18 December 2008

Australasian Fleet Managers Association

Dr Ken Henry AC
Secretary to the Treasury
The Treasury
Langton Crescent
PARKES ACT 2600
Australia

EXE2008/2245
RETAI FICE
22 DEC 2008
Initial.....
MR HEFFERN
CC: SECRETARY

Dear Dr Ken Henry AC

For some time the Australasian Fleet Managers Association (AfMA) has been concerned with the current FBT system that is based on the 'more you drive the less you pay' principle for vehicles which is directly at odds with current declared Federal and State Government's initiatives of emission reduction.

Given the announced tax review to be conducted we have prepared a submission (see copy attached) recommending removing the inherent disincentives.

Your consideration of AfMA's submission and support for our recommendations would be greatly appreciated.

Yours sincerely,

Marja Thompson
Executive Director

PO Box 7272
Melbourne Victoria
Australia 3004
ABN 71 365 485 449

Telephone +61 3 9866 6056
Facsimile +61 3 9866 1304
Email info@afma.net.au
Website www.afma.net.au

Dr Ken Henry AC
Tax Review

Australasian fleet Managers Association

The Australasian Fleet Managers Association (AfMA)
Submission regarding Fringe Benefit Tax (FBT)
18 December 2008

Introduction

The Australasian Fleet Managers Association Inc (AfMA) is a not for profit organisation representing some 550 members across Australia and New Zealand. Members of AfMA are responsible for the management of approximately 800,000 vehicles.

The Fleet industry plays a significant role at both a Federal and State economic activity level as Fleet sales account for in excess of 50% of all new vehicle registrations.

After their time as Fleet vehicles they are sold into the used retail market for a second life for an extended period of time. Purchasing decisions made by Fleets today will impact transport sector emissions output and vehicle safety for up to a decade after the initial acquisition.

The transport sector contributes some fourteen per cent of Australia's greenhouse gas emissions and is one, if not the only, segment that is expected to increase in the near future.

AfMA is a knowledge based organisation tasked with developing the professional status of fleet management and gathering and dissemination of best practice in the management of fleet from around the world.

As such AfMA disseminates information on best practice in the management of Fleet but does not sell services and products to its members or the industry in general and therefore has no vested interest in a FBT debate other than ensuring the adoption of effective and efficient Fleet Management outcomes.

Executive Summary

For some time AfMA has been concerned with the current FBT system that is based on the 'more you drive the less you pay' principle which is directly at odds with current declared Federal and State Government's initiatives of emission reduction and improving safety on our roads.

The current FBT regime not only runs counter to these objectives but it is AfMA's contention that FBT has become the single biggest barrier to the adoption of best practice on safety and emission reduction as FBT actively punishes organisations financially for adopting new technology and socially responsible practices.

PO Box 7272
Melbourne Victoria
Australia 3004
ABN 71 365 485 449

Telephone +61 3 9866 6056
Facsimile +61 3 9866 1304
Email info@afma.net.au
Website www.afma.net.au

A*f*MA recommends a realignment of the FBT statutory formula system placing an emphasis on encouraging the adoption of safety and emissions reduction technology by introducing a "the less you drive, the lower the FBT liability" approach. Vehicles with enhanced safety and/or reduced emissions features should be more financially attractive to Fleets not less.

There is an urgent need to reconcile the legislative conflicts that produce disincentives to allow Fleets to be at the forefront of a robust movement to substantially increase the number and range of safer and more environmentally friendly vehicles in the Fleet.

To remove the inherent disincentives of the current FBT system and simplify its administration A*f*MA recommends to:-

- ✓ Retain the logbook method for calculating FBT;
- ✓ Set the FBT statutory rate at a flat rate in the range of 11% to 16%;
- ✓ Include a nominal reduction in the FBT applicable price of the vehicle (the base for calculating FBT liability) so as not to discourage the adoption/inclusion of environmental and safety equipment/features, OR
- ✓ Provide a tax reduction for organisations adopting safety or emission reducing technology similar to the USA FET Incentives for Idling Reduction Units and Insulation or the proposed Commercial Motor Vehicle Advanced Safety Technology Tax Act of 2008, see attached synopsis.

If implemented, we see the above as addressing a number of negative issues associated with FBT i.e.

- ✓ It removes incentives to travel unwarranted distance;
- ✓ Does not discourage the uptake of safety features/standards in vehicles and therefore potentially reduces road trauma;
- ✓ It does not discourage the uptake in emission reduction technology in vehicles;
- ✓ It reduces the compliance costs for business in the administration of FBT;
- ✓ Should reduce the ATO's audit and compliance costs.

Detailed Submission

Fleet vehicle selection decisions are driven from the perspective that they are an integral part of the organisation's business activities with a defined cost. Often this cost can be the third largest financial liability to the organisation behind salaries and office accommodation.

A secondary function of Fleet is that it is the major source of vehicles into the used, second hand vehicle market. Purchasing decisions made by fleet today will impact the transport sector emissions output and vehicle safety for up to a decade after the initial acquisition.

The Australian Bureau of Statistics document S 9309.0 Motor Vehicle Census Australia, 31 March 2007 shows that average life for passenger vehicles was 9.7 years with 20% of all these vehicles being manufactured before 1992.

Fleet Managers have responsibility for and must balance the projected whole-of-life costs of vehicles, the relationship between the purchase and running costs, projected resale values, Stamp Duty and Fringe Benefit Tax.

For some time AfMA has been concerned with the negative effect and influence FBT has on fleet operations in that it has now become the single biggest barrier to the adoption of best practice on safety and emission reduction as FBT actively punishes organisations financially for adopting new technology and socially responsible practices.

The only incentive contained in the current FBT arrangements is that it encourages the practice of drivers travelling increased amounts of kilometres for no other justification than to reduce FBT liability.

Major obstacles to efficient Fleet Management are to be found in the conflicting objectives present in Federal and State Government environmental, road safety and taxation policies which are often at odds with current social attitudes and good corporate behaviour.

Our concern was heightened by a recommendation contained in the Bracks Report, which stated:-

> "The Henry Review of taxation should consider the adoption of a new fringe benefits tax statutory rate table that is more evenly spread across the range of kilometres travelled. The new rate table would encourage drivers to use their vehicles only as necessary".

While we support a review of the FBT statutory rate table, we view the recommendation in the Bracks Report as fundamentally flawed as it appears to be based on a narrow segment (novated leases), less than 9% (See page 4) of company acquired vehicles. Also this approach continues the basic premise of "the less you impact the environment, the greater the financial penalty administered to the organisation".

The Bracks Report put forward a model for a revised FBT threshold system in its recommendations; Page 61 - Table 8.3: SG Fleet's proposed statutory fractions. This proposed policy change, is purported to more evenly spread the FBT/kilometres band so as to encourage drivers to only use their vehicles as often as they need to.

Table 8.3 SG Fleet's proposed statutory fractions

Kilometres travelled	**Statutory fraction**	***Cost new method**	***Cost current method**
0 to 14,000	26%	$9,100	$9,100
14,001 to 16,000	21%	$7,350	$9,100
16,001 to 18,000	19%	$6,650	$7,000
18,001 to 20,000	17%	$5,950	$7,000
20,001 to 22,000	15%	$5,250	$7,000
22,001 to 24,000	13%	$4,550	$7,000
24,001 to 26, 000	11%	$3,850	$3,850
26,001 to 34,000	10%	$3,500	$3,850
34,001 to 40,000	9%	$3,150	$3,850
40,001 plus	7%	$2,450	$2,450

***These figures inserted by AfMA based on a vehicle cost for FBT purposes of $35,000.**

FBT: current statutory fraction percentages

Total kilometres travelled during the **year**	**Statutory percentage**
Less than 15,000	26%
15,000 to 24,000	20%
25,000 to 40,000	11%
Over 40,000	7%

In reality what is proposed in the Bracks Report, a structure in 2,000kms increments with a value of $700 for each 2 degree step, provides more opportunities, not less, for cost reduction through additional travel. It would not be unreasonable to expect more vehicles to become involved in additional travel as more are likely to be within 1,000kms, or closer, to the next lower fraction band.

Under the above equation travelling to the next band using an additional 1,000 kilometres would result in a saving of $520 per vehicle ($700 minus (1,000kms at 12/100km @$1.50 a litre = $180)) or $52,000 per 100 vehicles.

Much of the debate on FBT concentrates on the 'Novated Lease' arrangement with scant regard for the vast majority of other company vehicles. This is confirmed in the Bracks Report in that it describes the proposed statutory formula change as:-

> "It does this by requiring drivers who use their vehicles less to pay a little bit more FBT, which is offset to a large extent by the reduction in running costs. The flipside means that the financial incentive to travel extra kilometres can be offset by the running costs involved in travelling the extra kilometres".

It is only when the vehicle is novated that the driver becomes wholly responsible for the vehicles running costs.

We note that the Bracks Report offered no data on what percentage of vehicles, subject to FBT, were acquired through a Novated lease process. Our data, derived from our yearly member survey, puts novated arrangements at less than 9% of the total number of fleet vehicles surveyed.

Percentage of total acquisitions financed by Novated Lease

Year	1999	2000	2001	2002	2003	2004	2005	2006	2007	Ave
Percentage	8%	8%	8%	8%	8%	8%	14%	9%	11%	8.56%

Source AfMA surveys 1999 through 2007

The adoption of new technology and cultural change practice is predisposed by the value of the incentive involved and the nature and size of the disincentives associated with its adoption. AfMA considers that it is unsustainable that initiatives to reduce emissions and road trauma are subject to a tax system that actively punishes businesses financially for taking positive action.

The dilemma for the Fleet Manager is that the current FBT system actively provides financial disincentives for the inclusion of enhanced safety and/or environmental initiatives into Fleet operations. For example, should a Fleet Manager purchase enhanced safety or environmental features, such as an LPG or diesel engine, it is likely to incur additional costs upwards of $2,000.

This additional $2,000 is then subject to stamp duty (a State tax) and FBT. Should an initiative to reduce emissions also be undertaken with an outcome of reducing kilometres travelled per year from above 25,000 kilometres to between 15,001 and

25,000 the additional costs to the organisation for being socially responsible, in the form of an increased FBT bill, is substantial.

For a Fleet of 100 vehicles and a three year ownership the additional costs become:

> $2,000 x 3% stamp duty x 100 vehicles = $6,000 plus
> $2,000 x 20% FBT x 2.0647 x 46.5% x 100 vehicles x 3 years = $115,209
> Sub total (cost for adding extra $2,000 of equipment to a vehicle) = $121,209
>
> When the cost of reducing distance travelled is added the cost becomes:
> Vehicle cost $35,000 x 9% (the difference between 11% and 20%) $3,150 x 100 vehicles x 3 years = $945,000 x 2.0647 x 46.5% = $907,280.
>
> A three year ownership for 100 vehicles under the above scenario would cost an organisation an additional $1,028,480 ($121,200 + $907,280) in FBT.

A*f*MA would suggest an overhaul of the FBT statutory formula system as in reality FBT has now become a burden to the effective management of Fleets. This is perhaps the most ironic, and counterproductive, element of FBT legislation; the inherent incentive to drive more, perhaps unnecessary, kilometres in order to minimise the tax payable and the disincentive to adopt best practice, safer and more environmentally friendly vehicles .

Vehicles with enhanced safety and/or reduced emissions features should be more financially attractive to Fleets not less. There is an urgent need to reconcile the legislative conflicts that produce disincentives to allow Fleets to be at the forefront of a robust movement to substantially increase the proportion of safer and more environmentally friendly vehicles on Australian roads.

This could be in the form of a nominal reduction in the FBT price of the vehicle (the base for calculating FBT liability) so as not to discourage the adoption/inclusion of environmental and safety equipment/features.

Alternately a tax reduction, similar to that proposed in the USA, could be given to organisations adopting emission reducing technology.

At both USA Federal and State levels, direct incentives are employed to encourage the uptake of new technology. Please see Attachment 1, a synopsis of the 'Commercial Motor Vehicle Advanced Safety Technology Tax Act of 2008'.

New FET Incentives for Idling Reduction Units and Insulation have also been introduced in the USA. The new financial rescue legislation created an exemption from the heavy vehicle excise tax for the cost of idling reduction units, such as auxiliary power units. The law also exempts the installation of advanced insulation, which can reduce the need for energy consumption by transportation vehicles carrying refrigerated cargo. Both exemptions are aimed at reducing carbon emissions.

To remove the inherent disincentives of the current FBT system and simplify its administration AfMA recommends to:-

- ✓ Retain the logbook method for calculating FBT;
- ✓ Set the FBT statutory rate at a flat rate in the range of 11% to 16%;
- ✓ Include a nominal reduction in the FBT price of the vehicle (the base for calculating FBT liability) so as not to discourage the adoption/inclusion of environmental and safety equipment/features, OR
- ✓ Provide a tax reduction for organisations adopting safety or emission reducing technology similar to the USA FET Incentives for Idling Reduction Units and Insulation or the proposed Commercial Motor Vehicle Advanced Safety Technology Tax Act of 2008, see attached synopsis.

If implemented, we see the above as addressing a number of negative issues associated with FBT i.e.

- ✓ It removes any incentive to travel unwarranted distance;
- ✓ Does not discourage the uptake of safety features/standards in vehicles and therefore potentially reduces road trauma;
- ✓ It does not discourage the uptake in emission reduction technology in vehicles;
- ✓ It reduces the compliance costs for business in the administration of FBT;
- ✓ Should reduce the ATO's audit and compliance costs.

At a basic level the adoption of new technology is predisposed to two sets of influences; the incentive and/or the disincentive. A sought-after outcome can be achieved without the need to provide an incentive. More importantly however, the removal of disincentives, such as those that currently negatively influence purchase decisions, is necessary to positively influence change.

FBT has become a vicious circle of multi level economic disincentives. As organisations seek to enhance safety, reduce emissions and/or costs the Fleet becomes problematic as any reduction in fuel and distance travelled translates into a higher FBT bill. FBT has outstripped its original raison d'etre and has become a burden to the effective management of Fleets.

Summary

FBT has now become a burden to the effective management of Fleets. This is perhaps the most ironic, and counterproductive, element of FBT legislation; the inherent incentive to drive more, perhaps unnecessary, kilometres in order to minimise the tax payable and the disincentive to adopt best practice, safer and more environmentally friendly vehicles .

The current FBT system runs counter to declared Federal and State Government's initiatives of emission reductions and efforts to increase safety on our roads.

AfMA recommends the overhaul of the FBT statutory system to a flat rate of between 11% to 16% and either a nominal reduction in the FBT price of the vehicle or to provide a tax reduction for organisations adopting safety or emission reducing vehicle technology similar to the USA system.

Commercial Motor Vehicle Advanced Safety Technology Tax Act of 2008 (Introduced in Senate)
S 3428 IS

110th CONGRESS
2d Session

S. 3428
To amend the Internal Revenue Code of 1986 to provide a credit against income tax to facilitate the accelerated development and deployment of advanced safety systems for commercial motor vehicles.

IN THE SENATE OF THE UNITED STATES August 1, 2008
Ms. STABENOW (for herself, Mr. VOINOVICH, and Mrs. DOLE) introduced the following bill; which was read twice and referred to the Committee on Finance

Extract

SEC. 45Q.
CREDIT FOR COMMERCIAL VEHICLE ADVANCED SAFETY SYSTEMS.

(a) Allowance of Credit- For purposes of section 38, the commercial vehicle advanced safety system credit determined under this section is an amount equal to 50 percent of the cost of any qualified commercial vehicle advanced safety system placed in service by the taxpayer during the taxable year.

(b) Limitations-
  (1) PER SYSTEM- The credit allowable under subsection (a) for each qualified commercial vehicle advanced safety system shall not exceed $1,500.
  (2) PER VEHICLE- The credit allowable under subsection (a) with respect to property for each qualified commercial vehicle shall not exceed--
    (A) $3,500, reduced by
    (B) the aggregate amount of credit allowed to the taxpayer under this section with respect to such vehicle for all prior taxable years.
  (3) PER TAXPAYER- The credit allowable under subsection (a) to the taxpayer for the taxable year shall not exceed $350,000.

(c) Qualified Commercial Vehicle Advanced Safety System- For purposes of this section, the term `qualified commercial vehicle advanced safety system' means any property which is part of a system installed on a qualified commercial vehicle if--
  (1) (A) such system is a brake stroke monitoring system, lane departure warning system, collision warning system, or vehicle stability system, or
    (B) such system is specifically identified by the Administrator of the Federal Motor Carrier Safety Administration or the Administrator of the National Highway Traffic Safety Administration for the purposes of this paragraph as significantly enhancing the safety or security of the driver, vehicle, passengers, or load of a qualified commercial vehicle and such identification is in effect as of the date such system is placed in service by the taxpayer,
  (2) such system is certified by the manufacturer of such system (before such vehicle is first used by the taxpayer for its intended purpose after installation of such system)--
    (A) to be appropriate for the make, type, and model of the qualified commercial vehicle on which it is to be installed, and
    (B) to function as designed if installed properly,
  (3) in the case of a system which is not installed by the manufacturer of the qualified commercial vehicle or by an installer authorized by the manufacturer of such system, such system is certified by the installer of such system to be properly installed and functioning on the vehicle before such vehicle is first used by the taxpayer for its intended purpose after installation of such system,
  (4) the original use of such system begins with the taxpayer, and
  (5) depreciation (or amortization in lieu of depreciation) is allowable with respect to such system.