



RETHINKING AUSTRALIA'S TAX SYSTEM TO SUSTAIN A ROBUST LAND TRANSPORT SYSTEM

SUBMISSION TO THE FEDERAL GOVERNMENT'S TAX WHITE PAPER

June 2015

About the Transport Reform Network

The Transport Reform Network (TRN) is a partnership of organisations and individuals that first came together in 2011 to discuss the state of transport funding and financing in Australia.

The TRN's mission is to seek a better way of planning, managing, funding and financing land transport in Australia to ensure it delivers optimum and sustainable economic, social and environmental outcomes for all Australians.

The current state of play is characterised by:

- the **limitations of government to fund essential new land transport** infrastructure, coupled with the scarcity of private financing options
- the **unfunded backlog of critical maintenance** and renewal work in our existing transport infrastructure networks
- **a lack of long-term planning**, which in turn impacts on funding and delivery of transport infrastructure
- confusing and **inequitable pricing signals** across different networks and modes
- divided and, at times, **illogical levels of responsibility and decision-making** across government
- a continuing **disconnect between land-use planning and transport infrastructure delivery**
- the **growing cost and impact of urban congestion** (in terms of productivity, health, lifestyle)
- **poor environmental outcomes**
- the impact of under-investment in infrastructure on **transport safety outcomes**
- an **inability to meet the growing freight task** across Australia.

The TRN believes these problems will not be resolved by fiddling about the edges. Rather, the existing financing and funding model needs to be dissected, each element examined and tested under the microscope, and from this starting point a new model built that better serves the national interest as we move through the 21st century.

In broad terms, the TRN's objectives are to:

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- provide a platform for an informed public debate on transport financing and funding
- seek a comprehensive review of transport funding and pricing arrangements in Australia
- work with all stakeholders to achieve the goal of a transparent, fair, efficient, integrated network for all modes: public transport, private vehicles, freight, cycling and pedestrian.

A list of TRN members is attached to this submission. Please note, the views expressed in this submission are not necessarily the views of all its members.

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INTRODUCTION

The Transport Reform Network (TRN) welcomes the release of the Federal Government's Tax Discussion Paper. The comments in this submission relate predominantly to Chapter 9 - Indirect Taxes. In particular, we are pleased to provide feedback and observations in relation to Australia's tax system as it affects the funding and sustainability of a robust land transport system.

The price we 'pay' to access transport infrastructure and services has evolved haphazardly over the past century. Revenues, expenditures and pricing are the shared responsibility of a variety of agencies at the national, state and local government levels. The result today is an opaque and inconsistent system of funding and financing.

Furthermore, the current system is unsustainable if we are to meet the transport demands of Australia's growing population and prepare the nation for driverless technology.

To achieve the intended outcome of this discussion paper for a better, fairer tax system, the TRN believe our fundamental thinking about roads needs to change. Roads are a utility – not unlike water and electricity – and usage should be charged accordingly.

Road use charges provide a reliable and equitable revenue stream while allocating costs to drivers in direct proportion to their actual usage for the road. A more direct, user-pays approach would ensure that everyone pays a fair price for use of the system and that governments have a sustainable source of funding to develop and maintain the road network.

THE FUNDING POOL IS DIMINISHING

It is recognised that revenue raised from road users by way of a host of taxes and charges - including annual registration fees, stamp duties on the sale of new and used vehicles, weight taxes, surcharged on compulsory third party insurance and fuel taxes - does not cover the costs of maintaining and developing road infrastructure.

Governments have insufficient resources to maintain and renew the nation's existing transport infrastructure, let alone invest in new infrastructure, without adding to the level of borrowings or increasing taxes - both options politically and publicly unpopular.

While private investment is part of the solution to financing and delivering new infrastructure, this only addresses part of the problem.

The revenue base will continue decline.

High fuel-efficiency cars, like hybrids and electric vehicles, are currently paying little or no fuel tax. Compared to owners of older vehicles, they are contributing only a fraction to the overall cost of road maintenance. Hence, the fuel tax is a greater burden on those less likely to be able to afford newer vehicles.

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THE ARRIVAL OF DRIVERLESS VEHICLES AND OTHER TECHNOLOGIES

The advent of the autonomous, or driverless, vehicle as a mainstream form of transportation is not far away. More than any technological advance in recent years, driverless vehicles will have profound repercussions on the way with live. Just as today we cannot imagine a world without the internet, the next generations will not believe humans ever drove cars

The inevitable acceptance of driverless vehicles will also impact the ability of governments to raise adequate revenue to maintain road infrastructure. Driverless cars will see away with widespread car ownership as people will be able to call up a car on their mobiles – no driver licenses, fewer car registrations and no parking stations, are examples of some of the changes we are likely to see.

In light of this, governments may need to consider taxing the vehicle user rather than the owner, or at the least understand the implications. These distinctions will become important as we enter an age in which “drivers” may not own the vehicles in which they travel.

Any new regime should also have the capacity to capture other areas of potential taxation that are yet to fully emerge, such as battery operated cars. Doing so before they emerge and become widespread is easier and will have greater acceptance rather than having to retro-fit the tax system and be open to industry and consumer backlash.

The TRN believes that Australia must ready itself for this transformation. The tax system we design today must be able to incorporate a system consisting of new forms of transport over the next century.

ROAD USE CHARGING

The TRN supports the Productivity Commission’s recommendation that governments should introduce cost-reflective road pricing (recommendation 3) in its Competition Policy Review Report.

Whether we walk, cycle, drive, catch a train or ride a bus, we use some form of transport infrastructure. Everyone pays to access transport infrastructure and services either directly through tolls and fares or indirectly via taxes (or both). Yet more often than not, what we ‘pay’ has little correlation to the true cost of providing and maintaining the infrastructure and or transport services used.

Most of us have no idea what that true cost is.

A number of different models exist that can deliver greater transparency to the cost of road access. These include network-based time-of-day and/or distance based charging, cordon charges, and privately-operated toll roads. The technology exists to support each of these models.

The advantage of all these approaches is that they create an opportunity to influence how people use the network, including the time of day we travel and the mode of travel.



The TRN does not advocate any model over another. Rather, we believe all options should be on the table for discussion and examination. Once a vision for Australia is adopted then the TRN would support appropriate pilots and intermediate steps in working toward that vision.

AN AUSTRALIAN TRIAL

TRN member, Transurban, will from September run a trial road pricing scheme using 1200 volunteer motorists. Its *Road Network Pricing Study* will trial various user-pays models including:

- a distance-based per-kilometre charge;
- an annual fixed costs per kilometre based on expected usage, and;
- a price per trip or charge to access the road network

The exercise would also explore other models being employed throughout the world, including time-of-day pricing on the network and a charge for entering the CBD, and compare the impact of these models on existing funding sources of fuel excise and registration and gauge drivers' preferences to the schemes.

The TRN supports this trial as a contribution to the discussion in Australia.

INTERNATIONAL EXPERIENCE

New Zealand

New Zealand has collected road usage charges from diesel vehicles and heavy trucks based on weight and distance since 1977. Today around 250,000 trucks and 500,000 diesel vehicles pay the fee known locally as RUC.

United States

Legislators in the United States have also recognised the need to address fall gas tax revenues and a growing backlog of road maintenance and renewal works through the introduction of road use charging.

Several states have formed the Western Road Usage Charging Consortium (WRUCC) for collective investigation and study of road use charging. Major studies and pilot testing have been or are being performed by Oregon, Iowa, Minnesota, Nevada, Washington State, Indiana and California.

On July 1, 2015, the Oregon Department of Transportation will begin assessing a charge of 1.5 cents per mile for 5,000 drivers of cars and light commercial vehicles who have volunteered for the state's Road Usage Charge Program, known as OReGO. The program, which is testing three different methods of collecting mileage-based fees, is the result of 2013 legislation and follows previous pilot projects in 2007 and 2012 to test such systems in the state. In return, drivers do not have to pay State fuel tax and can apply for refunds for miles driven on private property.

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Legislation passed in California in September 2014 to conduct a Road Charge Demonstration Program to study the feasibility of road use charging as an equitable and sustainable source of maintenance funding. The Demonstration Program will be trialled from 2017 with its results to be reported in 2018.

Washington State also carried out a feasibility study in 2012 and is now working towards introducing legislation for a pilot transition scheme. It has looked at three charging models so far:

- Time Permit – a flat fee to drive a vehicle an unlimited number of miles for a given period of time (e.g. a month or year);
- Odometer Charge – a per-mile charge measured by odometer readings; and
- Automated Distance Charge – a per mile charge measured by in-vehicle technology that can distinguish between in-state and out-of-state travel with period billing.

Europe

Many European countries have been applying different schemes of road use charging for more than a decade. Certain EU countries require heavy vehicles to be equipped with distance and location reporting devices to measure distance travelled on main roads. Others choose to operate a system of permits ('vignettes') which allow trucks and/or passenger vehicles to access the road network of a country for a specified period of time such as a day, week, month or year.

Congestion charging is another alternative that has been operating in London and Stockholm, where they have proven to reduce congestion.

PRIVACY CONCERNS

The Tax White Paper refers to potential privacy implications of road use charging.

TRN believes that privacy should not be used as an excuse to dismiss the further investigation of road use charging in Australia.

Schemes underway overseas have shown that concerns around privacy issues can be overcome. For example, the scheme now being adopted in Oregon (mentioned above) has a number of checks in place to ensure individual privacy.

The Oregon legislation mandates that volunteer participants should have the choice of at least one mileage collection system that does not use vehicle location technology. Secondly, the scheme has strict privacy collection parameters in place. Disclosure of any personally identifiable information in restricted and location and daily metered information is required to be destroyed after 30 days.



THE CHALLENGES OF ROAD PRICING REFORM

The TRN recognises that the challenges in bringing about fundamental reform to road pricing, including:

- convincing Australians that the time has come to re-think the way we pay for transport choices and that roads are utilities and should be treated as such.
- demonstrating that revenue collected from road use charging is reinvested back into roads and other transport infrastructure;
- ensuring that those disadvantaged by distance, low income and/or lack of alternatives are catered for under a new regime
- supporting future innovation (eg driverless cars)
- phasing out current taxes (registration, fuel taxes etc) as the new regime is phased in.
- demonstrating that there will not be a penalty on rural drivers (in fact if congestion is taken into account then rural drivers in some cases will be better off, and those using fuel for non-road purposes won't be impacted unfairly by road taxes).

However, none of these present an insurmountable barrier to moving forward on road pricing.

CONCLUSION AND RECOMMENDATIONS

Now is the time to consider options for a better tax system that will provide fairness for road users for the next century. Australia's reliance on the fuel tax for road maintenance is unsustainable and inequitable given the rise of fuel efficient vehicles. Road pricing and user access charging will ensure a long-term, reliable and stable source of revenue over time to meet Australia's road maintenance and growth needs.

The TRN believes the problem is too big for one jurisdiction to tackle alone, although any state or regional-based pilots would be a great contribution to this national vision.

To effect real, long-term change, these issues to be addressed nationally due to the complicated funding and revenue raising relationships that exist across governments.

A bi-partisan and nationally consistent approach testing a range of charging options will deliver fairness for all Australians.

A new tax regime must also have the capacity to capture new forms of transport that are yet to fully emerge, such as battery operated cars and driverless vehicles. Doing so before they become widespread will be easier than having to retro-fit the tax system in years to come.

Members of the TRN would be available to discuss aspects of this submission as required.

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TRN Members & Observers

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