



Submission to

Australia's Future Tax System Review Panel

AFTS Secretariat
The Treasury
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The City of Sydney covers a catchment of 26.15sqkm and takes in the commercial, financial and cultural hub of greater Sydney. The local government area comprised 170,000 residents and 385,000 jobs.

The City is committed to being an environmental leader. A number of guiding strategic plans and documents direct our sustainability and environmental initiatives, including our *Sustainable Sydney 2030 Vision* which has 10 targets and 186 actions that we are progressively implementing towards a more sustainable future.

The City of Sydney consulted widely on *Sustainable Sydney 2030* and is implementing actions and projects accordingly. Our advocacy to other levels of government also reflects the unequivocal messages we are hearing from our communities.

Our residents want improved transport systems and sustainable transport options. The City's Cycling Strategy and Action Plan 2007-2017 outlines Council's plans to improve cycling infrastructure and uptake in the coming decade.

Council's adopted strategic plans commit to the following action:

Advocate changes to Fringe Benefits Tax to remove incentives to drive private cars	Action CE1 <i>City of Sydney Cycling Strategy and Action Plan 2007-2017</i>
Manage car demand	Action 3.3.3 <i>Sustainable Sydney 2030 Vision</i>
Investigate transport pricing mechanisms to encourage sustainable travel	Action 3.3.5 <i>Sustainable Sydney 2030 Vision</i>

The current tax system specifically disadvantages bicycle use and public transport users and gives distorted price signals such as incentives to increase vehicle kilometres travelled. This has significant adverse impacts in congested urban environments.

Taxation mechanisms such as the 5 per cent import tariff advantage for four wheel drives over passenger vehicles are not sufficiently robust to serve the policy intent for which they were conceived (namely to support primary production markets).

Transport related impacts

The City of Sydney is Australia's global economic powerhouse, generating nearly \$70 billion of economic activity or approximately 9% of Australia's total economy. Transport patterns within and across our city have a substantial impact on its efficiency, liveability and environmental footprint. Impacts include

- Emissions of 9.4% greenhouse gas emissions in City of Sydney from transport sectorⁱ
- Health and environmental costs in Sydney \$1.4 billion per yearⁱⁱ.
- Congestion costs in Sydney region of \$3.5 billion, set to rise to 7.8 billion a year by 2020ⁱⁱⁱ

Fringe Benefits Tax and the salary packaging anomalies

The current statutory formula method used to calculate Fringe Benefits Tax on cars encourages greater vehicle use.

Under the current system, Fringe Benefits Tax liability is reduced as the amount of combined business and private travel *increases*. This reduces private costs as social costs increase. Concessions for motor vehicles under current FBT structures have been estimated to cost \$1 billion in annual subsidies^{iv}.

With regards to salary packaging, the City notes that Australia's taxation system actively encourages salary packaging of vehicles while designing out similarly concessionary benefits/treatment of cycling and public transport. This is inequitable for those who do not use a motor vehicle for commuting purposes and actively undermines achieving the Government's stated policy objectives.

The National Transport secretariat has estimated that 40% of peak hour motor travel are corporately owned or subject to FBT arrangements^v. These peak hour loads on the road network impose very high infrastructure costs to accommodate a relatively short period of heightened traffic volume.

Australia lags behind other countries that have transformed their taxation system to actively promote desirable policy objectives. The United Kingdom amended its tax system some time ago to calculate FBT based on the amount of carbon dioxide that the car emits. In the United States, employers can provide their employees tax-free public transport vouchers, passes or fares up to a capped value each month.

There have been a myriad of papers and reports recommending changes to the taxation system to remove such perverse outcomes for travel patterns. Significant reports include the 2005 House of Representatives Standing Committee on

Environment and Heritage report "Sustainable Cities" which recommends "that the Australian Government review the current FBT concession for car use with a view to removing incentives for greater car use and extending incentives to other modes of transport"^{vi}.

Professor Garnaut similarly identifies decision making distorted by the current system and urges in the Garnaut Climate Change Review that current provisions be improved by

- Ensuring salary sacrifice arrangements are cost neutral; and
- Amending the statutory fraction method to ensure it is distance neutral

An additional concern is that the current methods used in valuing car parking benefits for fringe benefits tax do not act as a discouragement to using motor vehicles.

Taxpayers are able to utilise the lowest parking rates within one kilometre of where the actual benefits are provided to produce 'subsidised' taxable values that are often below the true value of the actual car park benefits received. The lower parking rates, while still compliant with the requirements of the legislation, may often be more restrictive and are not necessarily reflective of other advantages associated with employer parking facilities such as convenience, locality and security.

In light of the impact of the current taxation structure on sustainability of travel in our City and across Australia, the City makes the following recommendations:

Recommendations

That taxation reform include

- phased removal of poorly targeted existing concessions that favour motor vehicles over forms of transport that reduce urban traffic congestion — ideally by removing existing motor vehicle concessions, or alternatively by creating new concessions for sustainable travel that remove the current incentive for car use
- removal of current anomalies that create incentives to increase vehicle kilometres travelled
- introduction of taxation mechanisms that support low impact transport, including:
 - provision for the payment of tax-free allowances for periodical public transport tickets and cycling equipment
 - differentiating any concessions for motor vehicles to favour vehicles with lower emissions
- removal of the current 5 percent import tariff advantage given to four-wheel drive vehicles over passenger cars where not used for primary production purposes

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- ⁱ SGS Economics and Planning (2008) *Sustainable Sydney 2030 – City of Sydney Strategic Plan*
 - ⁱⁱ Centre for International Economics 2005
 - ⁱⁱⁱ Bureau of Transport and Regional Economics
 - ^{iv} Institute of Chartered Accountants in Australia (2006) *Fringe Benefits Tax design: Decision time*
 - ^v National Transport secretariat (2000) Reducing car dependency through improved remuneration options
 - ^{vi} House of Representatives Standing Committee on Environment and Heritage report (2005) Sustainable Cities Recommendation 8