

Tax Discussion Paper: Submission

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Congestion Tax and the Reform of Motor Vehicle Taxes¹

Traffic Congestion has become a growing concern in most of the cities in Australia. Congestion in Australian cities is a problem that needs to be resolved. Many Australians are taking longer to reach their journey destinations, thereby incurring social costs in terms of lost time, health costs arising through anxiety and the frustration of being stuck in traffic jams, and costs arising through loss of production. A report prepared in 2006 by the Department of Transport and Regional Services for the Council of Australian Governments states that the total social cost of congestion in 2005 across eight state and territory capital cities was approximately \$9.4 billion, made up of approximately \$3.4 billion in private time costs, \$3.6 billion in business time costs, \$1.2 billion in extra vehicle operating costs and \$1.1 billion in extra air pollution damage costs.²

A plentiful oil supply and affordable motor vehicles has been the catalyst for the growth in passenger motor vehicles over the last 100 years, both globally and in Australia. The number of passenger vehicles registered per 1000 population increased in Australia from 250 in 1965 to 465 in 1995.³ In 2008, there were 555 passenger vehicles per 1000 population compared with 719 total motor vehicles per 1000 population.⁴ In 2008, the number of registered passenger motor vehicles was 11 803 536, making up 77% of total registered motor vehicles.⁵ The total motor vehicle population in January 2011 was 16 368 383, of which passenger motor vehicle population was 12 474 044,⁶ whereas in January 2012 the total motor vehicle population was 16 741 644, with 12 714 235 being passenger motor vehicles.⁷

The wider taxation measures to resolve the congestion problem in Australian cities should hinge on the following defined criteria:

- Reduce the number of registered cars on Australian roads and control the use of cars as means of personal transportation;
- Increase public transport infrastructure and public transport patronage and use of other modes of transport, e.g. cycling;

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¹ See Pearce P and D Pinto: (2015) – *An evaluation of the case for a congestion tax in Australia*, The Tax Specialist, Volume 18 (4) 146- 153; Pearce P: (2014) The role of the precautionary principle in designing energy taxes in Australia, in Kreiser L et al: *Environmental Taxation and Green Fiscal Reform Theory and Impact, Critical Issues in Environmental Taxation* Volume XIV, 39-51; Pearce P and D Pinto: (2013) - *The role of motor vehicle taxes in shaping Australia's oil policy*, The Tax Specialist, Volume 17 (2) 75- 86.

² Booz Allen Hamilton, 'Review of Urban Congestion Trends, Impacts and Solutions' (Consultancy Report prepared for Council of Australian Governments, 2006) 5.

³ Australian Bureau of Statistics, *Australian Social Trends, 1996* (Catalogue No 4102.0, 24 June 1996) 159–70.

⁴ Australian Bureau of Statistics, *Motor Vehicle Census* (2009) <www.abs.gov.au> 10.

⁵ Ibid 14.

⁶ Australian Bureau of Statistics, *Motor Vehicle Census, Australia, 31 January 2011* (Catalogue No 9309.0, 28 July 2011).

⁷ Australian Bureau of Statistics, *Motor Vehicle Census, Australia, 31 January 2012* (Catalogue No 9309.0, 22 August 2012).

The problem should then be resolved on a national basis and this may require changing both state and federal laws and the use of both the stick and the carrot approach which would require imposing charges to reform behaviour and rewarding for changed behaviour. A combined Australian reform is required, impacting on both state and federal laws on the purchase of the vehicle, annual road use, and the fuelling of the vehicle as well as providing incentives to encourage the use of public transport and other modes of transport, e.g. cycling.

In Australia, both the Commonwealth and the states impose a variety of taxes relating to passenger motor vehicles. The Commonwealth government levies the luxury car tax (LCT), import tariffs on passenger motor vehicles and fuel excise on petrol and diesel that are uniform throughout the whole of Australia. The Commonwealth Fringe Benefits Tax (FBT) also impacts upon the purchase and use of motor vehicles in Australia. The states impose taxes on vehicle purchase, transfer of ownership and annual motor vehicle registration fees, and these taxes vary from state to state. It is submitted that the existing motor vehicle taxes were mainly designed with the specific objective of raising revenue. Instead of having a variety of taxes with no specific objectives other than raising revenue, a comprehensive tax on motor vehicles should be introduced that targets at the attributes of a reduction in the purchase and use of motor vehicles that leads to a reduction in congestion.

A purchase tax similar to Singapore's Certificate of Entitlement can be designed to reduce the number of registered cars on Australian roads.⁸ The design can also incorporate other criteria such as the reduction of CO₂ emissions, thereby encouraging smaller and lighter cars as well as cars that are not reliant on fossil fuels. The comprehensive user pay system can also be designed that incorporates these criteria and discourages the use of motor vehicles for personal transportation.

Lessons on the design of a comprehensive user pay system can be drawn from the Oregon mileage fee designed and piloted by the parliamentary elected Oregon User Fee Taskforce. The Task Force recommended that the new revenue collection system collected at the fuelling station that would replace the fuel tax and be calculated on road use, directly connecting to the burden each user of the road places on the road system. Thus the amount paid by the road user would be classified as a fee for service, rather than general taxation unrelated to use. According to the Task Force, the new system also paves the way to price congestion and manage traffic during peak periods by creating multiple zones.⁹

Lessons can also be drawn from the seven year Dutch study that involved innovative thinking on the part of the Dutch government and recognised the need to change the current policy pertaining to the taxation of motor vehicles. The government of the Netherlands recognised that there is a problem with sustaining the current number of motor vehicles on Dutch roads, and intended to use taxation as a tool to influence the Dutch people in changing their travel

⁸ Lessons can also be drawn from the Norwegian government's motor vehicle purchase tax which is quite high with progressive rates of tax imposed on three components of a motor vehicle, i.e. the weight, the engine power and CO₂ emissions.

⁹ Alternatives to Motor Vehicle Fuel Taxes, 71st Oregon Legislative Assembly – 2001 Regular Session, House Bill 3946 (March 2003) Appendix A, 1. Also see Oregon Department of Transportation, 'Oregon's Mileage Fee Concept and Road User Fee Pilot Program Report to the 73rd Oregon Legislative Assembly' (Report On Proposed Alternatives to the Current System of Taxing Highway Use through Motor Vehicle Fuel Taxes, June 2005) 1–55; Oregon Department of Transportation, 'Oregon's Mileage Fee Concept and Road User Fee Pilot Program Final Report' (Final Report, Oregon Department of Transport, November 2007).

behaviour, minimise road congestion and address environmental concerns. The Dutch study proposed a kilometre charge system measured with the development of a mobimeter.¹⁰ The Dutch policy was premised on the principle that increasing motoring costs per kilometre mitigates road traffic growth and thereby reduces congestion. Moreover, the pricing policy was intended to raise additional revenue that could be used to build additional infrastructure that would further assist in reducing congestion. Similarly, revenues generated from Australian motor vehicle taxation reform can also be set aside for much-needed improvements to the public transport infrastructure.

Although the kilometre charge system was not implemented in the Netherlands, many lessons can be learnt from the study for Australia, including the fact that without a strong political will, long-term planning in the area of motor vehicle taxation and road user charges, although necessary, may not be achievable. It may be due to political reasons that no country in the world has yet succeeded in implementing a comprehensive user pay system to charge motorists a fee based on the kilometres driven. However, there is a call on the Australian government to reform the current road charging regime with a universal charge based on the mass of the vehicle, the distance driven, the location of the road and the time of use.¹¹

In addition to the above policy changes, federal government tax incentives can be implemented in both income tax and Fringe Benefits Tax (FBT) that shows favourable treatment towards the use of public transport. Many countries that encourage the use of public transport via generous tax treatment, for example: United States (US), Ireland, Canada, Switzerland, Belgium, France, Germany, Poland, United Kingdom and the Netherlands.

Reform Fringe Benefits Tax to Encourage use of Public Transport

There is no doubt that there is a need for the Australian Government to promote policies that encourage smart commuting whereby Australians are encouraged to use public transport, walking and cycling for commuting rather than the use of a personal passenger motor vehicle. There is a large cost and impact of using passenger motor vehicles on negative transport externalities such as congestion, green house gas emissions, safety and health, energy security and economic prosperity. By not promoting smart commuting policies, the Australian Government is also not fulfilling its commitment to the global community to preserve energy and protect the environment.

A small survey that was carried out on the attendees of a TravelSmart¹² seminar organised by Department of Transport in Perth in October 2014 revealed the following barriers to

¹⁰ Ministerie van Verkeer en Waterstaat, 'Road Pricing in the Netherlands: Lessons Learned' (Presentation, 21 April 2010) 7; Ministry of Transport, Public Works and Water Management, 'Pay Per Kilometre Progress Report' (Dutch National Traffic and Transport Plan (Nationaal Verkeers- en Vervoersplan), November 2001); Petrouschka Werther, 'Kilometer Pricing in the Netherlands' (Project Notes, Ministry of Transport, Public Works and Water Management, 2009).

¹¹ Infrastructure Partnership Australia and Deloitte, 'Road Pricing and Transport Infrastructure Funding: Reform Pathways for Australia' (Discussion Paper, 2014). Also See the published thesis of Prafula Pearce, *Using tax and regulatory measures to reform choice and usage of motor vehicles for personal transportation in Australia for the sustainability of oil*, Australian Tax Research Foundation, 2013 (Research Study 48). The full text of the thesis is also available at <http://espace.library.curtin.edu.au/R?func=dbin-jump-full&local_base=gen01-era02&object_id=188723>.

¹² WA Department of Transport: *About TravelSmart*, at <<http://www.transport.wa.gov.au/activetransport/24606.asp>>.

implementing travel smart initiatives: Lack of tax incentives; Convenience of parking facilities provided by employers; Lack of cycling infrastructure and safety issues relating to cycling.

The design of our tax laws should encourage both employers and employees in achieving the travel mode shift from driving to using public transport or other modes of transport, such as cycling. A study undertaken in the US concludes that an employer-based tax incentive is one of the best ways to promote public transport use for employees due to their ability to directly offset the motor vehicle and parking subsidy impacts already in place at most workplaces.¹³ In the US, tax-free employer provided benefits for public transport were first established and embraced by employers to counter the widely available employer-provided free or subsidised parking.

The current design of the Australian tax laws, especially the FBT encourages the use of a car to travel from home to work and provides little or no tax concessions for the use of other modes of transport, such as public transport or bicycles.¹⁴ However the current design of our tax laws is heavily costing Australians in terms of congestion, health and other environmental costs. It is time for the Australian Government to make changes to the FBT legislation and other Income Tax legislation and either reduce the concessions to cars and car parking, or introduce concessions to encourage use of public transport to travel to and from home/work and introduce cycle to work scheme.

The FBT Act can be changed to adopt similar provisions to that adopted by the US that permits employers to pay up to a maximum of US \$130 per month for employees to commute via transit/vanpool as a tax free fringe benefit. In addition, if an employee in the US has to park at a train station to catch public transport, the employee can also receive a qualified parking benefit of up to \$250 per month.¹⁵ Due to budgetary reasons, a total exemption from FBT for public transport fares may not be feasible in Australia; in which case the government could apply the FBT rate for salary packaged motor vehicles and reduce the FBT on employer provided public transport fares from 46.5 per cent to 20 per cent. This would match the single statutory rate of 20 per cent that applies to the statutory formula for car fringe benefits. The Australian government could also put a cap on the maximum public transport benefit that an employer can provide to each employee.

The FBT Act can be changed to adopt provisions similar to the Cycle to Work Scheme in the UK that was introduced in the 1999 Finance Act. The 1999 Finance Act UK provides an annual tax exemption when employers loan cycles and cyclists safety equipment to employees when the ownership of the bicycle remains with the employer and the employee mainly uses it for qualifying journeys, being journeys from home to work or one workplace and another.

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¹³ Richard L. Oram, 'Tax-Free Employer-Provided Benefits for Public Transport: Background, History and 2008 Status' (Paper presented at the European Transport Conference 2008, Netherlands, 10 June 2008).

¹⁴ Helen Hodgson, 'Fringe benefits tax and travel to and from work: how can employers sponsor alternative forms of travel?' (March 2015) *LexisNexis Australian Tax Law Bulletin* 27.

¹⁵ H.R. 5771, the *Tax Increase Prevention Act 2014*, see <https://www.congress.gov/113/bills/hr5771/BILLS-113hr5771pcs.pdf>.