

BIC Submission the Henry Review of Australia's Future Tax System



Overview

The Bus Industry Confederation (BIC) is the peak industry organisation representing the interests of bus and coach operators throughout Australia.

The Confederation believes that its members' interests are best represented by showing the community value that is provided through use of bus and coach transport and by bus and coach operators providing high quality services to the travelling public.

Major economic challenges are confronting passenger travel in Australia at a time when the increasing cost of personal transport makes presenting Australians with a genuine travel alternative to the car a key imperative for all Australian Governments.

The challenges arise partly due to the lack of direct price signals and associated revenue streams for road use, and the pervasive externalities associated with such road use, particularly in urban areas. The critical issues to consider in this context are:

Road congestion costing \$10b nationally and projected to double by 2020;

The transport sector is Australia's third largest and fastest growing source of greenhouse gas emissions with road transport accounting for almost 90 per cent of sector's emissions;

High fuel prices and mortgage rates put pressure on household budgets in outer urban and regional areas, where transport typically accounts for a high proportion of household budgets; and

Transport is a critical part of human and supply chains.

It is little surprise that transport infrastructure requirements are high on most political agendas around Australia in both urban and regional areas.

The BIC submission proposes a radical change to the way road transport is priced in Australia over the coming years, to ensure that the maximum value is achieved from use of the existing infrastructure base and that improved pricing signals are provided for system enhancements. These reforms will also enable pricing of public transport to become more cost reflective.

The submission also provides a range of shorter term policy solutions for reforming taxation mechanisms to be implemented before the more comprehensive reform program is delivered.

Policy issues and options outlined in this submission are:

- The Road User Charge for heavy vehicles and a comprehensive road pricing system.
- Taxation incentives for public transport use.
- Fringe Benefits Taxation measures.
- The use of GST revenue collected from public transport.

The BIC believes there is a strong economic basis for encouraging public transport use. Research shows a 3 per cent increase in public transport patronage in our major cities would deliver benefits to the Australian community of at least \$2.6 billion per annum including savings on urban congestion of \$1.5 billion and environmental benefits of \$160 million.

The BIC Believes Australia's future tax system can play an integral role in encouraging Australians to switch from the car to public transport for their own benefit as well as the benefit of the economy, environment and community.

The Heavy Vehicle Road User Charge and a Comprehensive Road Pricing System

There are a wide range of external costs of transport, particularly road transport, which are not met by road users, resulting in excessive levels of traffic. Congestion pricing, in particular, is important since it is of a similar order of magnitude to annual road construction and maintenance costs (about \$12 billion). Carbon pricing in transport is also fundamental in a carbon constrained world.

The BIC proposes a comprehensive externality based road pricing regime is implemented to replace the current fuel excise charges and associated heavy vehicle charging systems. A comprehensive road pricing system will result in a more rational set of travel choices, reduced demand for new infrastructure, and achievement of significant economic benefits through lower congestion costs, as well as cutting other external costs of road use.

Currently heavy vehicles operate within a Heavy Vehicle Road User Charge required for all vehicles over 4.5 tonne and prices are set by the National Transport Commission. This regime is based on an expenditure allocation process that depends on road expenditure and various expenditure allocation parameters. It only charges heavy vehicles and only for their road damage. No specific charges are levied on other road users and no user is accountable for the non-infrastructure external costs attributable to their road use (e.g. congestion, noise, air pollution, part of accident costs, greenhouse gas emissions).

We propose the new road pricing system should include:

- A charge on fuel to cover carbon costs (although the current Carbon Pollution Reduction Scheme curiously proposes offsetting the carbon price for cars by excise offsets for three years, a system that is odds with the very purpose of emissions trading);
- A charge on fuel to cover the costs of road construction and maintenance attributable to lighter vehicles;
- Tonne kilometre charges for additional road damage attributable to heavy vehicles;
- Differential vehicle registration charges to levy the more polluting vehicles for their health costs (air pollution); and perhaps most controversially
- A GPS based congestion pricing scheme to make users accountable for the congestion costs attributable to their road use, by time and location. At peak hours in the capital cities, this charge would frequently be as high as \$1/km and higher on occasions.
- The fuel based and registration based charges could, alternatively, be included as elements of a broader set of vehicle kilometre charges within a GPS based charging system.
- An essential requirement for the success of such a scheme is the transparent and accountable hypothecation of the revenue earned from these charges into improved transport systems and services. This removes the public perception that the charges are simply a tax on consumers.
- Existing fuel excise and registration charges would be abolished and replaced by the above charges. The BIC notes that the peak group representing road users, the Australian Automobile Association, has proposed a similar system. The Dutch are in the process of implementing a similar scheme. Appendix 1 to this submission summarises some information on congestion pricing schemes. The BIC, however, is proposing a comprehensive road pricing system, not just the addition of congestion pricing to the current pricing arrangements.
- During the transition period to the introduction of this scheme (which may be 4-5 years to full implementation) the BIC proposes some changes to existing arrangements.
- A redefinition of the calculation scheme for the Heavy Vehicle Road User Charge for buses, incorporating Fuel Excise and the Fuel Tax Credits Scheme is imperative if the taxation system is not to serve as an impediment to the operation of public transport systems.
- Under the current system the bus industry is placed in a general classification of heavy vehicles along with trucks.

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- The policy of tying the Heavy Vehicle Road User Charge to the Diesel Fuel Rebate instituted by the previous Government means that as the Road User Charge component of Fuel Excise increases, the Diesel Fuel Rebate decreases by the same amount.
- The Diesel Fuel Rebate has effectively been decreased by 1.4 cents since late 2007 and if the proposed increase in the Road User Charge component of Fuel Excise goes ahead, the rebate will have been reduced by 2.1 cents per litre in 18 months, increasing the cost of public transport and passenger services.
- The BIC believes the Taxation Review should consider a revision of the calculation mechanism of the Heavy Vehicle Road User Charge for buses on the basis of infrastructure savings and the safety and environmental benefits that buses bring.

Taxation Incentives for Public Transport Use

The development of taxation incentives for public transport use is directly aimed at encouraging the adoption of public transport for the purpose of travelling to and from work.

Since 2006, Canadian commuters have been able to apply for public transport taxation credits that provide a non-refundable tax credit of 15% against the cost of public transport (Government of Canada 2008). To be eligible for the credit, commuters are required to purchase tickets of five day or longer duration, maintaining the integrity of the tax-credit system (CUTA 2006a).

This form of taxation incentive exhibits the value of simplicity from the commuter viewpoint; however it has the potential to be administratively inefficient when compared with amending FBT arrangements as detailed below (NSW Ministry of Transport 2006). For this reason, the Canadian Urban Transit Association has advocated also implementing employer-sponsored taxation incentives (CUTA 2006b).

Taxation incentives have the potential to exclude those on low incomes from benefit, due to the initially small amount of tax being paid (CUTA 2006a).

In the Australian context however, inequity of this sort should not be an issue due to low income earners' ability to access public transport tickets at reduced cost, and in some instances for free (ACT DHCS 2008).

With almost 85 per cent of total trips in Australia taking place within 100kms of the commuter's home, and a significant portion of these trips being work related, the use of public transport for work related travel can play a significant part in the reduction of congestion and transport related emissions and the achievement of targets.

Making the cost of periodic public transport tickets, for the purpose of travel to and from work, tax deductible will further incentivise public transport use.

Fringe Benefits Tax

The provision of Fringe Benefits Tax (FBT) benefits for public transport travel by employees will serve to balance existing FBT arrangements for cars and further encourage public transport use for work trips.

Approximately 40 per cent of peak hour traffic is subsidised by FBT arrangements (Dodds 2003). The American Public Transport Association has estimated that approximately 23% of those offered public transport taxation incentives will respond by leaving their cars at home.

The perverse incentives for increasing private car kilometres and associated fuel consumption created by current FBT arrangements are widely acknowledged (NSW Ministry of Transport 2006; SSCRRAT 2007; Australian Transport Council 2008) The benefits of amending FBT arrangements include those of efficiency, visibility, equity, and simplicity (NSW Ministry of Transport 2006).

Current FBT arrangements are inconsistent with the National Transport Policy Framework's stated objective of achieving a cultural shift from policy development focussed on single modes and stand-alone projects to safe and efficient mobility of people and goods.

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The National Transport Policy Framework aims to deliver a 'safe, efficient, reliable and integrated transport system'. To this end, "any transport proposal that is consistent with the stated objectives around safety, environment, efficiency etc should be eligible to compete for funding".

Presently, sustainable and public transport operators are ineligible to compete with private cars for a role in salary packaging and associated income under FBT arrangements; this is clearly in need of amendment.

For example, the effective tax rate on salary packaged public transport tickets has been estimated between 90% (Dodds 2003) and 94.2% (UITP 2004). With a salary packaged car, the choice to subsequently use public transport may also result in a reduction in income – a further penalty (NSW Ministry of Transport 2006).

The Canadian Urban Transit Association has estimated that taxation incentives will cause an overall 3 -5% shift of commuters to public transport (UITP 2004).

One of the reasons for the effectiveness of FBT amendments in large scale mode-shifting is that the policy is an employer sponsored initiative. Employer sponsored taxation initiatives have proved successful in the USA, Ireland, Canada and the Netherlands (NSW Ministry of Transport 2006).

The current lack of access to FBT exemption is detrimental to employers who want to encourage their staff to use sustainable transport and an increasing number of employers who, under emissions trading schemes, will want to encourage employees to use public transport as a means to reducing their total emissions output.

Flexibility of salary packaging options is associated with employers positioning themselves as "employers of choice" (NSW Ministry of Transport 2006). The lack of FBT options available for public transport use disadvantages employers who wish to attract and retain staff by being able to offer a more flexible and targeted salary package.

If it is not feasible to adjust current FBT arrangements to accommodate public transport use, another option, in taking note of the Cycling Promotion Fund's submission to this review, would be to scrap the FBT system and spend the money on public transport.

2009/10 forecasts show a \$2 billion leakage from the Commonwealth budget as a result of FBT arrangements (Mason 2009). This saving to the Commonwealth Government could provide a wider range of transport options to commuters through investment in public transport infrastructure.

The use of GST Collected on Public Transport

Under this policy option the Australian Government would directly invest GST collected from expenditure related to public transport into an Australian Government Public/Sustainable Transport Fund.

Estimates of the revenue collected would be formed through business reporting from public transport operators including the GST paid on fuel excise which could be measured through rebate claims under the Fuel Tax Credits Scheme.

The GST collected on fuel excise from all vehicles alone is estimated to be in the vicinity of \$2 billion dollars per annum, therefore we can assume the sum collected from all public transport operations will be a sizeable amount.

The benefits of this funding system include:

- It retains responsibility for public transport service delivery with State and Local Governments.
- The revenue burden on the community is not increased and can further be argued that the savings in urban congestion and environmental costs will result in a positive economic outcome.
- Administrative burden would be limited.
- The benefits of consuming transport offset the costs.

In 2007, the Singapore Government committed millions of dollars of GST revenue to a dedicated public transport fund as part of their GST offset package: www.mof.gov.sg/budget_2007/gst_offset.html.

A similar measure in Australia would create an ongoing source of resources for State Government to assist public transport operators in meeting the growing passenger transport task.

Recommendations

- The BIC recommends the development of fairer road pricing system taking into account all of the externalities from motor vehicle use and the benefits yielded by encouraging the use of public transport.
- The BIC recommends the development of a congestion charging system for all major cities based on successful international examples.
- The BIC recommends any future tax system includes provision for income taxation incentives to encourage the purchase of long term public transport tickets.
- The BIC recommends a remodelling of the Fringe Benefits Tax system to bring public transport for the purposes of travel to and from work into line with car use for work purposes.
- The BIC recommends the hypothecation of GST collected from expenditure related to public transport in to a sustainable transport fund to assist State Governments and industry cope with a rapidly growing passenger transport task.

Appendix 1: Congestion Charging

- A congestion charging scheme would bring the dual economic and social benefits of reduced congestion. With the BTRE predicting that urban congestion will cost the Australian economy \$20 billion by 2020 and a per capita cost of more than \$2000 in major cities. The BIC believes congestion charging should be a component of a road user charging regime that reflects the use of the most congested parts of a road network via electronic monitoring.
- A recent international example of the effectiveness of congestion charging is the London Scheme which came in to operation in 2003 and was extended in 2007.

The London scheme involves a charge to enter central London during weekdays between 7am and 6.30pm and a fine for non payment. The scheme makes use of CCTV cameras, with a license plate recognition technology of approximately 90 per cent accuracy, to record vehicles entering and exiting the zone.

The scheme has had a substantial impact on inner city congestion. Peak period delays have declined by 30 per cent, average travel speeds have increased by 40 per cent and bus congestion delays have declined by 50 per cent.

Net revenue, calculated to be \$250 million (approx) in 2006-07, from the scheme is directed to improve public transit services including more buses and major renovations to the Tube system.

Other cities around the world including Edinburgh, Cardiff and Stockholm are actively working on charging proposals and many more are moving towards the adoption of a system.

Appendix 2: Hypothecation – The US Model (Extract from submission by Professor Graham Currie, Chair of Public Transport, Monash University)

The Federal Government in the United States is a major direct contributor to urban public transport funding.

Federal programs supporting urban public transport operations and 'new start' systems have been encouraged since the Kennedy Government in the 1960's (Black 1995).

The current US Federal transit funding basis is enshrined in the SAFETEA-LU act (Safe, Accountable, Flexible, Efficient Transportation Equity Act - A Legacy for Users), which authorizes Federal transit and highway programs through to Fiscal Year (FY) 2009 (APTA 2005). Investment of some \$US 52.6B for urban transit is provided for in this legislation (2004-2009) or broadly \$US 9B p.a.

Figure 1 shows the long term record of US Federal funding in urban transit. The current program represents a 40% increase on its predecessor (TEA 21) with a substantial expansion over time. It appears that while the Bush administration actively supported urban public transport the Australian Government provided no equivalent support.

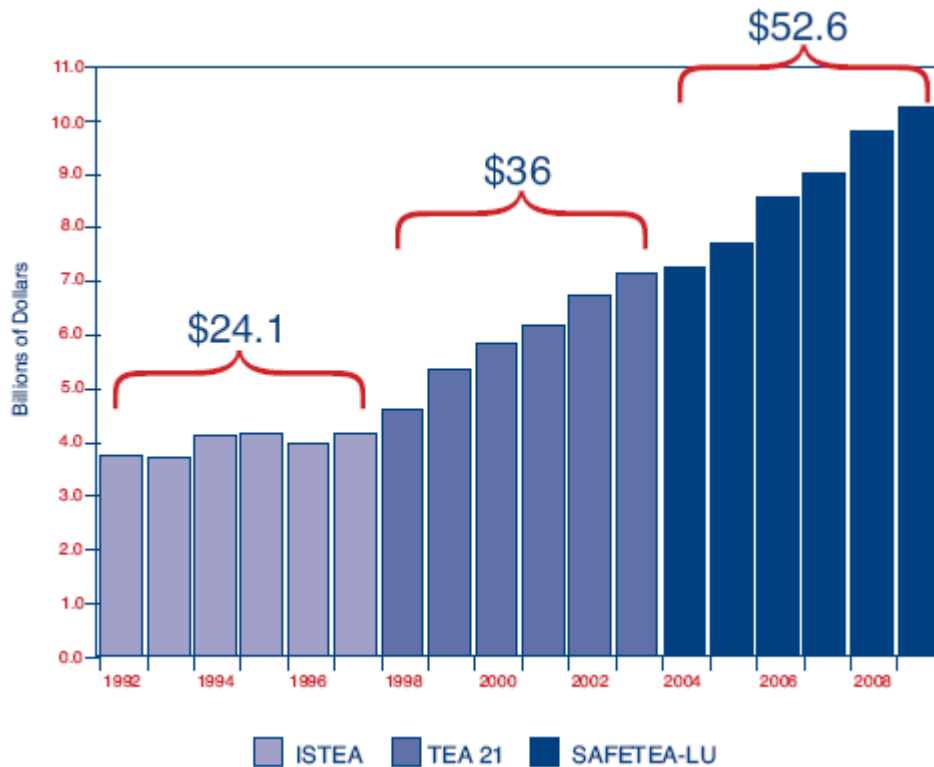


Figure 1 – US Federal Funding Support for Public Transport (\$US Billions)
 SOURCE: (APTA 2006)

US public transport funding includes support for new start projects of up to 80% of the cost and recurrent operating support of up to 50%. In practice actual Federal support averages around 40% for infrastructure development (FY 2003) and around 6% for recurrent funding (APTA, 2006).

Funding allocations for the 2006 financial year (FTA 2006) included:

- \$US1.3B to 60 areas for modernisations of fixed guideway systems (usually rail)
- \$US 1.5B for 65 new start projects (mainly heavy and light rail systems)
- \$US 831M on over 1,400 bus/Bus facilities projects
- \$US 17.6M on assistance to 16 transit authorities to develop cleaner fuel vehicles (usually buses)

This level of US Federal funding commitment is clearly somewhat of a contrast to the Australian approach. The source of the funding also has elements of sustainability not apparent in Australia.

US Federal funding of urban transit involves the direct re-allocation of funding (or hypothecation) between roads and transit. Much of the funding comes from the Mass Transit Account which is sourced from fuel tax on gasoline. Currently 15.5% of gasoline tax goes directly to the Mass Transit Account. This account totals \$5.2B in 2006 (FTA 2006). This approach like congestion charging is generating funding from the problem (car travel) to fund a solution (public transport).

While the lack of Australian Federal interest in urban public transport is clear unfortunately another major concern is the active bias of Federal involvement towards roads. This has acted to damage public transport. Urban road projects which compete with urban public transport for patronage have long received a major share of support from Federal Government (see earlier). In effect the Federal Government has been funding and promoting the problem; car dependence and largely ignoring the solution; public transport.