

Australia's future tax system  
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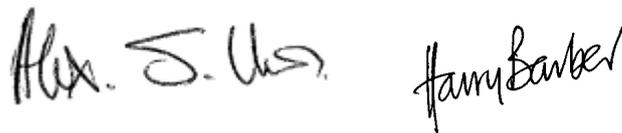
Dear AFTS Secretariat

Please find attached our submission to the review.

In summary we have two comments:

- The new tax architecture that the review proposes should not encourage distortions in mode choice for private travel.
- The current system can be tweaked to improve the performance of our transport system against the longer term criteria outlined in the review's terms of reference. To this end we propose a tax concession scheme analogous to existing schemes and using existing or familiar methods that offers:
  - Individuals a salary sacrifice arrangement for bicycles, parts and services.
  - Companies a tax break on installing end of trip facilities.

Yours



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## **The AFTS review and private travel especially the journey to work**

The AFTS review has a wide remit, recognising that the tax system has a significant effect on how resources are allocated in the economy.

There are a number of issues in the AFTS terms of reference including: intergenerational equity; social and environmental challenges of the 21<sup>st</sup> century; environmental taxes and the ETS that suggest that the review will want to consider the influence of the taxation system on mode share in private transport.

In the context of the terms of reference of the AFTS we can say, uncontroversially, that the transport system we have is, in part, a reflection of the current tax system. In particular we refer to the low modal share of bicycles for transport trips, in particular the journey to work. Our view is that the level of bike riding is suppressed by a number of factors including the taxation regime relating to transport.

It is our contention that if the taxation system treated all transport modes without favour for or discrimination against one or the other then the incentive would automatically shift towards the bicycle transport trip.

There are a number of benefits that accrue to a society with a higher mode share for bicycle trips. An investment in higher mode share for bikes would show dividends in health and environmental benefits accruing to the individual, to society, to enterprises and the economy. In narrow transport terms an investment in a higher mode share for bicycle trips would provide dividends in reduced pollution and in financial terms it would allow investment in road and public transport infrastructure to be avoided or delayed.

In some countries where these benefits have been recognised, the modal share for bicycles for this trip can be above 30%. In one metropolitan municipality in Australia it is around 11% (City of Yarra, Melbourne). In most other areas the share is less than five per cent.

Our case is that bike riding for transport is suppressed below its potential and we argue that the tax and transfer payment system for individuals, including the taxation on consumption and companies can be modified to allow the development of a more appropriate mode share for private transport by bicycle.

It is difficult at this early stage of the AFTS review to suggest specific changes to taxation, not the least because we don't know what shape the 'new' tax system will have.

Therefore we propose to the review – and to the current Commissioner – two tax concessions that take advantage of the current favourable climate for bicycle trips and seek to stimulate a further shift by offering:

- Individuals a salary sacrifice arrangement for bicycles, parts and services.
- Companies a tax break on installing end of trip facilities.

# How to use tax incentives to cut congestion, public health costs and carbon

## Introduction

Over the last seven years the census shows there has been a measurable increase in the use of bicycles for the journey to work<sup>1</sup>. Data from Melbourne suggests that this trend has continued since 2006<sup>2</sup>.

This increase in bicycle use is a response to improved bicycle infrastructure – hence the different results in different capitals.

The general increase across Australia – Darwin excepted – can also be attributed to the increased competitiveness and attractiveness of the bicycle transport option. The personal benefits of bike riding are now more relevant.

Riders report being motivated by the opportunity to get some exercise, save money and do something about global warming. In addition alternative modes have become less attractive – the speed of motor vehicle trips in peak times has reduced as has the available space in public transport vehicles. The cost of fuel and tickets to alternative modes has increased.

The benefits to all levels of government of an increase in the number and proportion of journey to work trips by bicycle are considerable. From a transport perspective the increase in bicycle trips has reduced pressure on existing overloaded roads and public transport systems. Other areas of government also benefit from increased community health, reduced environmental impact and improved business performance<sup>3</sup>.

The trend towards bike riding for the journey to work could be further stimulated by tax concessions.

We propose a tax concession scheme that takes advantage of the current favourable climate for bicycle trips and seeks to stimulate a further shift by offering:

- Individuals a salary sacrifice arrangement for bicycles, parts and services.
- Companies a tax break on installing end of trip facilities.

These tax concessions would have an immediate beneficial effect on the transport system and would complement the traditional (and proposed) government intervention in transport mode choice through infrastructure provision.

The scheme could be championed by a number of Ministries alongside the Treasurer depending on the positioning deemed most effective by the Government.

## Individuals

We propose a salary sacrifice scheme for bicycles, parts and services. In our opinion the scheme must be:

- Of high repute
  - Attractive to many people
  - Seen to be socially relevant by those who don't or can't use it
  - Hard to port
- Easy to administer
  - For the Tax Office
  - for business
- A simple concept for individuals and the bicycle industry to grasp and implement
- Have a performance measurement system that highlights the impact of the scheme

We suggest that the scheme could be analogous to existing schemes and use existing or familiar methods.

We considered proposing a scheme analogous to the salary sacrifice/FBT arrangements on an annual basis for motor vehicles. We rejected this as it is complex and features such as the statutory fraction of kilometres travelled don't cross over to the bike world easily.

## For companies

We suggest a corporate tax break on retrofitting bike parking, showers and lockers.

This could be structured as extra depreciation (i.e. be allowed to depreciate 200% of the cost of the facilities). This has been used before to promote certain capital investments. Other options could be the immediate write off of capital works related to these facilities.

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.

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

The immediate write off method would be preferred by business as they get the deduction now and the administration is less.

## **For individuals - commentary**

Employed people are permitted to salary sacrifice in a non-reportable FBT concession \$2 000 of bicycle equipment and services from independent bicycle dealers over a two year period. In addition employees can add to this main benefit through packagable minor benefits.

To be eligible for the tax concession the person must make and maintain a record of their journeys for 12 weeks in each year. The journeys in each week must add up to at least 25km.

*Commentary:*

### **Employed people are permitted to salary sacrifice**

(We considered having a method of recording tax loss for unemployed people so that a tax loss could be carried forward. We don't recommend it at the start.).

### **with a non-reportable FBT concession**

Similar to the rules for car parking.

### **\$2 000 of bicycle equipment and services**

This amount will allow people to buy a good reliable bike \$700 – \$1 000 for regular riding. 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
- membership of an association incorporating liability and other insurance

### **from independent bicycle dealers**

People can buy bikes and parts on the internet but we suggest that this be restricted to be from a bike shop which can provide full service for the bike including selection, service and warranty.

(The UK tax free bike scheme [cyclescheme.co.uk](http://cyclescheme.co.uk) is restricted to bike shops. The UK and US schemes are a tangle of paperwork and obligations. We recommend NOT to copy these schemes.)

### **over a two year period.**

This ceiling is high enough to allow regular riders to cover most, or all, of their bicycle commuting expenses. It is not high enough to cover all the expenses of regular riders who travel more than the average of 10km each way on each working day. Nor is it high enough to encourage riders to hide competition or expensive recreational bikes under the system.

**In addition employees can add to this main benefit through packagable minor benefits.**

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 exempt benefits each year.

The minor benefit option would be supported by a formal ruling from the Tax Office.

**To be eligible for the tax concession the person must make and maintain a record of their journeys**

Similar to the motor vehicle system.

We encourage the Tax Department to consider the possibilities of the internet. Individuals could register their origin and destination and completed trips and expenses on line. The gross kms could be published to measure the societal impact of the scheme in physical activity or carbon. This method of reporting could lead to a more tailored scheme and research into enhancing mode shift.

**for 12 weeks in each year.**

same as motor vehicle system. We considered two 12-week periods but this seemed too burdensome. One period per year keeps the parallel with the motor vehicle scheme. Some bicycle commuters would need to assemble their 12-week period over a longer period of time to allow for factors such as work travel interstate, holidays, weather and so on.

**The journeys in each week must add up to at least 25km.**

Based on someone living 3 – 10km from work and riding 1 – 4 times a week. People who live near work may need to do other trips to top it up.

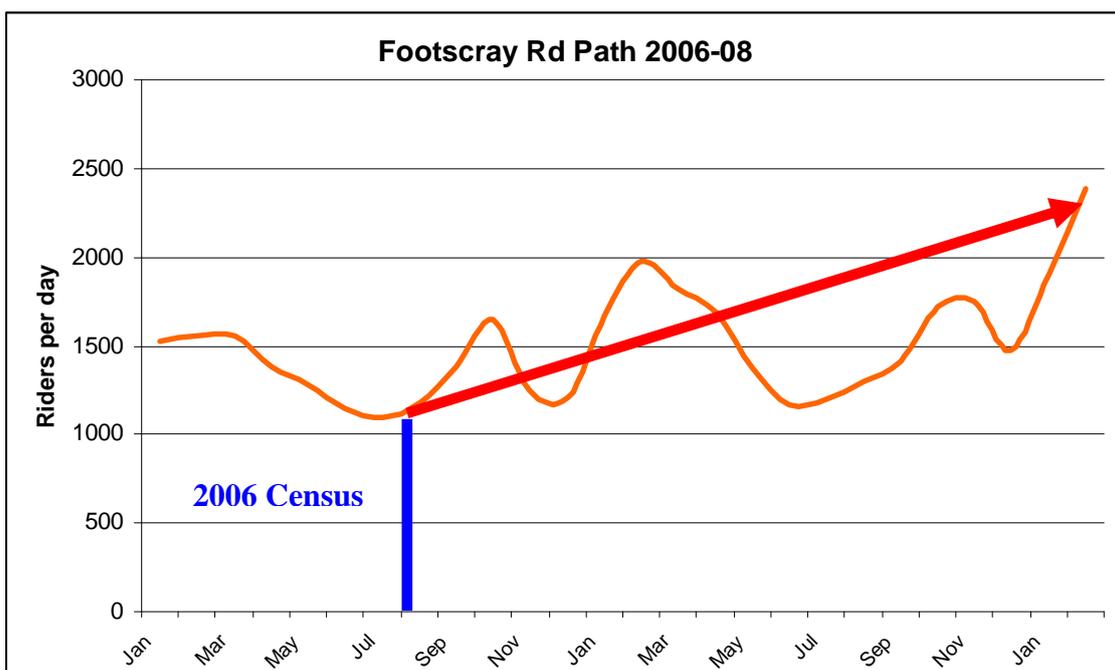
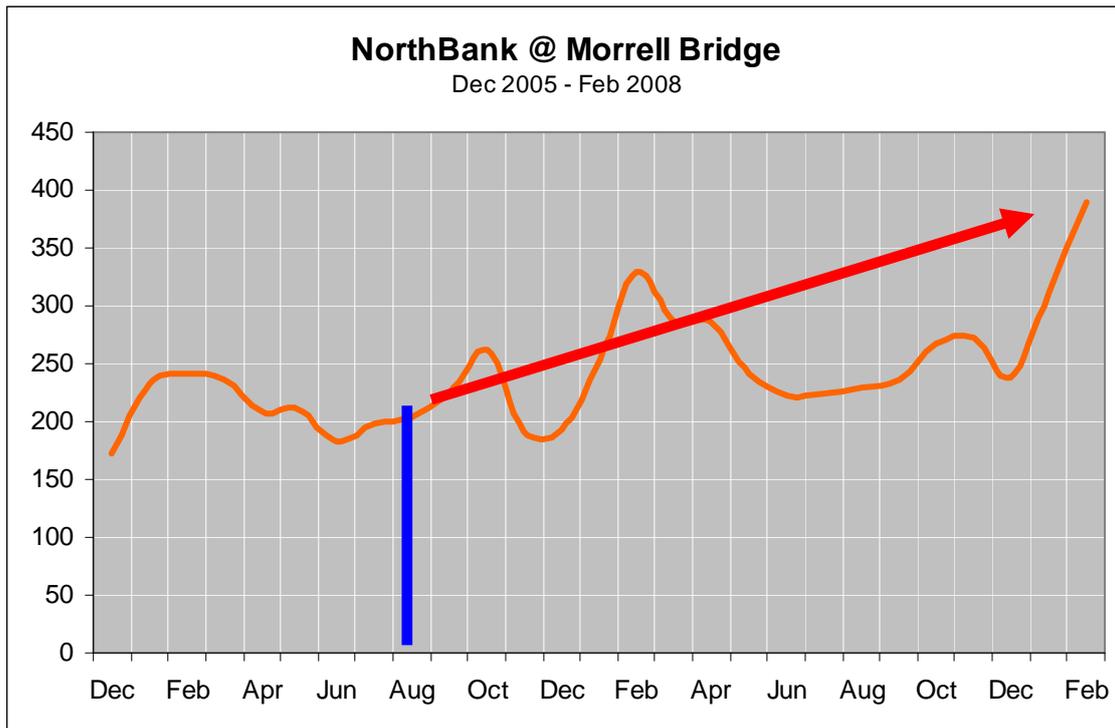
We don't want a total km for the twelve weeks, such as 300km, as some people will go out and do it in one day.

If the rider fails to keep a log book or accumulate enough kms they are not eligible for the tax concession.

## Increasing use

The charts below show 24 hour induction loop counter results from the east and west side of the Melbourne CBD.

They show that rider numbers have risen since the 2006 census at these two locations, suggesting that the journey to work by bike continues to increase generally



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1

Capital	2001	2006	Percentage change
<b>Melbourne</b>	14,443	20,592	43%
<b>Adelaide</b>	5,101	6,695	31%
<b>Hobart</b>	707	886	25%
<b>Perth</b>	6,218	7,240	16%
<b>Canberra</b>	3,505	4,062	16%
<b>Brisbane</b>	7,890	8,889	13%
<b>Sydney</b>	11,131	12,132	9%
<b>Darwin</b>	1,653	1,536	- 76%

2

See chart on previous page.

<sup>3</sup> Companies support increased bike riding to work as they link it to increased productivity through a number of factors including higher morale, improved health as well as reduced absenteeism and staff turnover.