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Australia's Future Tax System Review Panel
AFTS Secretariat
The Treasury
Langton Crescent
PARKES ACT 2600

2 May 2009

Dear Madam/Sir,

BIKESydney welcomes the opportunity to make a submission to the review of the Australia's Future Tax System, particularly with the benefit of the Review Panel's December 2008 Consultation Paper.

Please find our submission attached. Please contact me for any clarification or additional information.

Yours faithfully,

Chris Virtue
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**Submission to the
Australia's Future Tax System Review Panel**

May 2009

Prepared by BIKESydney

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Introduction

BIKESydney is pleased to offer our submission to the Henry Review.

We take a human and social perspective on how people can get around. Our aim is for people to move safely and enjoyably by cycling, walking and public transport.

About BIKESydney

Who we are

BIKESydney is an incorporated local Bicycle User Group (BUG) formed in 2000 to work on behalf of cyclists living and working in the City of Sydney local government area and has more than 250 members. We are affiliated with BicycleNSW, whose mission is to promote cycling through engagement with governments, business, and the community to achieve more people on bikes, more often.

BIKESydney collaborates with neighbouring BUGs to encourage governments to take action to improve cycling facilities. BUGs that we work with are BikeEast (the BUG for the eastern suburbs), the Marrickville and South Sydney Bicycle User Group (Massbug) and the Leichhardt Bicycle User Group (LBUG).

Geographic focus of our activities

The City of Sydney LGA has 167,000 residents (increased by over 50% in the last 10 years) and many more people coming into the area for work, entertainment, education.

What we stand for

BIKESydney supports development that encourages the adoption and use of sustainable transport including cycling, walking, infrastructure, public transport and car sharing.

What we do

BIKESydney sees its role as an enabler and advocate and works to create a safer, more liveable Sydney for our members who prefer to ride bicycles rather than drive cars. We aim to help ensure that everyone can safely enjoy bicycling in Sydney, that streets in every part of town are bike-friendly, that bike parking and showers greet us where we work, and that bike paths throughout our city are improved and extended.

BIKESydney's activities are to:

- work in partnerships to encourage the development of safe, direct cycling routes in a network that connects the villages within the City area, public transport and the CBD
- participate in the City of Sydney's Bicycle Steering Committee to implement the Cycling Strategy
- advocate to decision-makers, asset managers and developers to include safe physical conditions for cycling at the planning stage
- promote the value of cycling as a means of personal transport
- organise and lead regular social rides
- provide services to the City, including bicycle-valet parking at City events and the auditing of street poles for bicycle-parking ring suitability
- produce a newsletter, distributed to local bike shops, gyms and cafes.

For more information about BIKESydney, our activities and a copy of our annual report, visit bikesydney.org/

BIKESYDNEY on the Car Fringe benefit Tax (FBT) Concession

BIKESydney considers that the car FBT concession affects the uptake and understanding of more sustainable travel, such as cycling, particularly at the workplace.

Recent proposal to Senate Inquiry

BIKESydney recently considered the car FBT concession in its submission to the Senate Inquiry into Public Transport Investment that included walking and cycling¹. That Inquiry's terms of reference, in part, referred to taxation:

'e - the role of Commonwealth Government legislation, taxation, subsidies, policies and other mechanisms that either discourage or encourage public passenger transport.'

As that Inquiry referred to the Sustainable Cities and the Oil report, two previous parliamentary reports on related subjects, BIKESydney commented on the earlier report on Sustainable Cities.

The Sustainable Cities Inquiry covered a lot of ground and its report focussed on governance for sustainability.

The Sustainable Cities report from the House of Representatives said:

The committee recommends that the Australian Government review the current FBT concessions for car use with a view to removing incentives for greater car use and extending incentives to other modes of transport.

(Recommendation 8)

The value of this recommendation lies in the need for a review of the car FBT given some problems and the potential to patch the anomaly by extending benefits for other modes, more sustainable modes of transport. BIKESydney considers the detail of the recommendation inadequate as a guide to reform.

BIKESydney essentially supports:

- the abolition of the car FBT concession and therefore
- no extension of a tax concession to bicycles or to public transport tickets.

To the Senate Committee, therefore, BIKESydney recommended:

- a thorough review and progressive removal of the FBT for cars, fuel and parking as a massive tax expenditure of over \$1 billion per annum that is out of step with practices internationally.

BIKESydney prefers to see the revenue expended on safe cycling networks and public transport than as a tax benefit.

Taxation Mechanisms that Discourage Walking and Cycling

On reading the Henry Review Panel's Consultation Paper and submissions promoting the extension of fringe benefits to other modes of transport (e.g. the National Preventative Health Taskforce), BIKESydney decided to expand its views on the car FBT as a submission for round 2.

¹ Submission #62

http://www.aph.gov.au/SENATE/committee/rrat_ctte/public_transport/submissions/sublist.htm

BIKESydney's Views on the Car Fringe Benefit Tax

BIKESydney considers that the current tax expenditure of \$1.7 billion per annum on car fringe benefits is contrary to the sort of society we wish to live in. We also regard that such expenditure is undermining efforts for more sustainable transport and changes in workplaces to support travel to work by cycling and public transport. We consider such expenditure by the Australian Government to be in conflict with its professed policy goals for reducing greenhouse gas emissions and supporting preventive health by more active travel.

BIKESydney considers that the car fringe benefit tax sends a “pro-car” message to employers and employees that is contrary to the current directions our society should be taking. The continued promotion of car use is doing much damage to urban liveability.

BIKESydney strongly agrees with the statement in the Consultation Paper that:

These exemptions and concessions are likely to distort demand for goods and services. For example, as noted in A Tax System Redesigned (Review of Business Taxation 1999)[the Ralph Review] , the concessional treatment of car fringe benefits provides a strong incentive for some employees to take a car as part of their remuneration package and to skew their consumption toward motor vehicle services.

BIKESydney considers that the existence of car fringe benefits acts as a deterrent to organisational support for walking, cycling and public transport to travel to work and for work-related purposes. This effect is likely to be far greater than the financial influences as it affects all employees, not only those who take advantage of the car FBT concession.

The statutory formula: an incentive to drive

BIKESydney regards recommendations from previous parliamentary report as generally insufficient, most notably Recommendation 8 from Sustainable Cities:

“The committee recommends that the Australian Government review the current FBT concessions for car use with a view to removing incentives for greater car use and extending incentives to other modes of transport.”

Our concern is that the meaning of ‘incentives’ is ambiguous in this context; in suggesting that the incentive is for ‘greater car use’ implies that the incentive is merely the statutory formula, that assigns a lower rate of tax as distance travelled increases. This statutory formula is the main method for valuing the car fringe benefit, however the very provision of a car fringe benefit acts as an incentive to purchase and use cars, as it was intended to do.

The regressive statutory formula is the tip of the iceberg influencing car travel. The very provision is an employer-administered scheme that distributes economic and prestige value through encouraging car purchase and car use for work and private usage.

Employer-provided car fringe benefit tax

While the legislation makes the provision, it is up to the employer to offer the benefit to its employees. Owing to the considerable value of this benefit, employers are often compelled to offer it to be competitive in the labour market.

With the employer’s responsibility, cars become part of the workplace rather than a personal tax matter. They have become entangled in workplace cultures and need disentangling.

The very provision of employer-provided car fringe benefits encourages employers, including local council directors, to see the world through a windscreen and demeans efforts and the credibility required to support sustainable transport, including the refurbishing of buildings to include showers, lockers and safe storage for bicycles. Workplace car culture exerts a powerful influence on the wider society that has become so car-dependent at a high cost to the environment, health and urban liveability.

Local Councils influenced by the car fringe benefit tax

While local Councils are also employers, they have additional responsibilities for walking, cycling and access to public transport. Thus employees responsible for urban planning and transport risk seeing the world through a windscreen. The influence of the car FBT at the workplace helps to shore up the reliance on cars and may be contributing to the low value placed on conditions for walking and cycling, in contrast, say to car parking facilities.

Proposals to extend fringe benefits to more sustainable forms of transport

BIKESydney is aware that extension of fringe benefits tax concessions to other modes of transport is a common response to the current provision for cars, possibly as an attempt to 'equal-up' or enable 'choice'.e.g. Submissions to the Henry Review published as Round 1 and submissions to the Senate Inquiry into Public Transport Investment.

BIKESydney regards this response as undesirable for reasons including:

- the relative financial value of a car fringe benefit is much greater to the individual than the value of public transport fares or a bicycle
- extending the FBT to individuals using all other modes of transport would increase tax expenditure to over \$2 billion per annum, which is an unnecessarily complex and ineffective fiscal policy to achieve the result intended, being more people using more sustainable transport when we know that there are obstacles for cycling and for public transport making them geographically inequitable and ineffective
- extending the car FBT to other modes of transport would misuse the opportunity for the 'root and branch' review to better position Australia and Australians for environmental considerations, such as reducing our carbon footprint
- the money could be better spent through fiscal policy for infrastructure and services to improve the safety of cycling and the reliability and efficiency of public transport
- rather than extending the concession to other modes, it would be far better to take a holistic view as this issue also shapes the culture and prestige of cars relative to other forms that is expressed in workplaces in many ways – it is not merely an economic issue.

Implementation

BIKESydney recognises some political risks in abolishing the car FBT as it would result in a loss of benefits to individuals and may seem to risk the subsidy to the car industry. It is likely that some transitional arrangements will be necessary, particularly in the not-for-profit sector where employment benefits are relatively low and disproportionately sourced from fringe benefits.

It may well be helpful if the Review Panel could produce a paper as recommended by previous inquiries related to transport, social equity and sustainability. As highlighted here, the detail of those earlier recommendations have influenced some submissions in Round 1 of this Review, e.g. the extension of fringe benefits to public transport, or even to bicycles. In our view, reform options need consideration as part of the broad policy framework set out in the Panel's Consultation Paper.

Summary of Recommendations

BIKESydney recommends:

- The Review Panel to make or commission a thorough review and the abolition of the FBT for car and car-related expenses
- The removal of cars, including car-related expenses, from the fringe benefits tax scheme, in line with international practice as a means to reduce car use
- There be no extension of the fringe benefits scheme for the individual use of public transport, cycling, walking or even car sharing
- The redirection of the current tax expenditure on car fringe benefits (\$1.7 billion for 2007 FBT year) to measures to improve the accessibility of workplaces and other trip generators by safe cycling, walking and public transport; as well as the provision of end-of-trip facilities at workplaces for people cycling and walking to work.