

Dear Sir or Madam

I wish to direct the panel to my recent article "What now for environmental sustainability? Government fails to link Australian car FBT concessions to vehicle emissions" published in the Australian Taxation Journal 1 July 2011.

The article discusses:

Australia's Fringe Benefits Tax (FBT) regime is not aligned with environmental policy objectives of reducing greenhouse gas emissions from road transport. Unfortunately, the reform announced by the Australian Government on 10 May 2011 to remove the incentive for people driving excess kilometres to reduce tax liability is unlikely to significantly cut road emissions. This is because the reform fails to address other behavioural effects harmful to the environment, that is, the concession will continue to increase the total number of vehicles acquired, and distort employees' choice of vehicle towards larger, more carbon emitting vehicles.

To achieve a significant reduction in road transport emissions will require improving the fuel efficiency of conventional vehicles as well as a gradual transition from fossil fuels to alternative fuels, both of which will involve technological advancement in low carbon vehicles. However, to bring such technology to the market will require consumers to make a behavioural change by purchasing low emission vehicles, and this will require Government support so that consumers are guided towards making such low carbon choices.

This paper argues that the existing car fringe benefits concession is an effective measure to encourage a behavioural change to low-emission vehicles, particularly as over half of all new vehicles acquired each year are fleet vehicles under the FBT regime. This would also significantly build up the country's fleet of low-emission vehicles, as vehicles under the FBT regime are sold onto the second hand market every two to three years. Given this, the paper considers what reform is necessary to the car FBT regime to encourage a behavioural change that would build up Australia's fleet of low emission vehicles and support the environmental policy objective of significantly reducing road transport emissions.

<http://www.taxinstitute.com.au/go/publications/australian-tax-forum>

The Australian Government has the opportunity to address vehicle emissions through reforming the FBT regime. The article proposes to reform the current FBT system to the UK model, which has been extremely effective in reducing carbon emissions and encouraging the shift to low emission vehicles by reducing the number of road vehicles, and significantly increasing the number of fuel efficient vehicles. This taxation instrument is most effective if it is linked to vehicle emissions. The 2009 EU Study on company car taxation found not only did the taxation measure increase kilometres travelled, but it increased the total number of cars and that most cars under the subsidy were bigger, high emitting vehicles.

With over 50 per cent of new cars purchased under the FBT regime, which are on sold into the second hand market every two to three years, the Government should ensure that this tax measure does not 'create unintended incentives for adverse environmental outcomes', by ensuring that if this subsidy is being provided at a cost to the community, then it should benefit the community and the environment.

Kind regards

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