<u>ACF letter:</u>

Phase out pollution subsidies
The Government has previously joined with other G20 nations to commit to phase out inefficient fossil fuel subsidies, recognising that these subsidies "encourage wasteful consumption, distort markets, impede investment in clean energy sources and undermine efforts to deal with climate change". According to the OECD and TEA, eliminating these subsidies can reduce global emissions by 10%.

Given the benefits for alignment with climate and national security policy to drive the shift to a cleaner, less oil dependent economy, and the opportunity to reinvest revenue into policy initiatives that support more efficient use of resources, I ask that in the first 100 days the Government commit to phase out direct and indirect fossil fuel subsidies (meaning taxpayer assistance or cost), including fuel tax rebates, fringe benefits tax breaks for excessive company car use, and special tax breaks for investors in fossil fuel intensive industries.

<u>Proposed Treasury Input :</u>

Direct Australian Government budgetary support for fossil fuel production is limited to measures supporting the production of clean energy, particularly in relation to carbon pollution reduction. Tax concessions for fossil fuel industries are similarly very limited. Notably, the most recent Productivity Commission *Trade and Assistance Review* found that the effective rate of assistance provided to the mining sector was negligible.

In relation to above, you should note that in the 2008-09 Budget the Australian Government abolished the excise exemption that previously applied to the production of condensate and, in the 2010-11 Budget, confirmed its intention to phase-in excise on LPG, LNG and CNG fuels over the period 1 July 2011 to 1 July 2015. In addition, the preferential tax treatment for petroleum exploration is in the process of being phased out and does not apply to acreage releases after 2009.

The fuel tax credit scheme, is designed to ensure the incidence of fuel tax falls on on-road users of light vehicles (as it is generally intended) and not on businesses users (other than those using the fuel in light on-road vehicles). This is consistent with Australia's tax system more broadly, where consumption taxes are intended to apply to final consumption (rather than business inputs).

Regarding the Fringe Benefits Tax, under Australia's tax framework, employers are taxed on certain benefits they provide to employees. The Fringe Benefits Tax applies to the provision of motor vehicles. The tax liability on employers for the provision of a motor car to employees reflects the extent to which the vehicle is used for private use. One of the methods available for determining this is the statutory method that uses distance travelled as a proxy for business use. The longer the distance travelled, the lower the effective tax rate paid by the employer. The purpose of this measure is to provide a simple way of determining the balance between business and private use. In addition, it applies to all costs associated with acquisition and operation of a motor vehicle, not only fuel. Also, it applies equally to all types of fuel (including renewables).