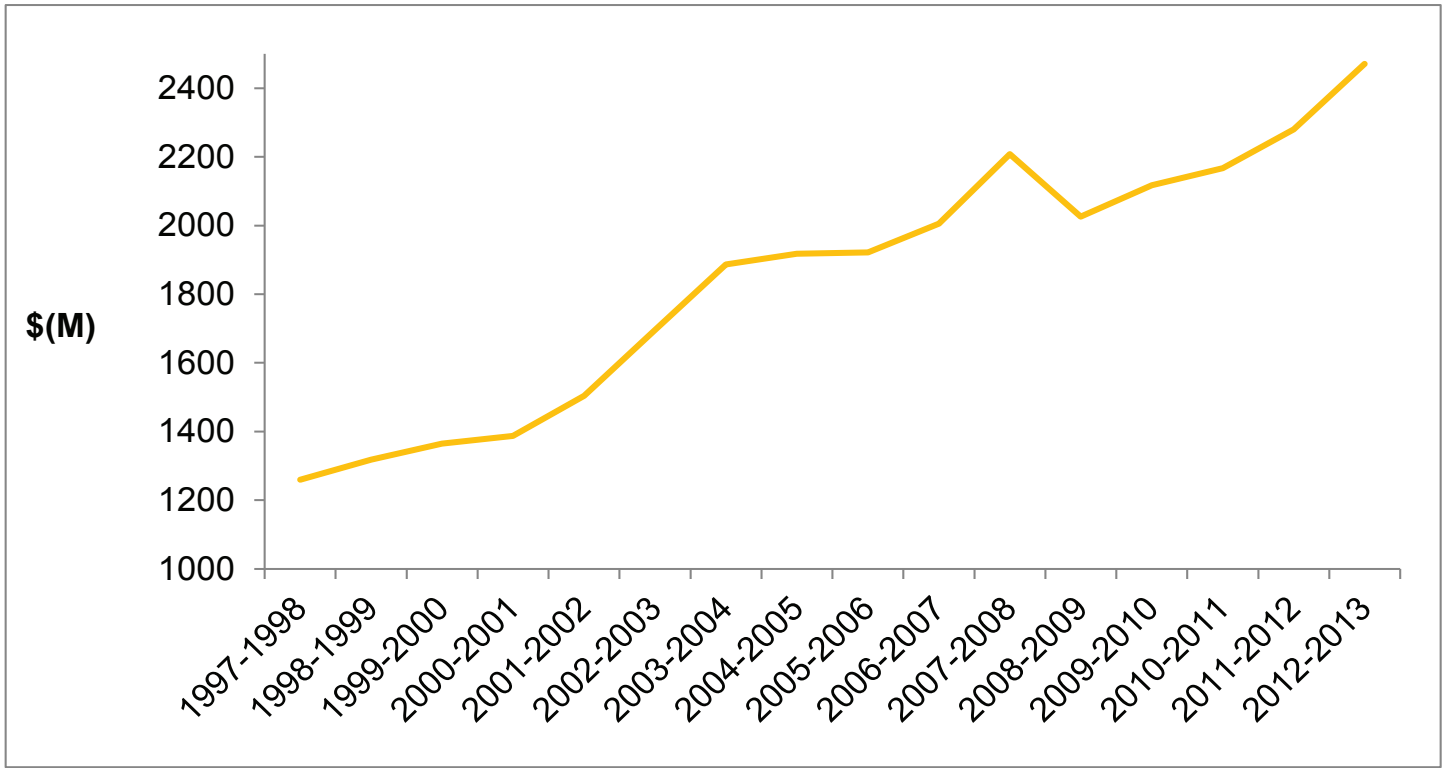
Source: Bureau of Infrastructure, Transport and Regional Economics - 2014 Infrastructure Yearbook

Trends indicate that state and territory governments consider registration primarily as a revenue source given the increase of 126 per cent over the last 20 years. Given registration is a fixed charge, it has a limited impact on a vehicle's use. A more efficient charging system is one that relates to a vehicle's use. While there is a need to register vehicles for monitoring and compliance purposes, we consider that there is only a need for a minimal charge for registration to cover the costs of administration.

Stamp Duty

Stamp duty on the sale of motor vehicles remains as a means of raising revenue in all states. Stamp duty is charged upon the registration of a new car or when buyers of second-hand cars pay a registration charge on transfer between owners. Chart 5 shows the growth in vehicle stamp duty since 1997-98 and it is clearly a valuable and growing source of revenue for state governments.

Chart 5: Trend in Vehicle Stamp Duty Revenue



Source: Bureau of Infrastructure, Transport and Regional Economics - 2014 Infrastructure Yearbook

As with registration, stamp duty varies from state to state, with rates differing based on car value, vehicle size or type.

Stamp duty adds to the cost of purchasing a new car. And it continues to add to the cost when a vehicle is sold and re-registered to a new owner. It is simply a tax on transactions and has no policy outcome.

The Henry Review described stamp duty on the transfer of motor vehicles as a highly inefficient revenue source. It acts as a disincentive for people to buy new vehicles or improved vehicles. It may discourage people from buying safer vehicles, more fuel efficient cars or any vehicle more suited to one's particular needs.

With the removal of stamp duty, cars will become more affordable and lead to a renewal of the Australian car fleet which is relatively old. This will have environmental benefits as newer cars in general have lower fuel consumption and it will also have safety benefits as newer cars have more advanced safety features.

Recommendations:

Customs Duty and the Luxury Car Tax are unfair taxes on motorists. Further, registration charges and stamp duty are state government revenue raisers that are unsustainable and bear little resemblance to road maintenance or road use.

The Tax White Paper should:

- Abolish Customs Duty and the Luxury Car Tax immediately. With no domestic vehicle manufacturing industry to remain in Australia beyond 2017, there is absolutely no policy rationale to support the maintenance of these protectionist and inefficient taxes.
- Work with state and territory governments to phase out registration and stamp duty and outline the need for them to be replaced with a road user charge. State and territory jurisdictions are using registration and stamp duty charges as a revenue source in lieu of a price signal that reflects congestion, road-wear and environmental costs. These charges should be phased out and replaced with a broad charge that is reflective of the cost of motoring.

Efficient

The Current State of Funding for Roads

Australia's private and public infrastructure expenditure, as a percentage of GDP, compares favourably to other OECD countries. While slipping during the GFC, the private sector contribution as a proportion of Australia's total infrastructure investment is now close to 50 per cent.

In terms of expenditure on roads, there has been a steady increase over the past decade. The total estimated government and private sector expenditure on roads in 2012-13 was $24.5 billion. Total revenue raised was at least $32.7 billion (table 1).

Table 5: Road-related expenditure by Commonwealth, 1998-99 to 2012-13 (constant 2012-13 prices)

Year	NSW	VIC	QLD	SA	WA	TAS	NT	ACT	Other	Total Government
1998-99	925.1	470.1	574.5	270.8	308.7	111.7	89.0	51.6	4.6	2 806.1
1999-00	892.6	428.9	594.3	210.2	276.1	119.4	92.7	73.8	5.3	2 693.3
2000-01	763.1	353.4	597.6	128.9	245.6	90.5	69.0	27.9	4.1	2 280.2
2001-02	873.2	646.1	606.5	176.5	320.6	83.7	68.0	52.7	5.1	2 832.5
2002-03	861.8	530.2	564.2	149.0	276.7	82.6	63.8	30.4	3.8	2 562.5
2003-04	977.3	406.7	582.6	168.8	274.6	71.0	59.2	29.8	3.1	2 573.1
2004-05	1 047.7	548.6	547.5	186.0	297.1	86.7	67.6	30.8	3.5	2 815.6
2005-06	2 274.4	679.1	1 054.1	332.0	763.1	173.3	111.9	40.0	4.5	5 432.5
2006-07	1 160.4	662.6	833.9	222.4	372.0	84.6	55.1	36.3	7.7	3 435.1
2007-08	839.7	633.9	864.0	229.8	408.8	81.2	75.4	21.9	7.2	3 161.9
2008-09	1 636.9	687.8	1 972.2	369.4	484.3	101.2	86.5	28.6	4.5	5 371.5
2009-10	1 745.7	858.9	1 757.6	510.1	416.3	165.0	159.1	43.9	6.8	5 663.2
2010-11	1 584.3	561.7	838.9	201.2	355.0	143.8	82.1	50.7	6.5	3 824.2
2011-12	2 699.0	1 115.9	2 128.3	480.6	631.3	103.0	146.9	51.3	7.7	7 363.9
2012-13	1 252.3	431.7	698.2	185.7	496.5	65.1	94.1	48.5	7.0	3 279.2

Note: Total public sector includes general government and public non-financial corporations.
Source: ABS (2014f), BITRE Infrastructure Yearbook.

At a Commonwealth level, there has been an increase in funding for land transport infrastructure in 2015-16. Infrastructure expenditure on land transport for 2015-16 is $7.0 billion. This represents an increase on the 2014-15 expenditure, which was $4.9 billion. The total road infrastructure expenditure for 2015-16 is $5.9 billion. This is an increase on the 2014-15 expenditure, which was $4.2 billion.

While a large share of revenue is collected by the Australian Government, it is the state and local governments who are responsible for the provision of motoring-related infrastructure and services in Australia. The Federal Government does not spend directly on motoring infrastructure which is owned and regulated by the state governments but does transfer its tax revenue to the state government either as part of transfers for specific projects or as block grants to state government consolidated revenue.

Total road-related expenditure by state governments is depicted in the table below. At a state government level, road-related spending is undertaken by state road authorities. State road authorities are responsible for the provision and maintenance of their state's highways and main roads, and also for the provision of road-related services.

Table 6: Road-related expenditure by State, 1998-99 to 2012-13 (constant 2012-13 prices)

Year	NSW	VIC	QLD	SA	WA	TAS	NT	ACT	Total Government	Total Public Sector
1998-99	2 546.1	1 005.8	2 747.1	227.2	684.0	129.9	67.1	106.2	7 513.5	8 120.3
1999-00	2 790.9	1 582.5	1 798.1	378.2	1 095.3	124.9	16.6	34.0	7 820.6	8 603.1
2000-01	3 784.6	1 593.7	2 608.5	484.1	986.1	131.3	59.3	147.6	9 795.2	10 505.5
2001-02	3 279.3	1 060.6	2 257.5	438.9	1 371.5	171.2	55.3	159.1	8 793.4	8 948.5
2002-03	3 173.8	1 980.5	1 244.3	454.6	846.6	193.9	48.9	169.8	8 112.4	8 314.2
2003-04	2 976.5	1 471.9	1 472.9	258.9	922.3	162.7	52.5	174.1	7 491.8	8 084.5
2004-05	3 122.1	1 483.5	1 483.7	307.0	973.4	222.1	44.9	132.9	7 769.6	8 141.3
2005-06	2 076.8	1 292.8	1 184.4	313.4	556.3	117.4	185.1	145.4	5 871.5	6 033.3
2006-07	3 292.8	1 461.5	2 389.7	305.3	1 215.9	151.5	222.8	158.3	9 197.9	9 596.8
2007-08	3 766.6	1 786.3	3 215.6	353.5	1 426.1	176.6	210.3	185.3	11 120.4	12 097.8
2008-09	3 369.5	2 103.0	2 757.7	342.7	1 190.9	125.5	266.1	190.9	10 346.3	11 271.7
2009-10	3 611.8	1 996.7	2 874.9	207.4	1 157.0	191.1	155.5	223.1	10 417.4	11 132.1
2010-11	3 564.2	2 149.1	4 166.9	452.6	1 018.1	214.7	227.8	259.8	12 053.2	12 571.8
2011-12	2 705.5	1 248.4	3 882.4	234.8	908.2	148.7	264.0	217.5	9 609.5	10 583.4
2012-13	3 795.3	1 209.2	6 075.9	677.8	1 534.2	177.9	147.4	221.5	13 839.1	14 249.1

Note: Total public sector includes general government and public non-financial corporations.
Source: ABS (2014f), BITRE estimates.

Local roads account for about 80 per cent of the total road network. Local governments spend a large share of their budgets on preserving, repairing, upgrading and constructing roads. Local government expenditure is detailed in the Table below.

Table 7: Road-related expenditure by Local, 1998-99 to 2012-13 (constant 2012-13 prices)

	NSW	VIC	QLD	SA	WA	TAS	NT	ACT	Total Government
1998-99	2 277.2	1 126.2	1 392.6	258.5	536.3	103.5	nes	na	5 687.9
1999-00	2 351.0	1 167.1	1 506.8	269.5	673.0	98.7	nes	na	6 082.0
2000-01	2 168.9	995.6	1 463.6	263.6	661.4	101.0	nes	na	5 652.7
2001-02	2 168.4	1 071.2	1 465.8	279.7	623.4	109.8	nes	na	5 706.7
2002-03	1 996.5	1 008.0	1 481.5	259.3	645.0	104.9	nes	na	5 504.8
2003-04	1 754.9	975.9	1 490.5	263.5	559.1	103.5	nes	na	5 156.1
2004-05	1 657.3	991.4	1 224.0	261.1	658.5	97.1	nes	na	4 895.8
2005-06	1 386.9	862.0	1 310.7	222.4	429.6	84.7	nes	na	4 273.2
2006-07	1 487.4	945.2	1 382.4	255.1	557.4	105.4	nes	na	4 748.6
2007-08	1 667.2	1 073.4	1 650.4	273.2	736.1	104.2	nes	na	5 511.7
2008-09	1 613.3	1 002.4	1 837.5	307.5	657.8	115.9	nes	na	5 538.1
2009-10	1 126.3	1 030.2	1 924.5	279.3	667.9	129.9	nes	na	5 124.6
2010-11	1 416.5	1 112.1	2 262.7	284.3	730.4	144.9	nes	na	5 922.3
2011-12	1 432.4	1 187.6	2 307.3	315.5	664.4	129.0	nes	na	5 950.1
2012-13	1 662.0	1 239.4	2 348.6	333.2	715.0	133.8	nes	na	6 429.9

na: not applicable.
nes:not estimated separately.
Source: ABS (2014f), BITRE estimates.

Infrastructure Reform

It is widely accepted that Australia has not invested adequately in its infrastructure. According to Infrastructure Australia, the nation faces a growing congestion task which would cost $53 billion by 2031[21]. While this figure applies to various types of infrastructure, it is clear that existing roads and other land transport infrastructure are inadequate or unable to meet capacity.

In recent years, Australia has experienced rapid population growth which has resulted in growing demand for access to our road and land transport infrastructure. There is a significant gap between our growing demand for new roads and public transport and the capacity of the existing funding approaches to deliver this infrastructure. Strong action is needed to address the land transport infrastructure deficit in order to reduce the effects of urban congestion and deliver improved road safety outcomes.

Previous Reviews

The AAA's reform recommendations are supported by a number of previous government reviews; which have variously indicated current road tax arrangements will not meet Australia's future transport challenges. Such reviews undertaken over the past decade by the Commonwealth Government include Australia's Future Tax System (2009), the Productivity Commission inquiry into Public Infrastructure (2014), and Australian Infrastructure Audit prepared by Infrastructure Australia (2015).

[21] Infrastructure Australia, Australian Infrastructure Audit, 2015

The Productivity Commission recommended (page 2) that:

> *There is an urgent need to comprehensively overhaul processes for assessing and developing public infrastructure projects.*
>
> *There are numerous examples of poor value for money arising from inadequate project selection, potentially costing Australia billions of dollars.*
>
> *Additional spending under the status quo will simply increase the cost to users, taxpayers, the community generally, and lead to more wasteful infrastructure.*
>
> *Reliance on the notion of an infrastructure deficit, too, could encourage poor investment choices.*
>
> *It is essential to reform governance and institutional arrangements for public infrastructure to promote better decision making in project selection, funding, financing and the delivery of services from new and existing infrastructure.*

Equally, the A Future Tax System prepared by Ken Henry (page 373) also outlined that the current road taxation arrangements were not sufficient to meet future challenges.

> *Current road tax arrangements will not meet Australia's future transport challenges. Poorly functioning road networks harm the amenity, sustainability, liveability and productivity of society. Moving from indiscriminate taxes to efficient prices would allow Australia to leverage the value of its existing transport infrastructure. Less congested roads, shorter travel times and investment in road infrastructure that addresses user demand would provide a foundation for further productivity growth, improved living standards and more sustainable cities.*
>
> *….Existing institutions have not led to the most efficient use and supply of roads. Prices are essential to making the best use of roads, but they must be coupled with improved governance that better serves the needs of road users, now and in the future. New investment based on economic criteria, and accountability for investment decisions would help ensure that roads are in place to address future needs. The challenge is formidable. It requires coordination across all levels of government. But reform would promote the best investment in and use of our roads, lift national productivity, and improve the lives of millions of Australians.*

The Infrastructure Audit undertaken by Infrastructure Australia found (page 10):

> *The current level of public sector expenditure – especially in the transport sector, which remains largely funded by government rather than user charges – may be unsustainable in the face of increasing budget pressures to fund welfare and health services.*
>
> *Current arrangements for the funding of land transport represent the most significant opportunity for public policy reform in Australia's infrastructure sectors.*
>
> *Government funding alone is unlikely to be sufficient to provide the infrastructure that Australia requires. Maintaining or strengthening conditions to facilitate private sector investment in and operation of Australia's infrastructure networks is fundamentally important.*
>
> *The country needs to consider a broader system of transport pricing, both for road and public transport.*

Medium to Long-Term Reform: Road User Charging

> *In principle, user charges (prices) based on the (efficient) cost of provision should be the default option for funding infrastructure. By giving individuals a clear signal about the cost of infrastructure, they will have an incentive to use it efficiently. Moreover, there will be a signal to infrastructure providers about where changes in infrastructure capacity are warranted. User charging can also address equity concerns that would otherwise arise because the primary beneficiaries of infrastructure are not the ones who pay for it. (Productivity Commission Review Public Infrastructure, volume 1, page 142.)*

The AAA believes that it is appropriate to begin a debate on our future road funding options, including the potential for a more direct system of user charging. However, the AAA is concerned that motorists already pay more than their fair share in motoring taxes and charges, and the perception that motorists will be asked to dig deeper into their pockets is a major impediment to winning public support for a wider system of road user charging.

For this reason it is crucial that any reform seeking to implement a broad based system of direct road user charging needs to be a methodical, open and transparent process. To win the support of motorists it will be critical that the case for change is clearly laid out and the benefits of reform are properly explained. Road users will be more likely to accept direct user charging if they see tangible results through better infrastructure and improved congestion and safety outcomes.

A road user charge should only be implemented as a part of genuine reform of taxation on motorists and should not be imposed on top of the existing fuel excise charges. The AAA believes it is important to begin a constructive dialogue on the merits of such a reformed system. However, our position has always been that any reform of motoring taxes, charges and fees should be revenue neutral and ensure that there is no net increase in the overall cost of motoring.

In essence, the funds to pay for public infrastructure ultimately have to come either from users and other beneficiaries, or from governments. The Productivity Commission Review recommended that:

- Direct user charges (prices) should be the default option because they can provide an incentive for efficient provision and use of infrastructure. They are already the norm for most types of economic infrastructure, apart from roads and public transport.
- For heavy road vehicles, a reformed system of direct pricing has been under development to more clearly signal costs to users and indicate where road providers should invest in new capacity.
- For cars and other light vehicles, governments should undertake pilot studies of (revenue neutral) direct road user pricing using vehicle telematics.
- Road user pricing reform requires consideration of many difficult issues, and it will be challenging to gain community acceptance for change. However, there are signs that reform is possible, including because:
- motorist associations recently signalled a shift to supporting consideration of more direct user pricing as part of comprehensive road funding reform
- the current funding model's high reliance on fuel excise does not appear to be sustainable, despite the imminent return to indexation, because growth in net excise revenue is likely to continue to lag behind changes in road use and costs.

The AAA, together with Infrastructure Partnerships Australia, commissioned an in-depth study of road user charging from Deloitte. The report, *Road Pricing and Transport Infrastructure Funding: Reform Pathways* for Australia outlines a range of options and ideas for the Government to pursue in terms of a road user charge.

In considering reform to the system of road user charging, policymakers will need to first clarify the objectives that are being sought. For example, is the scheme designed to maximise revenue; manage congestion; incentivise particular technology types (such as hybrids); or is it a mixture of all of these?

Two key extracts of the paper relate to the principles of establishing a road user charge, and the possible models that might be considered.

Principles for Australian Road Pricing Reforms

A rationalised road user charging scheme should provide:

- a mechanism to sustainably fund additions to the transport network;
- a mechanism to sustainably fund maintenance of the network;
- a fairer allocation of costs of benefits in the transport market;
- funding stream security; and
- an opportunity to improve network performance.

Scope and pricing

Prices should be set so that the total revenue generated by direct charging matches the current total revenue collected from road users. Any future scheme should be structured in a way that does not discourage private sector investment to address Australia's land transport infrastructure deficit.

Revenue allocation

Revenue generated through any scheme should be re-invested in the construction, maintenance and operation of infrastructure to facilitate mobility, including public transport.

Implementation

A new road user charging scheme should balance simplicity against the need to achieve complex reform objectives. If a scheme ultimately seeks to balance a range of objectives, then clear articulation and relative priority will have to be considered and priced.

Potential impacts of new charging arrangements should be tested through pilot trials.

Privacy Protecting the privacy of road users should be a central consideration in the design of the scheme.

Technology

Technology should be driven by scheme design, with final solutions to be developed through trials and competitive processes – including the flexibility to be delivered using a variety of technology solutions and allowing the market to determine the best approach.

Which Road User Charging Models Might be Considered for Australia?

In designing a new pricing scheme, transport policymakers must consider the effectiveness of particular models in resolving (or further complicating) the key challenges that exist under current arrangements, as well as the likelihood of unintended negative consequences from reform options.

In designing a pricing scheme, transport policymakers have the opportunity to use price signals to change broader behaviour.

For example, consideration of pricing models could include:

- The time of day the network is accessed;
- The distance travelled (e.g. the amount of road space consumed);
- The location of travel (e.g. CBD/urban, rural, specified area);
- Vehicle mass;
- The creation of externalities (e.g. noise, congestion, pollution); and/or
- The model of vehicle (e.g. hybrids, safer vehicle design etc.).

Adjusting the balance of these elements within a pricing framework can be used to achieve different outcomes. For example, a whole of network pricing model may include each of these elements to deliver a rational price on road usage, while specific components could be used to address discrete problems – such as a location based system to tackle a particularly congested urban area or corridor.

Charges to Toll Providers Based on Performance

As part of a road user charge, there needs to be greater performance controls for road toll operators and governments. Often motorists are expected to pay taxes and charges for road use with little to no recourse for how well that piece of infrastructure performs or the level of service received. Motorists should be entitled to a refund of some or their entire toll charges/taxes they pay where a level of service is not to a minimum standard. Much the same of the telecommunications industry, a community service obligation is needed for roads including refunds to motorists when:

- congestion reaches a level beyond a benchmark;
- road safety level are above an agreed benchmark of accidents; and
- maintenance levels are not being met.

This would ensure that private operators of road infrastructure design roads to a standard, continue to invest in these assets to meet benchmarks and reduce congestion, and ensure these assets are maintained to a standard that the community expects.

Recommendations

The AAA believes that it is appropriate to clarify our future road funding options, including the potential for a more direct system of user charging. However, the AAA is concerned that motorists already pay more than their fair share in motoring taxes and charges, and the perception that motorists will be asked to dig deeper into their pockets is a major impediment to winning public support for a wider system of road user charging.

The Tax White Paper should:

- Recommend a trial of a road user charge with a phase out of fuel excise for the participants. A road user charge should only be implemented as a part of genuine reform of taxation on motorists and should not be imposed on top of the existing fuel excise charges.
- Work with state and territory governments to develop a set of community service obligations for roads to ensure that governments and private operators provide a minimum level of service. Road infrastructure should be set at a minimum standard and consumers should expect to receive a level of service consummate with the level of charges they pay.

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