



ARRCC

Australian Religious Response to Climate Change

Dear Dr Henry,

ARRCC is pleased to provide its submission to the *Australia's Future Tax System Review Panel* ("the Review Panel") and contribute to the Australian Government's review of Australia's taxation and transfer system.

ARRCC is a multi-faith network committed to taking action on climate change. We aim to do this by inspiring people of faith to take practical action in their places of worship and by raising awareness about climate change policies that are based on scientific research.

Our submission to the Review Panel focuses on questions 13.2 and 13.3 of the consultation papers and recommends alternative tax arrangements to encourage commuters to cycle or take public transport. Our submission also demonstrates that by encouraging more people to cycle and take public transport the Government will save money and achieve positive social outcomes such as improved public health, reduced CO2 emissions and reduced urban congestion.

The tax arrangements recommended in this submission are:

- 1. Removing the FBT concession for car usage**
- 2. An FBT concession for bicycles and public transport**
- 3. A corporate tax break for companies¹ providing cycle friendly facilities**

We hope that you will find the information and suggestions in this submission useful and should you wish to discuss them further please do not hesitate to contact us on 0405 916 731.

Yours sincerely,

Thea Ormond
President

Level 15, 179 Elizabeth Street, Sydney, NSW 2000

Tel: 02 9252 5200 / Fax: 02 9247 6555

ABN 26 255 139 331, INC9888589

www.arrcc.org.au

Part 1: About Us

The Australian Religious Response to Climate Change (ARRCC) is a multifaith network committed to taking action on climate change.

In order to fulfil this commitment ARRCC aims to:

- Galvanize the religious response to climate change
- Raise awareness about climate change issues and policies
- Empower places of worship to take practical action to reduce their carbon emissions

Part 2: Consultation Paper Questions

The ARRCC submission focuses on the following questions from the [consultation papers](#):

Q13.2 Noting that many submissions raise concerns over unintended environmental consequences of taxes and transfers, such as the fringe benefits tax concession for cars, are there features of the tax-transfer system which encourage poor environmental outcomes and how might such outcomes be addressed?

Q13.3 Given the environmental challenges confronting Australian society, are there opportunities to shape tax-transfer policies which do not currently affect the environment in ways which could deliver better environmental outcomes?

Part 3: The Problem

The taxation system encourages car usage and does not provide financial incentives for people to use active transport modes such as cycling or public transport.

This problem has been brought to the Government's attention on numerous occasions and there is strong support for providing tax incentives that encourage active modes of transport.

The National Preventative Health Taskforce (2008) called for the Government to encourage the use of active transport in Australia including encouraging workplaces to replace subsidies that promote private and company motor vehicle use with inducements that encourage employees to walk, cycle or take public transport to work².

The House of Representatives Environment Committee *Sustainable Cities report* (2005) found that FBT laws are an impediment to reducing car dependency. It recommended that FBT concessions be reviewed to remove incentives for greater car use and provide incentives for other travel modes³.

The *Ralph Review* (1999) recommended reforming FBT rules relating to transport, given that current arrangements result in a perverse incentive to drive extra kilometres so as to get better tax breaks⁴.

Part 4: The Solution

In order to encourage people to cycle to work and use public transport, ARRCC recommends that Treasury:

1. Remove the FBT concession for car usage
2. Provide an FBT concession for bicycles and public transport
3. Provide a corporate tax break for companies providing cycle friendly facilities

1. Removing the FBT concession for car usage

The current fringe benefits tax (FBT) arrangements result in a subsidy for the use of cars. This has the effect of encouraging motor vehicle use, even for short trips that could be made by bicycle. Fringe benefits tax on company cars is estimated by Federal Treasury to cost taxpayers over \$2billion in 2009-

10⁵. The Productivity Commission has also pointed out that current FBT rules add to the tariff burden borne by Australian taxpayers⁶.

This \$2 billion subsidy for motor vehicles creates a disincentive for using alternative options such as bicycles and public transport, which do not receive any FBT concessions. It also exacerbates un-priced externalities such as urban congestion and greenhouse gas emissions.

ARRCC therefore recommends that Treasury remove the FBT concession for car usage.

2. FBT Concession for bicycles and public transport

FBT Concession for bicycles

ARRCC recommends a salary sacrifice scheme for bicycles, parts and services. The scheme could be analogous to existing schemes and use existing methods, such as the arrangements for laptops prior to the changes made in FBT rules in 13 May 2008.

The benefits of such a scheme are:

- ease of administration for the Tax Office and for business;
- a simple concept for individuals and the bicycle industry to grasp;
- employees could avoid the upfront cost of a bicycle, salary sacrificing arrangements may involve employers paying for the bicycle and then deducting the cost from employees' wages in instalments.
- stimulus to the economy through increased purchases of bicycle equipment and services.

\$2000 for a two year period

Employees could be permitted to salary sacrifice a \$2000 non-reportable FBT concession of a bicycle, bicycle equipment and services every second year. We suggest that purchases be from a bike shop which can provide full service for the bike including selection, service and warranty.

\$2000 will allow people to buy a good reliable bike for regular commuting valued at \$700 – \$1 500. The balance of the money would be taken up with:

- equipment such as lights, racks etc;
- clothing such as helmet, raincoat, gloves;
- services such as a couple of prepaid \$100 maintenance vouchers; and
- membership of relevant cycling associations.

Example:

Based on 2007/2008 tax rates, a commuter who earns \$70,000 a year and purchases \$2000 worth of cycling equipment could save \$800 over a two year period.

	Without Salary Packaging	With Salary Packaging
Gross Salary	\$70,000	\$70,000
Bicycle FBT Concession		(\$2,200)
GST on bicycle		\$200
New Gross	\$70,000	\$68,000
Tax payable	(\$15,600)	(\$15,000)
Net pay	\$54,400	\$55,200
Net Benefit		<u>\$800</u>

Additional Minor Benefits:

Employees can also add to this main benefit through packagable minor benefits. The minor benefit option could be supported by a formal ruling from the Tax Office.

The packagable minor benefit rule says that each minor benefit must be less than \$300 and irregular. One way to handle this would be to have certain types of bike expenditure classified as Minor Benefits and specifically be exempt. This could include bike services, parts and accessories.

Alternatively \$300 of bike bits and pieces could be classed as exempt benefits each year.

Record keeping:

To be eligible for the tax concession the commuter must make and maintain a record of their journeys. Recording a one week period per year is consistent with the motor vehicle scheme.

The journeys taken in each week must add up to at least 10km, based on someone living 1 to 10km from work and riding 1 to 5 times a week. If the rider fails to keep a log book or accumulate enough kms they would not be eligible for the tax concession.

Performance measurement system:

ARRCC suggests implementing a performance measurement system that reports the impact of the scheme.

We envisage an on-line declaration registry in which people record their purchases and kms. The database could report on what people are buying and how many riding kms are accumulating. It could also be used to gather key health statistics such as a change in body mass index or the individual's perception of changes in physical well being.

The benefits could then be calculated and displayed as tonnes of carbon emissions saved; increased rates of regular exercise; and decreased average weight. Naturally, personal information would be kept private.

FBT concession for public transport

ARRCC recommends that Treasury introduce an FBT concession for public transport. This will provide an incentive for employers to buy public transport tickets and pass them on to employees without the employee incurring FBT.

3. Corporate tax break

ARRCC recommends a corporate tax break for companies/trip generators providing cycling friendly facilities such as secure bicycle parking, showers and lockers.

This could be structured as extra depreciation (i.e. be allowed to depreciate 200% of the cost of the facilities).

The 200% method means the effective cost for the business (assuming a 30% corporate tax rate) is 40% of the facilities as opposed to the 70% it would currently cost if the organisation could only depreciate 100%.

To enable tenants to undertake the work (where the building owner will not), the 200% deduction/depreciation rate could apply to the works as either building works or leasehold improvements.

Alternatively businesses could be allowed an immediate write-off of capital works related to these facilities. The immediate write off method would be preferred by business as they get the deduction immediately and with less administration⁷.

Part 5: Positive Social Outcomes

The introduction of tax incentives that encourage the use of public transport and cycling would generate positive social outcomes. The main benefits being:

- improved public health;
- environmental benefits; and
- reduced urban congestion and car parking demand.

Public Health Benefits

Providing financial incentives that encourage cycling and other active modes of transport use is aligned with the Rudd Government's policies on preventative health and health promotion. Physical activity is an important part of overall health promotion and disease prevention. The World Health Organisation recommends that at least 30 minutes of regular, moderate-intensity physical activity on most days will reduce the risk of obesity⁸.

The Australian Institute of Health and Welfare (2006) found that around half of the Australian population lack the appropriate level of physical activity, a major cause of obesity⁹. Access Economics (2008) estimated the economic cost of obesity and related preventable diseases at approximately \$58.2 billion annually which is close to \$3,000 per person¹⁰. The cost estimate of obesity related disease will only grow if the estimated 20% of Australian children who are currently overweight or obese continue to remain so¹¹.

A simple way of fitting physical activity into a demanding lifestyle is to ride a bicycle to work. A Ming Wen and Rissel (2008) found that people who cycle three times a week or more are fitter and less likely to be overweight or obese¹². Unwin (1995) found people who cycle regularly have half the rate of heart attacks of people who don't ride regularly¹³.

The Government on a number of occasions has strongly indicated it's committed to tackling Australia's obesity epidemic, in particular by helping children develop healthy habits that prevent obesity. Parents who ride to work can set a powerful and long lasting example for their children to follow. Parents who ride to work are more likely to encourage their children to ride to school and more likely to take their children riding on weekends.

Tax incentives that encourage more people to cycle to work and to use other active forms of transport are a cheap and effective way to mitigate Australia's obesity crisis. It will create huge long-term savings in the Australian health budget and save the private and public sectors the increasing costs of absenteeism due to obesity related illness. By encouraging more people to ride to work Australia will be a healthier and more productive community.

Environmental Benefits

Encouraging more Australians to cycle more often would not only improve health but also improve environmental sustainability. Measures that encourage cycling and public transport address both problems and enhance the effectiveness of action.

A major challenge currently facing Australia is greenhouse gas emissions; per capita greenhouse gas emissions in Australia are the highest of any OECD country¹⁴. The National Greenhouse Gas Inventory (2006) reports that Australia's net greenhouse gas emissions as 576 million tonnes of carbon dioxide-equivalent. The Australian transportation sector has the third highest greenhouse gas emissions, after stationary energy and agriculture¹⁵. Passenger cars are the largest source of road transportation emissions contributing over 50%. Cars contributed 7.4% of national emissions, and have increased by 21% between 1990 and 2006¹⁶.

Non-greenhouse emissions from motor vehicles also produce a range of pollutants that have harmful effects on human health and the environment. Laird et al (2001) estimate the costs of health damage from transport-related air and noise pollution at more than \$3 billion per annum¹⁷. Hamilton and Denniss

(2000) estimated the annual costs of urban air pollution (due predominantly to transportation) at \$8.4 billion¹⁸.

Bicycles are quiet and do not produce harmful emissions. Providing financial incentives that encourage cycling to work would help reduce noise and air pollution that degrade public health and the environment. Financial incentives that encourage cycling to work or using public transport are also a cheap and effective way to help Australia to meet its carbon emission reduction targets. This would, of course, require the Carbon Pollution Reduction Scheme being modified so as to include the efforts made by individuals.

Reduced Urban Congestion

Tax incentives that encourage commuters to cycle to work and use public transport would help decrease urban congestion.

According to the Bureau of Transport and Regional Economies (2007), congestion costs in Australia's major cities are currently estimated at \$9.4 billion annually and this cost is expected to rise to over \$20 billion by 2020.

A person cycling to work uses much less public infrastructure than a car and is therefore an effective decongestant for clogged urban streets. Similarly, bicycle parking space requirements are minor compared to those required for cars. By encouraging more cycling we could free up precious urban space for more aesthetic and productive purposes such as parks, apartments or offices.

Furthermore, bicycles not cause wear and tear on roads as do heavier vehicles. By encouraging cycling, State and Local Governments will save millions of dollars on road maintenance costs.

Providing financial incentives to encourage more people to cycle to work and use public transport is a cheap and effective way to help decongest our urban environment and save the Governments of Australia millions of dollars.

Part 6: Conclusion

The current tax system does not provide incentives for cycling to work or using public transport. There is broad support in the community for making our cities more sustainable and amending current FBT arrangements so as to encourage active forms of transport. In order to encourage cycling and increased use of public transport ARRCC recommends that Treasury abolish the FBT concession for car usage, give an FBT concession to bicycles and public transport and give tax breaks to businesses that install bicycle infrastructure. The tax incentives outlined in this submission are easy to implement and will have positive social outcomes such as improved public health, decreased environmental damage and decreased urban congestion.

¹ Companies in this case could include any organization that has people commuting to it including universities, hospitals and schools.

² National Preventative Health Taskforce (2009) *Technical Report No 1 Obesity in Australia: a need for urgent action*.

³ House of Representatives Standing Committee on Environment and Heritage (2005) *Sustainable Cities Recommendation 8*.

⁴ Commonwealth of Australia (1999) *Review of Business Taxation, A tax system redesigned: More Certain, Equitable and Durable*, ("Ralph Review").

⁵ Garnaut Climate Change Review 2008.

⁶ Trade & Assistance Review 2006-07 *Annual Report Series, section 3.6*, Australian Productivity Commission.

⁷ Bicycle Victoria 2009 *How to use tax incentives to cut congestion, public health costs and carbon*.

⁸ <http://www.who.int/dietphysicalactivity/publications/facts/pa/en/index.html>.

⁹ AIHW Australia's health no. 10 section 3: *Determinants of Health*.

¹⁰ Access Economics August 2008 *The growing cost of obesity in 2008: three years on*.

¹¹ 48th Royal Australian College of General Practitioners Council 26 July 2006, *Overweight and obesity Policy*.

¹² Ming Wen L and Rissel C 2008, *Inverse associations between cycling to work, public transport, and overweight and obesity: Findings from a population based study in Australia*. Preventive Medicine, 46(1): p. 29-32.

¹³ Unwin N, 1995, *Promoting the Public Health Benefits of Cycling*. Public Health, 109: p. 41-46.

¹⁴ *Ibid*, citation 1.

¹⁵ Australia's National Greenhouse Gas Inventory 2006.

¹⁶ *Ibid*, citation 15.

¹⁷ Laird, P., Newman, P., Bachels, M. and Kenworthy, J. 2001, *Back on Track: Rethinking transport policy in Australia and New Zealand*, UNSW Press.

¹⁸ Hamilton C and Denniss R, 2000. *Tracking well-being in Australia*, The Genuine Progress Indicator.

Bicycle Federation of Australia, 11 April 2008, *Submission to the Garnaut Review*

Cycling Promotion Fund, Oct 2008, *Submission to the Australia's Future Tax System Review Panel*.