BIC Submission the Re:think Tax Discussion Paper

JUNE 2015

Overview

The Bus Industry Confederation (BIC) is the peak industry organisation representing the interests of bus and coach operators throughout Australia.

The Confederation believes that its members' interests are best represented by showing the community value that is provided through use of bus and coach transport and by bus and coach operators providing high quality services to the travelling public.

Major economic challenges are confronting passenger travel in Australia at a time when the increasing social cost of personal transport makes presenting Australians with a genuine travel alternative to the car a key imperative for all Australian Governments.

The challenges arise partly due to the lack of direct price signals and associated revenue streams for road use, particularly associated with the pervasive externalities associated with such road use, particularly in urban areas. The critical issues to consider in this context are summarised below.

- The dependence of urban productivity growth on good accessibility, with underinvestment in transport infrastructure holding back economic growth
- The recent Australian Infrastructure Audit, undertaken by Infrastructure Australia, identified that road congestion cost, in delays on the roads, in the six largest capital cities totalled $13.7b in 2011 and is projected to grow by 290% to $53.3 billion in 2031.
- The transport sector is Australia's third largest and fastest growing source of greenhouse gas emissions with road transport accounting for almost 90 per cent of sector's emissions;
- Car dependence in outer urban and regional areas, where transport typically accounts for a high proportion of household budgets and jobs are relatively scarce, is placing large numbers of Australians at risk of social exclusion, with high associated community costs; and

It is little surprise that transport infrastructure requirements are high on most political agendas around Australia in both urban and regional areas.

This submission focusses primarily on Chapter 9 of the Re: think Discussion paper and proposes a radical change to the way road transport is priced in Australia over the coming years, to ensure that the maximum value is achieved from use of the existing infrastructure base and that improved pricing signals are provided for system enhancements. These reforms will also enable pricing of public transport to become more cost reflective.

Land transport market reform has been identified as the outcome of various reviews in recent years including the Henry Taxation Review and the recent Productivity Commission Inquiry into Public Infrastructure. Current road tax arrangements will not be adequate to meet future transport challenges and pressures.

These challenges and pressures were most recently highlighted in the Australian Infrastructure Audit by Infrastructure Australia which identified that:

> **"Australia's transport sector makes the greatest contribution to our economy but it also needs the greatest amount of reform.**
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> **In Perth, Melbourne, Sydney, Adelaide, Brisbane and Canberra, without investment in new transport capacity and/or means of managing demand, car travel times are expected to increase by at least 20 per cent in the most congested corridors. In some cases, travel times could more than double between 2011 and 2031.**
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> **Demand for public transport in the capital cites (measured by passenger kilometres travelled) is set to rise by 55 per cent in Sydney, 121 per cent in Melbourne and an average of 89 per cent across all capital cities. Unless peak period passenger loads are managed and capacity increased, commuters in all capital cities will see more services experiencing "crush loadings", where peak demand exceeds capacity".**

The Competition Policy Review Report of March 2015 identified that road pricing reform holds great potential for efficiency improvements that would lead to productivity benefits for the Australian economy.

The BIC has recently produced a series of policy papers “Moving People – Solutions for Policy Thinkers” which include:

- Policy Paper 1 – Pricing opportunities for Australia: Paying our way in land transport
- Policy Paper 3 – Public Transport: funding growth in urban route services

These publications argue for reform in the way road use is priced to improve resource allocation efficiency in the transport sector and to generate additional revenue to improve the land transport asset bases and transport services and examine innovating funding opportunities to support the provision of improved public transport service levels in Australian cities.

The policy papers are available at http://ozebus.com.au/solutions-for-moving-people/bic-policies

The submission also provides below tax options to incentivise public transport use and modal change from the car.

Tax measures outlined are:

- Taxation incentives for public transport use.
- The use of GST revenue collected from public transport.

The BIC believes there is a strong economic basis for encouraging public transport use. An increase in public transport patronage in our major cities would deliver benefits to the Australian community, including savings on urban congestion and environmental benefits, while sustaining the high productivity benefits of the central areas of our capital cities relies heavily on public transport accessibility..

The BIC Believes Australia’s tax system can play an integral role in encouraging Australians to switch from the car to public transport for their own benefit as well as the benefit of the economy, environment and community.

Taxation Incentives for Public Transport Use

The development of taxation incentives for public transport use is directly aimed at encouraging modal change from car to public transport for the purpose of travelling to and from work.

Australia’s current tax system provides little incentive to use alternative modes of transport from the car. In fact the current tax system supports car use for business purposes.

The BIC advocates for a tax free allowance for commuter activity and related expenses such as public transport fares, park and ride facility costs.

As explained above the benefits of increased patronage on public transport directly benefits the economy through increased productivity, reduced congestion, the environment through less emissions and social inclusion. International experience with tax fee commuter allowances has proven beneficial for commuters through higher take home pay and lower taxable incomes, and for employers through improved productivity and lower pay roll liabilities.

The most common taxation options for implementing a tax incentive for commuters are:

- A Tax deduction - cost of public transport is claimed as a tax deduction in personal income tax return
- A Tax Rebate – cost of public transport is rebateable against personal income tax payable
- An FBT exemption – cost of benefits of public transport provided by an employer to an employee is FBT free

Such benefits are already provided in a number of countries around the world.

In the US, a monthly tax deduction of up to $130 per month is available for transit expenses and up to $250 per month for qualified park and ride expenses. Companies can provide this through tax free employer paid subsidy, pre - tax employee paid payroll deduction or a combination of both.

Since 2006, Canadian commuters have been able to apply for public transport taxation credits that provide a non-refundable tax credit. The amount claimed is multiplied by the lowest personal tax rate for the year and then deducted from the amount of tax owed. To be eligible for the credit, commuters are required to purchase tickets of monthly or longer duration. Employers can pay for transit passes and it is a taxable benefit in an individual's employment income.

A report in 2006 by Ernst Young supported the FBT approach to public transport incentives as it is seen to provide greater efficiency (attracting people to use public transport), visibility (commuters are aware of the benefit), equity (delivers same benefits to commuters) and simplicity (administratively simple).

The Ernst Young report also found that FBT exemptions have the advantage or benefit of requiring employer participation and this can provide the opportunity to influence commuter's behaviour through their employer and to target the benefit

The use of GST Collected on Public Transport

Under this policy option the Australian Government would directly invest GST collected from expenditure related to public transport into an Australian Government Public/Sustainable Transport Fund.

Estimates of the revenue collected would be formed through business reporting from public transport operators including the GST paid on fuel excise which could be measured through rebate claims under the Fuel Tax Credits Scheme.

The GST collected on fuel excise from all vehicles alone is estimated to be in the vicinity of $2 billion dollars per annum, therefore we can assume the sum collected from all public transport operations will be a sizeable amount.

The benefits of this funding system include:

- It retains responsibility for public transport service delivery with State and Local Governments.
- The revenue burden on the community is not increased and can further be argued that the savings in urban congestion and environmental costs will result in a positive economic outcome.
- Administrative burden would be limited.
- The benefits of consuming transport offset the costs.

In 2007, the Singapore Government committed millions of dollars of GST revenue to a dedicated public transport fund as part of their GST offset package: www.mof.gov.sg/budget_2007/gst_offset.html.

A similar measure in Australia would create an ongoing source of resources for State Government to assist public transport operators in meeting the growing passenger transport task.