



GM Holden Ltd

Trading as Holden
191 Salmon Street Port Melbourne
Victoria 3207 Australia
ABN 84 006 893 232
All correspondence to:
GPO Box 1714 Melbourne
Victoria 3001 Australia
Telephone (03) 9647 1111
Facsimile (03) 9647 2550

1 May 2009

AFTS Secretariat
The Treasury
Langton Crescent
PARKES ACT 2600

By email: AFTS@treasury.gov.au

Dear Sir / Madam

Re: Australia's Future Tax System – Consultation Paper

GM Holden welcomes the opportunity to provide comments to the Review Panel in respect of its Consultation Paper on Australia's Future Tax System (Consultation Paper).

In GM Holden's view, the Consultation Paper identifies many of the important issues which should be considered by the Review Panel particularly in relation to aspects of the taxation system which impact the ability of Australian businesses to compete successfully here and abroad. In this regard, we attach a copy of our submission to the Review in October 2008; it addresses a number of the questions raised in the Consultation Paper, including those relating to fringe benefits tax, luxury car tax, stamp duty, payroll tax, and the research and development tax concession.

We also reiterate our view that it is inappropriate to exclude from the Review any consideration of changes to the goods and services tax. As stated in our original submission, changes to the GST should be considered to address double taxation anomalies and as a means to offset changes to other taxes that may raise low amounts of revenue.

We now take this opportunity to respond specifically to a number specific questions raised in the Consultation Paper.

Consultation Paper Question Q4.6: How can fringe benefits tax be simplified while maintaining tax integrity? Would it be better to adopt the general OECD practice of taxing fringe benefits in the hand of employees, rather than employers?

In our October 2008 submission, GM Holden made a number of recommendations to address the heavy compliance burden imposed by fringe benefits tax (FBT) relative to the amount of tax claimed. GM Holden reiterates its principal recommendation that an analysis be carried out of changes to other taxes which would allow the abolition of FBT. As an alternative, GM Holden considers that the principle of maintaining integrity of the tax transfer system can be achieved if the OECD practice of taxing benefits in the hands of employees is introduced. In GM Holden's view, transferring the tax burden to employees correctly places the burden of tax on the beneficiary of the benefit rather than the provider.

However, this change of the tax burden must be accompanied by action to simplify the assessment of the tax. In our view, a rationalisation of the tax base to reduce the categories of benefits, such as cars, accommodation, loans and entertainment, would accurately reflect the significant changes in employee expectations of non-cash non-work related benefits since FBT was introduced in 1986.

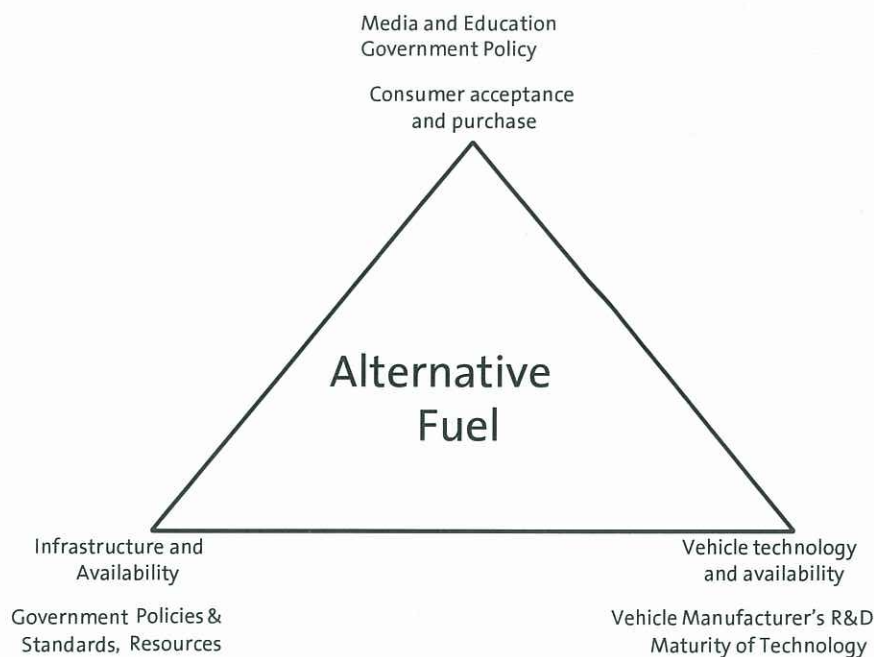
Consultation Paper Questions in Sections 11, 12 and 13 concerning taxation measures to encourage better environmental outcomes

In our first submission, we set out a number of recommendations to address the growing need to reduce the world's dependence on petroleum and establish more sustainable energy pathways. These included the consideration of taxation measures to assist in the development of infrastructure, and the upgrade of existing facilities, to support wider availability of more environmentally friendly alternative fuels like ethanol, electricity, LPG and CNG.

In our view, with the appropriate policy framework, alternative fuels and technologies can play a crucial role in securing Australia's energy security and reducing the transport sector's environmental footprint. Establishing and supporting multiple ways to displace the use of petroleum in our vehicles with more environmentally friendly alternatives is key to achieving higher levels of transport fuel security and to reducing greenhouse gas emissions.

However, this requires recognition of the crucial role which governments should play in encouraging any challenging of a decades-old energy status quo. While industries can attempt to lead consumers down new paths, consumer requirements that products, including "green" products", be price-competitive are far more entrenched than concerns about national security and environmental sustainability might suggest.

The following diagram provides a useful illustration of what is required to bring a new fuel like ethanol to market.



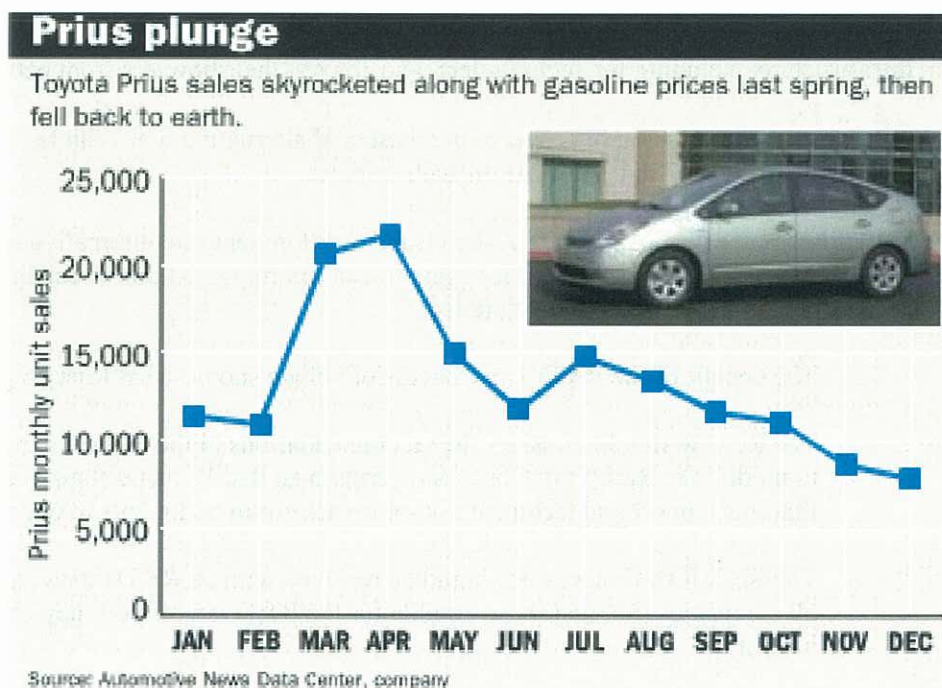
The "Alternative Fuel Triangle" illustrates the three points at which alternative fuels and technologies need support to enable them to compete with petrol and diesel: Technology Availability, Infrastructure Availability and Consumer Acceptance and Purchase.

Without the appropriate policy settings to establish a level playing field at each of these points, it is very probable that Australia's transport needs will continue to remain overly reliant on petroleum based products.

For example, a 2008 study by Sandia National Laboratories into the evolution of a complete biofuels supply chain found that ethanol could displace up to 30% of petrol required by the transport sector in the United States by 2030 provided that there was government commitment to the production and distribution process and to technological progress. While the study (the “90-Billion Gallon Biofuel Deployment Study”) is based on the United States experience, its focus on biofuel deployment makes a number of its findings relevant world-wide.

In Australia, GM Holden is facilitating important discussions between investors and a North American bio-fuel company, Coskata, with the aim of establishing local ‘second generation’ cellulosic ethanol plants. While there is significant interest from the local business community, the high costs involved in establishing such a plant (estimated to be between \$300 to \$400 million) can provide a disincentive for investors particularly given:

- The uncertain investment climate created by the price volatility of petroleum-based fuels and the global financial crisis;
- The strong market and price advantage held by petrol and diesel in Australia. Consumer acceptance and purchase of alternative fuels requires such fuels to be price competitive with petroleum based products as research indicates that most consumers will not pay more for ‘green’ products. The table below provides a stark example of this by illustrating the close connection between gasoline prices and sales of hybrid vehicles¹.



The relatively low cost of petrol and diesel makes it very difficult for alternative fuels to be price competitive in their initial stages, particularly given the significant start-up costs and the proposed phasing-in of net excise taxes on biofuels from June 2011. In this regard, we note that:

- Producers of cellulosic ethanol will be at a competitive disadvantage to petroleum refiners as they will likely be ineligible for the significant assistance available to petroleum refiners under the Carbon Pollution Reduction Scheme (CPRS). In our view, it is inequitable and inconsistent with the Government’s broader policy objectives that the single biggest benefit of cellulosic ethanol - its potential to

¹ Wards Auto, January 2009 light vehicle sales in the United States

reduce green house gas emissions on a well-to-wheel basis by up to 84% compared to petrol² – will put it at a disadvantage to petrol and diesel; and

- The proposed cent-for-cent reduction to the fuel excise to offset the impact of the CPRS during its first three years will prevent consumers being presented with an important price signal to reduce their use of petrol or diesel and/or to move to alternative renewable fuels like ethanol.

Such barriers to investment also impact on the willingness of retailers to invest significant capital expenditure in the necessary infrastructure to enable them to provide alternative fuels like ethanol and CNG, or charging facilities for electric vehicles.

In GM Holden's view, Government can play an important role in addressing these barriers by establishing a policy framework which reduces the risk of investment in the production, distribution and retailing of alternative fuel and technologies. This could include structuring the fuel excise regime to enable ethanol to compete with petrol and diesel. GM Holden considers that the tax system can play an important role as part of a multi-decade energy policy that values stable fuel prices that are high enough to enable energy diversity in the light of oil price volatility and periodic economic dislocations.

Other specific measures for consideration should include, for example:

- Providing tax concessions to encourage investments in alternative fuel plants and infrastructure, including for fuel retailers who convert their bowsers from petrol to E85;
- Offering a tax concession or rebate to purchasers of alternative fuel vehicles, or reducing or eliminating the stamp duty payable on such vehicles;
- Providing appropriate support for research and development into alternative fuels and technologies. In this regard, we refer again to our recommendations in our first submission concerning the R&D Tax Concession that:
 - The benefit of the R&D Tax Concession/rebate should be at least 15 per cent
 - The Review should consider the recommendations in the Cutler Innovation Report to modify the R&D Tax Concession criteria so that IP ownership, overseas funding/support and technical assistance are not impediments to eligibility
 - The R&D Tax Concession should be replaced with an R&D rebate system so that all companies (not just those eligible for the R&D tax off-set) may obtain a cash benefit
 - The R&D Tax Concession should not be restricted to solely income tax attribution, but rather it could be used to offset other taxes, such as payroll tax, to recognise circumstances where the immediate financial benefit of any concession cannot be utilised as a result of accumulated income tax losses.

As a final point, to encourage businesses to continue to improve their environmental performance beyond the measures proposed under the Carbon Pollution Reduction Scheme, we recommend the Review Panel consider the provision of taxation concessions investments in projects which yield significant environmental savings or benefits such as those which substantially reduce waste or water usage.

² Argonne National Labs and UCAR 2006

I trust that the above comments will be of assistance to the Review Panel. We would welcome the opportunity to be involved in any further discussions concerning these matters. Please do not hesitate to contact me if you have any questions in the meantime.

Yours sincerely

A handwritten signature in blue ink, appearing to read 'Samantha Read'.

Samantha Read

Associate Director – Government Relations and Public Policy

Attachment: GM Holden Submission to Australia's Future Tax System Review October 2008

