



Life's better on a bike!

Submission to

**Australia's Future Tax System Review
(the Henry Review)**

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BicycleNSW Inc.
CEO
Mr Alex Unwin
GPO Box 272
Sydney, NSW 2001

www.bicyclensw.org.au

Contact: Chloe Mason
chloemason@bigpond.com

Table of Contents

Executive Summary	3
About BicycleNSW	4
Introduction	5
Our previous comments on fiscal policy impediments to cycling.....	6
Reflections on the Review Panel’s Consultation Paper (December 2008).....	7
Social costs to include health costs	7
Inconsistency between the car FBT and newer policy goals.....	8
Coverage of car FBT and omissions.....	8
The broad consultation questions	9
Responses to the Panel’s questions	9
Risk of lost opportunities for reform	10
Conclusions	10
Summary of Recommendations	11
References.....	12

Executive Summary

BicycleNSW welcomes this opportunity to make a submission to the review of Australia's tax-transfer system. In our submission, we have responded to the problem of the car Fringe Benefit Tax (FBT) concession in light of the Panel's broad consultation questions.

With publication of the Review Panel's Consultation Paper in December 2008, we have come to appreciate the strategic potential of the review for Australia's future tax-transfer system. We also better appreciate the opportunities before the Panel to respond to the challenges, identified through receipt of submissions (round 1) and their deliberations, in ways that take a broad and long-term view for our shared future over the 21st century. Acknowledging the severity and human impacts of the current recession, we also hope that the Global Financial Crisis does not distract the Panel from a deeper, long-term agenda for reform.

The Panel's Consultation Paper conveys the manner in which policy levers can be used to change incentives to achieve desired policy goals and equity. With relevance to the adverse environmental effects of the car FBT, we note the Panel's observation:

"...In some cases tax policy can contribute to the management of environmental issues by changing the incentives faced by individuals, firms and other economic factors. However, in other cases non-tax policy responses may be more effective."
(p.247)

In this context, we suggest, proposals to extend the car FBT concession to bicycles and public transport tickets or tinker with the statutory formula would be short-changing the reform potential of this Review. Indeed, to retain or tinker with the FBT concession without signalling its end would be to endanger the credibility of public policies and espoused values.

BicycleNSW reaffirms its view that the car FBT concession needs to be ended and makes five recommendations.

BicycleNSW is keen to encourage discussion and dialogue on overcoming this significant barrier to more sustainable travel, particularly to getting more bike riding to work or for work-related travel.

About BicycleNSW

Bicycle NSW is an incorporated, member-based association established in 1976. We publish details of our governance arrangements and strategy on our website: www.bicyclensw.org.au/content/home

The Commonwealth Government accepted the Bicycle NSW Environmental Trust onto the Register of Environmental Organisations in 2004.

Bicycle NSW has over 10,000 members in more than 40 affiliated local community-based Bicycle User Groups (BUGs), and a growing number of workplace-based Bicycle User Groups, around NSW. As well as working closely with their respective local councils, BUGs run over 100 community based rides throughout NSW every month, and workplace-based BUGs assist staff to find safer cycling routes to the workplace, often by the use of back-streets, and to improve facilities for changing, showering and storing bikes.

We work collaboratively with many agencies of government, industry and the community (including some 500 committed volunteers) to deliver broad-based community participation cycling events and programmes.

The organisation provides a range of insurance products and cycling-related services to its members. Bicycle NSW publishes a national bi-monthly magazine *Australian Cyclist*, electronic newsletters and its website.

Introduction

On reading the Review Panel's Consultation Paper (December 2008), the Summary and some published submissions from the first round, BicycleNSW better understands the tax-transfer system, its relationship to fiscal policy and other public policies.

BicycleNSW can appreciate how "non-tax policy responses may be more effective" than the tax-transfer system for incentives in relation to a shift toward sustainable transport.

BicycleNSW's submission pinpoints the car FBT concession as a problem, and an anachronism.

We would like the net effect of the future tax system, in concert with non-tax policy, to have better outcomes for society at least by enabling and encouraging all forms of more sustainable transport, including bicycle riding and reducing the purchase and use of cars. In light of the complexity of the tax-transfer system and non-tax policy responses, and lacking specialist skills, BicycleNSW requests the Review Panel to devise a comprehensive package of reforms and innovations that are in accord with our shared goals toward sustainable transport for all.

We see these reforms for more sustainable transport as a critical priority for our future tax system.

We consider that the car FBT concession within the tax-transfer system acts as a perverse incentive because it has become inconsistent with public policies - for environmental protection, for reducing carbon emissions, for more active travel for health. In relation to its role as a subsidy for the domestic car industry in 1986 it has become an anachronism.

Further, we are now aware of the notion of 'design principles', articulated by the Review Panel, for the future tax system in response to the (seven) major challenges¹ facing Australia in the 21st century. We appreciate the extensive public consultation being made by the Review Panel, in particular, the further invitation to submit on the findings from earlier submissions, issues raised or issues omitted.

This is the policy perspective from which we now turn to the car fringe benefit tax (FBT) as provided for under Part III, Division 2 of the *Fringe Benefits Tax Assessment Act 1986* (Cth).

BicycleNSW is keen to contribute to a wider public discussion about the current tax-transfer system and what changes could be made through this system, or through fiscal policy, to facilitate an increase in the proportion of the working population cycling to work. We anticipate that the provision of safe cycling conditions and facilities at workplaces are likely to be far more effective, and safer, than some tax concession on the purchase of a bicycle, and bicycle-related costs to the individual taxpayer.

BicycleNSW is happy to discuss ways of increasing the uptake and level of cycling that would reduce the reliance on car driving, based on our knowledge and experience.

¹ Consultation Paper, Executive Summary
http://taxreview.treasury.gov.au/content/Content.aspx?doc=html/pubs_reports.htm

Our previous comments on fiscal policy impediments to cycling

BicycleNSW is developing its understanding of the mix of fiscal policy, tax-transfer system, subsidies and incentives. We have become aware of the origins of the car FBT as a subsidy to the domestic car industry in 1986 that exerted influence on employers and employees to purchase and use cars for travel.

In February 2009, BicycleNSW described the car FBT concession as one mechanism discouraging public transport, cycling and walking to work in its submission to the Senate Committee of Inquiry on Public Transport Investment². In that submission, BicycleNSW requested that the Senate Committee to support:

- *a thorough review and progressive removal of the FBT concession for cars, fuel and parking as a massive "tax expenditure" of over \$1 billion per annum that is out of step with practices internationally*
- *the removal of the FBT concession for cars and no extension of this concession to public transport or cycling but the redirection of funds to well-planned improvements in accessibility by walking and cycling and in combination with public transport.*

BicycleNSW does not support the extension of the FBT concession to bicycles or to public transport tickets for several reasons. The reasons are:

- the financial disparity in value between a car and car-related expenses and a bicycle and/or an annual public transport ticket
- the employer provision of the car FBT concession tends to orient workplaces to favour car travel over walking, cycling and public transport
- the tax expenditure is over \$1 billion per annum - money that could instead be effectively spent on safe cycling routes (and public transport) to enable people to travel to work, or make (some) work-related trips, by cycling or by public transport
- the car FBT concession, as a whole and not only the statutory formula for valuing distance travelled, needs removal as it gives a contrary signal at the workplace for reducing carbon emissions by healthy, active travel.

Earlier, in 2003, to the Sustainable Cities inquiry of the House of Representatives, BicycleNSW argued that "government policies that actively support the motor vehicle industry to the detriment of other modes need to be revisited, and action needs to be taken in the following areas:

The federal Government needs to end the [car] Fringe Benefit Tax concession on company cars and divert this subsidy into the construction and maintenance of urban public transport and cycling and walking facilities. This would greatly enhance the sustainability of cities by reducing the number of cars on the road and by providing a source of funding for public transport...."

² Submission 61 at http://www.aph.gov.au/SENATE/committee/rrat_ctte/public_transport/submissions/sublist.htm

Reflections on the Review Panel's Consultation Paper (December 2008)

BicycleNSW appreciates the Review Panel's description of submissions received by the end of 2008, particularly the Panel's approach, design principles and further questions (Summary, p. 2).

BicycleNSW welcomes the Review Panel's broad framework for considering the design and reform of the tax system for the 21st century (Summary, p.2). The seven main 'challenges' are all relevant to BicycleNSW in advocating bike riding for health, environment, social equity, and of course to get around (transport) and for fun! More seriously, BicycleNSW is keenly aware of the value of government spending on safe cycling routes, particularly the extent of catch-up needed in existing urban areas. Therefore, we respect the Review Panel's concern with the amount and stability of tax revenue.

BicycleNSW's remit is in accord with the general view that our society needs "to shift to a more environmentally sustainable society" (Summary p.6). BicycleNSW also holds more specific goals - getting more people on bikes - that can be characterised as a goal for a more socially-inclusive community and has benefits across multiple sectors of government - transport, health, urban livability as a holistic environmental notion and climate change.

On environmental sustainability and environmental goals (Summary pp.7-8), BicycleNSW shares this concern for the environment and notes that cycling is extremely efficient in its consumption of natural resources, land/urban space, and materials with embodied energy, in contrast to car travel.

On 'design principles' for the future tax system (Summary pp. 3,11-12), BicycleNSW concurs with the perspectives of the Review Panel: environmental sustainability, institutional sustainability, and revenue needs of all tiers of government being met to contribute to a fair and equitable society while being affordable.

Social costs to include health costs

The Consultation Paper recognises social costs. For motoring, it illustrates these social costs as air pollution and greenhouse gas (section 11). One of the seven 'challenges' is 'climate change, the environment and sustainable economic growth' and this challenge implicitly encompasses human health, safety and well-being. BicycleNSW requests the Review Panel to recognise the health and safety costs of motoring, as a form of social cost, in designing the future tax-transfer system. Motoring is associated with sedentary lifestyles and associated health problems, including overweight and obesity³. Access Economics estimates the financial cost of obesity (BMI greater than 30) to have been greater than \$8 billion in 2008⁴. And, of course, cycling is also an extremely efficient way of achieving sufficient physical activity to protect health and reduce the risk of chronic diseases and overweight and obesity (e.g. heart disease, some cancers, diabetes etc), in

³ Wen & others (2006)

⁴ Access Economics (2008), *The growing cost of obesity: three years on*, [prepared for Diabetes Australia], Access Economics, Canberra, August.
www.diabetesaustralia.com.au/PageFiles/7830/FULLREPORTGrowingCostOfObesity2008

addition to other health risks from motorised transport.

Inconsistency between the car FBT and newer policy goals

With respect to the employer's administration of the car FBT concession, BicycleNSW notes that cars and driving have come to dominate thinking and talking about travel at the workplace to the detriment of more sustainable, affordable forms of transport. The car FBT is inconsistent with corporate workplace goals for sustainability, environment or, more narrowly, carbon reduction. Typically such goals are found in programs for corporate social responsibility, environmental management, and sustainability. BicycleNSW highlights that the car FBT exemplifies inconsistency with more recent government policy objectives, particularly relating to traffic congestion, physical activity for health (such as active travel), climate change, and the environment. On climate change, Professor Garnaut has extolled the virtue of consistency between economic drivers and government policy goals of reducing carbon pollution.

Policy consistency, complexity and opportunities foregone in corporate environmental responsibility, are all reasons for a substantial review and end to the car FBT concession. Recommendations to review the car FBT have been made by four or five parliamentary inquiries and reports over the last decade⁵ - but not acted upon - as some submissions in October have already noted to this Review (e.g. the Public Interest Advocacy Centre (PIAC)) and more recently to the Senate Committee Inquiry into Public Transport Investment.

Coverage of car FBT and omissions

Car fringe benefits and their implications are considered or mentioned in a number of places in the Consultation Paper and the Summary, most thoroughly as a personal tax issue in section 4 and also in sections 7, 11, 12 and 13. The Review Panel notes that many submissions concerned about the environmental consequences of taxes and transfers referred to the car FBT concession as a feature of the tax-transfer system that encourages poor environmental outcomes. However, no mention is made of its inconsistency with newer corporate objectives (or reporting obligations) and programs for reducing car ownership and use/encouraging cycling and other healthy, low carbon-emitting travel.

Because the Review Panel is intent on designing an effective tax system for the future, BicycleNSW considers that decisions about the car FBT firstly need to be well informed and framed by contemporary policy and future challenges. In our view, since 1986 when the car FBT was introduced, significant new information and differing policy challenges now face Australia which are preferred. Throughout the Consultation Paper, the point is made that decisions about taxing "...depend on the policy objective it is trying to achieve" (for example p.10).

In keeping with the Review Panel's commissioning of analytical papers to explore significant tax policy issues (Summary p.3), BicycleNSW recommends that the Review Panel secure a thorough analysis of the car FBT by applying the Panel's four consultation questions. The car FBT concession has become an anachronism. The car FBT has is not used in other countries, to the best of our knowledge; car-parking and car-related benefits in other countries have been phased out or

⁵ In 2000, the Senate Committee report on the progress and adequacy of Australia's response to climate recommended the government review the car FBT, and to generally remove barriers to employees using alternative modes of travel.

reduced by requiring employers to cash-out equivalent benefits.

The broad consultation questions

The Review Panel p.1 Consultation Paper, December 2008) set out two broad questions:

Consultation questions

Q1.1 In considering the community's aspirations for the type of society that Australia should become over the next two decades and beyond, which key features should inform or drive the future design of the Australian tax-transfer system?

Q1.2 Assuming that the absolute size of government will not fall, should (and can) Australia nonetheless aim to reduce the burden of taxation over time by promoting faster economic growth than public spending growth? Can it be demonstrated that alternative tax policies could help deliver that outcome?

These questions relate directly to the aspirations of BicycleNSW - that is, for changes in society that will result in more people, of all ages, riding bicycles, more often. And active travel, more generally. This goal has wide support from other organisations and individuals concerned about the health, environment and social inclusion, accessibility to public transport, as well as integrating sustainability into transport investment, planning and practice.

Most urban areas in Australia need retro-fitting with safe cycling infrastructure, as well as ancillary services (such as end-of-trip facilities) and complementary training, promotion and programs. Such activities will be costly, although an investment for human health and environmental quality, that could be offset in part by the annual 'tax revenue leakage' through the car FBT concession, \$1.7 billion in the 2007 FBT year.

To achieve this result, and as soon as we can, BicycleNSW supports policy that would enable change in this direction - whatever composite mix of fiscal policy, non-tax policy and tax-transfer policy.

Responses to the Panel's questions

In August 2008, the Panel invited submissions to the Review, also guided by consultation questions, including:

"Q3. What are the problems with the current system?"

Q4. What reforms do we need to address these problems?" (page 11)

BicycleNSW considers that the issue of the car FBT is a problem with the current system; this view is widely shared by other organisations and individuals.

A broad policy framework enables a range of options to reform the problem and to achieve the desired outcomes across multiple dimensions (e.g. tax revenue, more efficient and environmentally sustainable transport, corporate capacity for managing a shift from car use to other modes of transport, health, environment and social equity).

Risk of lost opportunities for reform

Reforms to the car FBT concession can easily be short-changed.

To environment/climate change and health advocates, at first sight, it seems appealing to argue for the extension of the car FBT concession to public transport tickets and bicycles (page 90)⁶. Seeing the advantage already given to cars and car travel, it is not surprising that champions of other modes simply seek extension through the self-same FBT method.

To deal with the most perverse element of the car FBT provision, it may seem appealing, and more realistic, to argue only for the removal of the regressive 'statutory formula' used to calculate the taxable value. This argument now has added weight with the empirical research demonstrating that the regressive formula does result in excessive vehicle-kilometres-travelled (and hence fuel consumption)⁷.

In our view, the effects of either reform, by extension or to the statutory formula, have not been examined in an appropriate context, including comparative international practice.

It is risky to address the problem of car FBT concession without an appropriate policy framework (fiscal policy-tax-transfer) intended to respond to identified challenges of the 21st century, such as climate change and its nexus with transport as well as health, and the persuasive effect of corporate programs to replace car use by bike riding, public transport and walking.

BicycleNSW has previously listed some problems caused by the existence of the car FBT concession, and that either extension or flattening the statutory formula are not sufficient reforms to alter the corporate culture necessary to meet the challenges we face. Indeed, were the Panel to adopt such incremental reforms it could risk entrenching unsustainable transport and a workplace practice that is antagonistic to contemporary policy.

BicycleNSW is aware of the Australian government's undertaking for a 'root and branch' tax system review and the Panel's emphasis on policy goals and fiscal policy vis-à-vis the tax-transfer system. Therefore, BicycleNSW recommends the Panel to support a thorough review of the car FBT concession and reform options other than its extension or amendment of the statutory formula.

Conclusions

BicycleNSW has considered the car FBT concession in the new circumstances facing Australia into the 21st century, a different setting from when the provision was adopted in the 1986.

We have extolled the Panel's approach to reforming the current tax-transfer system being dependent upon contemporary long-range policy objectives and fiscal policy. This approach is particularly relevant to the contentious car FBT concession which has been discussed in the community and in submissions to several

⁶ Submission National Health Preventative Taskforce, 24 October 2008, <http://taxreview.treasury.gov.au/content/submission.aspx?round=1>

⁷ Submission LaTrobe University and RMIT, 14 September 2008, <http://taxreview.treasury.gov.au/content/submission.aspx?round=1>

parliamentary and government inquiries with growing intensity over the last decade.

BicycleNSW continues to argue for a thorough review and ending of the car FBT concession, not merely the regressive statutory formula, without extension of FBT concessions to personal benefits of public transport tickets or bicycles. As a second-best position, if the Review Panel decides to retain the car FBT concession, in such circumstances BicycleNSW would seek tax concessions for employees for bike riding and public transport.

We much prefer to see the 'tax revenue leakage' from car benefits - \$1.7 billion in 2007 - being redirected to fund well-planned facilities for cycling and walking facilities in urban areas and at work places - and much needed sustainable transport investment. Although BicycleNSW, as a member of the Bicycle Network and signatory of a submission to the Senate Inquiry into Public Transport Investment, did express for support for bike riding to work through the FBT concession, we did so without sufficient forethought. Having read the Review Panel's Consultation Paper we are now better equipped to appreciate the potential for reform by using effectively the tax-transfer system and non-tax, fiscal and other policy drivers for managing a modern approach to travel (p.247).

Summary of Recommendations

BicycleNSW recommends that the Review Panel:

1. commission an analytical paper on the car FBT concession by applying the Panel's four consultation questions, investigating of all fiscal alternatives as potential solutions suited to a future tax-transfer system (a proposal in keeping with the Review Panel's use of such papers to explore significant tax policy issues (Summary p.3));
2. advise the Australian Government to end the car FBT concession covering cars and car-related expenses, including fuel, insurance, registration, and car parking;
3. not accept the suggestions to extend the car FBT concession to bicycles and/or public transport tickets, or merely flatten the regressive rate of the statutory formula for assessing the value of car-related benefits, unless as part of a gradual phase-out;
4. replace the regressive rate within the statutory formula with a low, flat rate as soon as possible⁸, before total phase-out, since it is widely considered to provide an incentive to increase the distance travelled in the vehicle;
5. signal, in its advice to the Australian Government, redirection of the additional tax revenue to a fund for safe cycling and improvements to public transport (sustainable urban transport).

⁸ Some time limit needs applying to making the changes so that employers and employees can adjust, and noting the proposal by the National Transport Commission (February 2008), Vol 1, p.18 for a three year horizon for change at least to the statutory formula.

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