ACF letter:

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.

Proposed Treasury Input :

Australian Government direct 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 very limited in Australia. 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 addition, 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.

With regards to the Fuel Tax Credit Scheme, the purpose of this scheme is not to subsidise fossil fuels but rather to avoid the incidence of a consumption tax on certain business inputs. This is consistent with Australia's tax system generally and is similar to the treatment of GST on business inputs.

You have also identified the Fringe Benefits Tax arrangements as a subsidy. By way of background when an employer makes a car available to an employee for private use, a car fringe benefit will generally arise and be subject to FBT. Car fringe benefits are currently valued under either the operating cost method or the statutory formula method.

Under the operating cost method, the taxable value of the benefit is based on the cost of owning and operating the car, reduced by the portion which relates to the business use of the vehicle. Employers are required to substantiate the business use of the vehicle by maintaining a log book for a specified period.

The statutory formula method is designed to provide employers with a low compliance cost alternative to the operating cost method, eliminating the need to maintain a vehicle log book. The statutory formula method removes the need to explicitly distinguish between the business and private use of a vehicle. The taxable value of a car fringe benefit is reduced as a car travels more kilometres, as a greater business use element is assumed.

On 2 May 2010, the Government released *Stronger, Fairer, Simpler – A tax plan for our future* (the Government's tax plan), along with the final report of the independent Australia's Future Tax System review (the Review). This Government's tax plan will strengthen the economy and make the tax system fairer and simpler for Australian working families and businesses.

The Government has advised that a number of the recommendations in the review are not Government policy (including those relating to the FBT treatment of cars). The Government expects that many of the recommendations will be the subject of much discussion in the coming years and has called for a mature tax debate.