

**Initial statement for the National Tax Forum
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Australia's tax system inadvertently encourages environmentally damaging activities, and discourages better options, in several ways. This statement outlines some of the more serious of these problems, and identifies four areas for priority reform.

Our tax system should ensure that revenue is raised in an efficient, fair and sustainable way - but it must also generate enough revenue for governments to undertake ambitious projects in the common interest. A broader tax base with fewer loopholes and special breaks would give us the opportunity to improve chronically underfunded areas of environmental management, including initiatives such as marine parks, biodiversity management, restoration of environmental water flows, public transport and efficient low-cost housing.

Ecological implications of Australia's current tax system

- Special tax breaks for investment in fossil fuel-intensive activities artificially reduce the cost of pollution and resource use. The most important of these are accelerated depreciation for investment in oil & gas assets, aircraft and certain vehicles; the aviation fuel tax concession; and the fuel tax credits available for most business use of transport fuels.
- Lack of indexation of fuel excise and other resource taxes leads to a steady decline in the effective tax rate for use of those resources, as well as erosion of government revenue over time.
- Preferential tax rules for investment in residential property have led to an undersupply of low-cost housing and overinvestment in the top end of the property market. This, in turn, can distort urban development patterns in environmental damaging ways, including a trend towards large and energy-intensive housing, and pressure to expand urban boundaries due to the lack of low cost housing in existing developed areas.
- Depreciation rules can inadvertently penalise investment in environmentally beneficial assets. This occurs through differences in the effective life applicable to different categories of assets – for example, a solar hot water heater is depreciable over 15 years, whereas less efficient electric water heaters may be depreciated over 12 years. It also occurs through the differential treatment of operating expenses, which may be immediately deducted, and capital investments, which must be depreciated over time. This effectively penalises capital investments with higher upfront costs but lower operating costs (including solar and other renewable technologies, efficient vehicles, and energy efficiency investments).
- Australia's mineral and biological resources are systematically underpriced, when compared to the effective tax rates applied to labour and capital inputs to businesses.
- The structure and rate of tax applied to road transport does not account for traffic congestion, greenhouse pollution, and resource use. This causes overuse of roads and competitive disadvantages for efficient modes of freight transport, such as rail. This will be exacerbated by carbon pricing, which will affect public transport (by increasing electricity costs) but not affect fuel for passenger road travel, which is exempt from the scheme.

Key reform priorities

References to recommendations of the Australia's Future Tax System (AFTS) review are included where appropriate. Where no AFTS reference is given, the proposed reform was not addressed by the AFTS.

1. Ensure capital investment rules don't penalise environmentally desirable investments

- Remove the special accelerated depreciation concessions for aircraft, heavy vehicles, and investments in oil & gas assets. (AFTS review rec. 28(b)). This is particularly urgent, given the surge in investment in oil & gas projects (estimated at \$326 billion in the next six years).
- Review the ATO's schedule of depreciating assets to ensure environmentally beneficial investments (including renewable energy, energy and water efficiency, and sustainable transport assets) are not inadvertently disadvantaged.

2. Restructure transport and fuel taxes to reduce congestion and pollution

- Base fuel excise on energy content, and restore indexation to fuel excise rates. (AFTS rec. 65)
- Introduce congestion pricing in urban areas and mass-distance-location charges for heavy vehicles (AFTS rec. 61 & 62)
- Remove the fuel tax credits available for business use of many transport fuels, replacing those credits where desired with grants to reduce resource use and pollution
- Ensure competition in freight by introducing additional road freight charges where road freight is competing with rail freight operators who are required to recover capital costs (AFTS rec. 64)

3. Encourage affordable and sustainable housing

- Tax capital gains, interest and rents at a 40% discount from personal tax rates, and apply the same discount to deductions for investment expenses and losses (AFTS rec 14)
- Broaden the land tax base, with reductions for investment in low cost housing, and reduce stamp duties (AFTS recs 51-54)
- Earmark part of the revenue from these measures to investment, and incentives to invest, in affordable and environmentally sustainable housing and urban development

4. Charge full price for use of Australia's natural resources

- Extend the proposed Minerals Rent Resource Tax (MRRT) to all non-renewable resources (not just iron ore and coal), (AFTS rec. 45-48) remove the accelerated depreciation provisions in the MRRT, and conduct an environmental impact assessment of the MRRT.
- Remove special concessions for mining exploration and production. (AFTS rec. 46)