Submission to the Australia's Future Tax System

(Henry Review)

Round 2

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Summary

I appreciate the Review Panel's Consultation Paper (December 2008) in its breadth of approach to tax and non-tax policy and design principles for Australia's Future Tax System. This approach is suited to addressing the problems caused by the continuation of cars as a fringe benefit. I conclude the submission with some suggestions about framing the issue of reforming the car FBT concession, its ends and means, in relation to policy goals for sustainable transport.

The features of the car FBT concession receiving most attention are the regressive rate – the tip of the iceberg - and the concession in taxation. These features are widely regarded as perverse incentives in that they constitute a price signal inducing the use of un-sustainable transport (Banister 2005; OECD 1998). Research has confirmed that the regressive rate rewards excessive travel, for which the remedy could simply be a flat rate. Removing the concession as well would remove the direct financial benefit of the car FBT provision. The National Transport Commission submission stated that "removal of this tax would provide a more efficient pricing signal for transport users and should not require compensatory measures."

'Tax revenue leakage' is estimated as $1.83 billion 2008-09. Such funds could be spent in ways better aligned with contemporary policies for transport, environmental sustainability (including "institutional sustainability") and health.

The car FBT provision has become an institutional dimension of car culture, shaping the way employers and senior staffs think about access and mobility. This feature of workplaces is inconsistent with the multiple policy goals for more active travel, less sedentary travel, as well as sustainable transport (Black & Nijkamp 2002).

The car FBT provision undermines the credibility of programs run by employers for sustainable workplace travel (Black, Mason & Stanley 1999) by legitimating conducive financial conditions for driving through an arrangement between Treasury, the employer and the employee. There are very few such programs in Australia compared to other countries where it seems there is no equivalent car FBT provision (Potter 2000). These programs, together with increased provision of active travel services, are an effective means of achieving more sustainable transport and can help to prioritise the provision of services in a local or regional geographic area. Recent research has shown that such programs, and increased provision of services, support a physically active lifestyle (Lachapelle & Frank 2009); increased physical activity has considerable health benefits and savings in health costs and costs to employers (Access Economics 12008).

How to address the many adverse effects of the car FBT provision? Cars occupy a pre-eminent place in many workplaces, physically and culturally. I do not support, as a cure, the extension of fringe benefits to public transport tickets or bicycles, although I once did. The deterrents to people using more sustainable transport are a combination of the lack or inadequacy of sustainable transport services and the financial and status incentives to drive. The Consultation Paper implies that fiscal policy, rather than tax policy, be used for functions such as strengthening the provision of transit/public transport, safe cycling routes, and programs at workplaces.

Introduction

The policy framework presented in the Review Panel's Consultation Paper and Summary (December 2008) is an ideal context to consider the remuneration of employees through the car and car-related fringe benefits tax concession ('the car FBT concession'). This topic covers the cars and car-related (e.g. parking, fuel etc)[1]fringe benefits that are valued for the purposes of taxation.

In response to submissions received (in round 1), the Panel discussed the design principles for Australia's Future Tax System. To the traditional criteria of equity, efficiency, simplicity, and policy consistency, the Panel also regards environmental sustainability "as a principle against which the current system and potential reforms ought to be tested". It also considers "institutional sustainability" in which it includes robust legal and administrative frameworks and "whether community attitudes to the system maintain its legitimacy" (Summary p.11).

The Summary refers to submissions received that suggest that the tax system favours the use of cars over public transport and that a third of submissions expressing concern about the environment referred to the car FBT concession as a problem.

In my view the car FBT concession is a problem for tax policy; it has become inconsistent with transport policy and it is inconsistent with other policy areas, such as health and environment. The Summary only mentions the financial incentives embedded in the valuation of the car fringe benefit, there are consequences and other effects that need addressing, relevantly to "institutional sustainability".

The car FBT concession needs analysis because it has a range of adverse effects that need to be understood prior to policy reform, otherwise our future society could be short-changed. Examples[2] are given where reports by government and non-government bodies have overlooked adverse effects, nor considered comparative practices and trends in other jurisdictions, yet proceeded to recommend limited changes to the tax system.

In the context of non-tax policy forums, it has been difficult to formulate an appropriate package of measures to replace the current arrangements given their complexity and range of adverse effects. Under these conditions, therefore, recommendations have typically called for the government to review the car FBT concession and for better treatment of more sustainable modes of transport merely by the extension of the concessionary tax treatment to public transport tickets and bicycles (the "me-too" approach[3]).

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1 Considered in the Consultation Paper, within Section 4 Personal Tax and Transfers (pp. 87 and ff), and sections 7,11,12 and 13.

2 National Transport Secretariat (2002) *Impact of incentive and disincentive programs on passenger transport and efficient vehicle use*; Warren N (2006), *Fringe benefit tax design: decision time*, Institute of Chartered Accountants. http://www.charteredaccountants.com.au/files/documents/Institute_FBT_report_(150306).

3 Mason C (1999) "Promote public transport" Letter, *Australian Financial Review*, 30 July – linking the Ralph Review to Minister Hill's exhortation to the States to do their bit to reduce greenhouse gas emissions under the Kyoto Protocol.

The Panel's emphasise that some incentives may be better delivered through non-tax fiscal policy rather through either fringe benefit arrangements or even the tax-transfer system. It is likely that the most effective response and support for sustainable transport, including phasing out support for car use, would be a combination of reform to the tax-transfer system and non-tax fiscal policy. In 1999 the UK Inland Revenue introduced a package of 'green tax' measures that signalled new directions clawed back unsustainable provisions and created provisions for different incentives.

I am hopeful that the Review Panel can apply their broad policy framework to overcoming the problems of the car FBT and thereby facilitate sustainable transport.

Structure of submission

For brevity, I have provided lists and I would be happy to elaborate or provide further material.

Firstly, I consider what is meant by the car FBT concession before turning to how it is conceived as an institutional barrier to sustainable transport.

Secondly, I list the problems caused by the car FBT concession and for whom they constitute a problem, and refer to the literature.

Thirdly, I respond to consultation questions, and make some recommendations.

I attach a list of references and sources where the car FBT concession has been discussed.

What is meant by the car FBT provision?

Cars and car-related expenses are reported as the most popular form of fringe benefit: 52, 570 cars were provided[4]. Car fringe benefits are taxable and are assessed according to the statute.

The legal provision of car fringe benefits

Assessment of car fringe benefits is in Division 2 and car parking in Division 10A of Part III of the *Fringe Benefits Tax Assessment Act* 1986 (Cth)('the Act'). The Act provides for the calculation of the taxable value of the car fringe benefit which is concessionary.

Judicial comment shortly after the introduction of the benefit emphasised that:

- It is the provision of the benefit, not the property that is taxed, and thus the private non-cash benefit to recipient needs to be valued for assessing the tax payable.

[4] In their submission to the Henry Review (round 1), Kraal, Yapa and Harvey (2008)[4] state that the car is the most popular form of non-cash benefit to employees: in the 2007 FBT year, 52,570 vehicles were provided, compared to 18, 620 'expense' benefits.

- the legislative focus is on what the employer provides, rather than what the employee receives. Ultimately, the choice of how or even whether the benefit is provided at all lies with the employer[5].

The statutory provision of the car fringe benefit is comprehensive:

....the taxable value is based on the operating cost of the car, which is the sum of all relevant expenses and includes, in a case where the car is owned by the provider, the amount of depreciation that is deemed to have been incurred by the provider in respect of the car in respect of the year of tax and the amount of interest that is deemed to have been incurred by the provider in respect of the car in respect of the year of tax.[6]
Queensland v Commonwealth (1987) 162 CLR 74 Gibb CJ at para 5.

Therefore, the value of the car fringe benefit needs to be assessed in monetary terms for the value to be taxed at a certain rate.

Car fringe benefits include depreciation and interest, and expenses in relation to the car, including registration, insurance, repairs, maintenance, fuel, and parking.
In explaining the legislative background to the Act, Kraal and others (2008)[7] explain that it was introduced to overcome problems in valuing their employer-provided non-cash benefits under the old income tax assessment legislation. They also noted that it shifted the onus of calculating and paying the tax to the employer rather than to the employee.

Exemptions relevant to transport

As the Consultation Paper explains[8], some fringe benefits are exempt from the taxation under Division 4, Part III[9]. Relevantly for transport, under Division 13 Part III, miscellaneous fringe benefits exempt from FBT include:

- infrequent minor benefits (currently subject to a threshold of $300)
- circumstances for exempting cars and car-related expenses
- car parking by employees of employers that are not-for-profit scientific institutions, religious institutions, charitable institutions or a public educational institution (s58G) and small businesses (s58GA)
- taxi travel for employees in the event of injury or illness.

Significant amendments

Since 1992 the car FBT concession has been substantially amended, most significantly, including:

- using market rates to assess the value of the car-parking benefit
- narrowing the types of employers exempt from car-parking benefits

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5 Queensland v Commonwealth (1987) 162 CLR 74 Dawson at para 15.

6 Gibb CJ at para 5.
7 2008 Submission to Henry Review, p.193.
8 Page 90.
9 S17 Exempt loan benefits – a basis for employer-provided periodical public transport tickets by salary-deduction.

- novated leases arranged through the employer primarily to gain approval and also to benefit from greater buying power – I believe these are still payable at pre-tax dollars so retain concessionary value.

As a result, employers elected not to make arrangements for car fringe benefits with their employees or reduced the benefits through revised remuneration policy. Some employers would have preferred to reduce these arrangements further but were constrained by similar employers retaining the maximum benefits, e.g. local councils.

The changes have meant that the car FBT concession has been considerably reduced as a financial incentive to employees although it is unlikely to have diminished the prestige associated with 'car entitlements' at the workplace.

The original policy goals for the car FBTconcession

The 1986 origin of the car FBT concession is commonly attributed to the Button Plan devised to replace the extent of tariffs but continue to support the domestic car manufacturing industry as a major employer, particularly in Victoria and South Australia (NTS 2002). In addition, concern was expressed about the aging of Australia's car fleet in relation to emissions and the phase-out of leaded petrol.

At that time, Australian built cars were 85 per cent of domestic sales and today they are less than 30 per cent (Kraal & others 2008).

Without having sighted the Second Reading Speech, the policy issues of that era would have been served by a subsidy through the tax system in the form of the car FBT concession and widespread exemptions from tax for Not-for-Profit employers. It served as:

- an incentive to employers to offer benefits in the form of cars rather than cash
- an incentive to employees in a financial sense to purchase and use a car
- an incentive to employees to purchase a new car for financial and prestige at the workplace.

These effects were not conducive to a regime supporting a shift from car use to sustainable transport.

The 2008 Car Plan – 'A New Car Plan for a Greener Future'

This new Automotive Transformation Scheme (ATS) which will run from 2011 to 2020 includes targets for greener vehicles

- doubling he LPG rebate for new cars fitted with LPG from the factory
- $6.2 billion to promote a more competitive and greener industry, including
- $1.3 billion for the Green Car Innovation Fund.

With this level of support to the car industry, it is opportune to phase-out incentives to car use.

An institutional barrier to sustainable transport in Australia

The car FBT concession typifies institutional barriers, in the sense that it is humanly devised constraint that shapes human interaction, favouring car travel over stainable transport[10].

Sustainable transport is a notion drawn from sustainable development to be guided by the principles of ecologically sustainable development, defined in many Australian statutes and in case law. Transport that is offered and used in Australia and many other countries is recognised as being unsustainable, and efforts are being made to change what transport services are provided and what services are used. There is widespread consensus about the need to reduce car use in metropolitan and urban areas where most people live.

One of the challenges for the 21st century is re-investing in sustainable transport infrastructure for most Australians who live in urban areas and so that people living in new dwellings have access to public transport and safe, connected cycling and walking pathways[11].

To the best of my understanding, no other country has such pro-car tax-transfer provisions that encourage people to drive to work, own and use cars. I refer to reforms made in other countries that have, without exception, been to lessen and deter car use.

In 1998 the Commonwealth government accepted responsibility for examining the 'overarching' economic dimensions of transport identified as the key driver to greenhouse gas emissions from the transport sector under the National Greenhouse Strategy. The way we pay for transport affects our use of motor transport (Greene 1997; WHO 1998).

Several years later, at a seminar convened by the Australian Greenhouse Office with ICLEI, participants expressed the grave difficulty of trying to introduce programs to reduce car use while the car FBT concession was available. Subsequently, the AGO commissioned research on the problems with the car FBT particularly the claim of provision inviting excessive driving and hence greenhouse gas emissions; that report has not been published[12].

Rietveld's (2002b) review, *Company cars and company-provided parking,* focuses on the role of employers in travel behaviour, thereby broadening the scope of analysis of the negative externalities of car use.

Rietveld (2002b)'s analysis is relevant to Australia at this juncture; three points

[10] Defined as, North D C (1990) *Institutions, institutional change and economic performance,* Cambridge: Cambridge University Press, cited by Rietveld (2002a)
[11] NSW Department of Planning (2009) *The 2007/08 MDP Report* "shows how the NSW Government will meet future buyer demands by locating 42 per cent of new Sydney dwellings within 800 metres of public transport over the next decade". http://www.planning.nsw.gov.au/programservices/mdp.asp [at 15 April 2009]
[12] Described as a study of the *Impact of the Australian Fringe Benefit Tax Arrangements on Passenger Transport Use and Fuel Consumption* by the National Transport Secretariat draft report (2002).

- car FBT concessions as an arrangement between an employer, employees and treasury can be contrary to official objectives of government transport policies or health policies[13]
- financial arrangements for car FBT concessions often involve large amounts of money at macro scale
- the unintended side effects may be difficult to overcome by transport policies.

His analysis goes beyond the conventional considerations of the fiscal reasons for a company to provide, and an employee to elect, for car fringe benefits. He examines loyalty to the firm, the firm's purchasing power with car suppliers, and status effects.

These effects together remove any incentive for the employee to consider travel alternatives other than the private car.

In Australia, the car FBT concession was recognised as a barrier to reducing greenhouse gas emissions, not solved by extending benefits to individual users or public transport or cycling. The Australia & New Zealand branch of the International Association for Public Transport (UITP) developed a statement on urban transport taxation, specifically targeting the car fringe benefit tax concession, with the support of the UNSW staffers who had experience with the UNSW Transport Program.

This material was used in submissions to the Senate report *The Heat is On* – see Appendix. Later, emphasis was placed on the financial incentive affecting transport by the National Transport Secretariat (2002) *Impact of incentive and disincentive programs on passenger transport and efficient vehicle use*.

I made a submission to the above Senate Committee on behalf of the UNSW Environment Management Program and the Transport Program (I managed the Transport Program at that time). That submission focussed on the UNSW Transport Program devised to reduce greenhouse gas emissions from transport by people working, studying or visiting the campus. An assessment of the UNSW greenhouse gas emissions, for the draft Greenhouse Gas Strategy, had identified that emissions from the UNSW's own vehicle fleet were trivial in comparison with emissions from people travelling to the campus. Those 'indirect emissions' are now termed Scope 3 in the Greenhouse Gas Protocol
http://www.ghgprotocol.org/

As a trip generator, UNSW was the first employer to initiate a workplace transport program, promoting sustainable mobility and reducing car use (Black & others 1999).

Together these reports show that the car FBT concession exerts adverse effects that are far broader than fiscal effects. Efforts to remedy some effects have generally been undertaken only within the confines of fringe benefits rather than the broader framework outlined by the Review panel.

Policy for urban sustainable mobility has principally been the responsibility of State and local government rather than the Commonwealth, although it is a major concern of the community. We generally lack government agencies with responsibilities for sustainable transport.

13 See Bauman (2002), Wen (2006 (2008)

Some effects of the car FBT concession

Tax revenue leakage – amount & trends

For the 2007 FBT year the benefit was $1.7 billion[14].

For 2008-2009 year, the total benefit of the tax concession for cars to recipients (the 'tax expenditure) is estimated at $1.83 billion[15]

By 2011-12 it is estimated at $2.09 billion[16].

Non-tax policy areas

The current annual figure on 'tax expenditures' for the car FBT concession exceeds the total allocated to the Green Car Innovation Fund.

In August 2008 Access Economics updated the total costs of obesity (BMI greater than 30) for the year 2008 to $58.2 billion, comprising:

- the financial cost of obesity in 2008 was estimated as $8.283 billion
- the net cost of lost wellbeing (the dollar value of the burden of disease, netting out financial costs borne by individuals) was valued at a further $49.9 billion.

Indirectly, the car FBT concession as one incentives to drive rather than use active travel (walking, cycling and public transport) can be understood as a contributor to overweight, illhealth[17] and costs to government and employers.

As an incentive to drive the car FBT concession can also be understood as a contributor to the costs of roads and car parking.

The statutory formula for valuation – a perverse incentive

The Panel's report notes two fiscal incentives:

"This valuation formula has two main impacts on incentives. It reduces the overall cost of car ownership and provides employees with an incentive to drive additional kilometres to reduce the amount of FBT payable. These incentives indirectly encourage increased greenhouse gas emissions, pollution and congestion through increased car use. "

On the **regressive component** – that is, the rate of tax payable <u>decreases</u> in proportion to the distance travelled by the vehicle. Formal statements have been made that recipients lend their vehicles to increase the distance travelled, and that some employers notify their employees that the distance travelled is below the thresholds to attract more desirable benefits. Empirical research contained in the LaTrobe-RMIT submission (round 1) documents this effect, arguing for a flat rate.

On the **concessionary aspect**, the car fringe benefits attract tax concessions, thereby obtained at a lower than market cost, thereby providing incentives to employers and employees to participate in remuneration in the form of motor

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[14] ATO (2005-2006) *Taxation Statistics* cited in the LaTrobe-RMIT Submission Round 1 by Kraal, Yapa & Harvey (2008), page193.

[15] Table 2.3, Chapter 2: Trends in Tax Expenditure Estimates in The Treasury, *Tax Expenditures Statement*, http://www.treasury.gov.au/contentitem.asp?NavId=022&ContentID=1465

[16] As above, D24 Chapter 6; Tax Expenditures, p.163.

[17] Wen & Rissel (2008)

vehicles. I also believe, and may be wrong, that novated leases are payable by pre-tax dollars – a considerable financial benefit.

On **under-valuation**. Elements of car-related fringe benefits may still be under-valued. The Bureau of Transport Economics (2002) recommended the win-win action 'removing the distortions of …undercharging of employer-provided parking spaces' (p.131). It did not discuss the US practice of cashing-out the value to employees who elect not to receive the benefit.

Employer-provision

The adverse effects of employer-provision are in shaping workplace policy and in strengthening the prestige associated with driving rather than using public transport, cycling or walking (active travel).

The Ralph Report recommended removing the arrangement with the employer, probably on costs grounds. The Panel's report refers to the OECD's recommendation for the car FBT to become an employee responsibility but refers to the consequent problems of 'tax integrity' (presumably cheating).

Nonetheless, by employers being central in arrangements of car fringe benefits, including novated leases, adverse effects are created for the employer to use more sustainable transport services (e.g. car sharing services) or have sufficient uptake to warrant expenditure on shower facilities for people cycling or walking to work.

Employers can avoid running pool cars, kept on-site, for employees to use for work-related travel by encouraging employees to purchase a car with the car fringe benefit concession.

Exemptions by employer type

It is unfortunate that Not-for-Profit employees have a significant part of their remuneration in cars and car benefits rather than in equivalent cash value. High levels of car ownership affect the culture of the organisation and relations with clients.

Rigidities in the labour market

Local councils generally offer cars as a fringe benefit whereas State agencies tend to confine this benefit to the Senior Executive Service. This differential practice has had the effect of deterring temporary exchange of staff for professional development.

Local councils also have responsibility for local footpaths, roads and cycleways. The operation of the car FBT concession – or cars as fringe benefits – is inconsistent with the responsibilities of councils and the workplace car culture is detrimental to pursuing sustainable transport practices.

Institutional barriers to sustainable transport at workplaces

The car FBT concession has a **communicative effect** in reproducing the greater value accorded to private motor travel over other forms of mobility (public transport, cycling and walking). The FBT concession on employer-provided car parking is administered by allocating scarce space for cars to more senior personnel in a similar manner to the allocation of office space, i.e. on social strata. Cars at the workplace are associated with occupational and social prestige and personal identity, stimulated by car advertising. Taxation policy is influencing transport and urban policy by privileging space (public and private) for use by cars over bicycles and green space (Willson 2001).

The car FBT concession exerts a strong influence in workplaces creating a workplace cultural obstacle to encouraging the use of sustainable transport instead of cars. This is a major **barrier** to the use of '**workplace travel plans/programs** ' in Australian workplaces.

People are influenced by status associated with cars that is also shaped by car advertising. Partly as a result, **people use cars inefficiently** and excessively even for very short trips that are quicker to walk or cycle.

Urban traffic congestion is worsened by excessive car use.

Car use is still creating **air quality problems** resulting in more frequent health alerts, at least in Sydney. Thus the dismissive statement about air quality in section 14 is not warranted from data on the spatial incidence of exceedances of air quality standards.

Therefore, reforms to the car FBT need to take into account the proposition that Australian workplaces wish to introduce programs to reduce the use of cars and promote sustainable mobility (eg. Fairfax at Pyrmont, the Australian Broadcasting Commission at Ultimo).

Panel questions

The Consultation Paper mentions the car FBT as a personal tax and transfer issue in a number of places[18].

Question 4.6 refers to the potential to simplify FBT while maintaining tax integrity as well as placing the tax responsibility in the hands of employees, rather than employers as is usual OECD practice.

Under section 11 on fuels, roads and transport, Question 11.6 asks whether the tax system should have a role in influencing the relative prices of different types of cars, on what basis, and what that means for taxes on the purchase price of motor vehicles.

Question 12.1, is on car-related taxes and road funding arrangements, and how can these taxes and funding policies be designed to improve the efficiency of transport of people and goods in Australia.

In section 13 on tax-transfer impacts on the environment, Questions 13.2 and 13.3 are prefaced by the Review Panel's note that many submissions raise concerns about unintended environmental consequences of taxes and transfers, such as the car FBT concession. Here, the consequences include those of a car-oriented workplace culture – one that supported the original policy goal but has now become an anachronism.

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[18] Mainly section 4, also in for Not-for-Profit organisations section 7 and in sections 11,12 and 13, although section 10 seems to overlook its effects on housing and urban sprawl.

Addressing the questions

Questions 1 & 2

The Consultation Paper and Summary[19] concisely summarises the type of society Australians want. It seems likely for there to be support for responsible environment action and leadership, even globally, as indicated by the controversy over whaling. There is also empirical support that many Australians prefer the collection of sufficient tax revenue for services and regulatory capacity rather than tax cuts where services such as sustainable transport are to be provided.

I support a regular process of review and repair – one that has allowed the car FBT concession to become such an anachronism and a deterrent to workplace-based sustainable transport.

I agree that the future tax system needs to be guided by the revenue needs and design principles, including environmental sustainability.

How can poor environmental outcomes be addressed?

The Review Panel asks what are the features that encourage poor environmental outcomes and how can they be addressed?

On the operation of the car FBT, the features I see as encouraging poor environmental outcomes are many: inconsistency with policies for transport, health and environment, "institutional sustainability" and environmental sustainability.

Issue framing

Most proposals for reform seek reform of the regressive rate – I agree, but it is not enough. For example, the LaTrobe-RMIT submission recommends the introduction of a flat rate, recommendations predicated on the problem of the car FBT concession causing excessive distance travelled, fuel consumption and greenhouse gas emissions. This reform has a narrow conception of what is needed for shifting towards sustainable transport, particularly through workplace travel programs.

Dismantling the benefits for car use is challenging but in the public and long-term interest. The transport sector typically has difficulty in managing goal conflicts. From research on goal conflicts over cars and car parking, Willson (2002, 2003) has shown the value of entering into discussions with improved issue framing – this approach could be taken by the Review Panel in examining the means and ends of reforming the car FBT concession.

A submission (round 1) from the National Preventative Health Taskforce submission to Henry Review recognised that the current car FBT arrangements encourage car use. The Taskforce stated people who drove to work were significantly less likely to undertake recommended levels of physical activity than non-car users, and driving to work was associated with being overweight or obese. It recommended the repeal, at least of the regressive component and the concessionary component, as both subsidise cars.

Having recognised the tax-transfer system as a means of distributing incentives to individuals, it recommended the tax-transfer system be used to encourage individuals to use public transport or ride a bicycle.

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[19] Summary pp. 6-9.

I do not support the Taskforce on this point (and advised them accordingly) because:

- the financial advantages would not be comparable to car fringe benefits
- funds would be better spent on improved conditions rather than individual benefits - people are deterred from using public transport and cycling to work because of the supply of adequate services, safe cycling conditions and workplace facilities.

Driving to work is also associated with driving children to school, with public health and policy consequences (NSW studies 2008).

The extension of FBT concessions to other forms of transport – tickets or bicycles – is unlikely to achieve the outcomes of reducing car ownership and use that is central to sustainable transport. An extension, in the guise of 'equal treatment', would lead to very unequal financial benefits and the car culture would remain, if not be retained until a future tax review!. From a public policy approach, the supply of safe cycleways and adequate public transport, as well as workplace end-of-trip facilities would be an effective inducement rather than reducing the costs to individuals.

I think it worth considering whether to remove cars as a fringe benefit altogether.

Without knowledge of taxation and fiscal policy, my best shot is simply to recommend to the Panel the outcomes I would like AFTS to achieve. Tax policy questions include:

- What outcomes would result for sustainable transport from reforms to the car FBT concession?

- How can tax and non-tax policies be amended to support employers implementing sustainable travel programs ('workplace travel plans')?

- How can the remuneration through fringe benefits for cars be replaced by cash? And could this be commenced in types of employers most critical to change to sustainable transport, e.g. local councils, health services, educational institutions, and not-for-profits?

- How could the car FBT concession policy be changed in the short, medium and longer term?

Recommendations

I request the Review Panel to

1. produce a discussion paper on reforms to the tax-transfer system for policy consistency with sustainable transport, encompassing healthy, active travel and other areas. In addition to cars as fringe benefits, the paper could address how the AFTS could treat fuels, roads, workforce participation, urban sprawl, environment, climate change, environmental sustainability (including the three perspectives) and health.

2. advise the Australian Government to phase-out the car FBT concession covering cars and car-related expenses, including fuel, insurance, registration, and car parking;

3. replace the regressive rate within the statutory formula with a low, flat rate as soon as possible[20], before total phase-out, since it is widely considered to provide an incentive to increase the distance travelled in the vehicle;

4. consider the feasibility of excluding or restricting cars from being offered as part of a remuneration package, as the result of comparisons of tax systems in other jurisdictions achieving reduced car use or that utilise workplace travel programs to reduce car use

5. reject the recommendations of submissions to round 1, as described in the Consultation Paper, for extending fringe benefits to bicycles and/or public transport tickets

6. recommend to the Australian Government to reduce 'tax revenue leakage' from continued support of the car FBT concession that has become an anachronism and redirect the additional tax revenue either to fund safe cycling and public transport (sustainable urban transport) or to establish a fund for Workplace Sustainable Travel to ease the transition.

[20] 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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- LaTrobe-RMIT
- National Preventative Health Taskforce
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Appendix – Note on the 2000 Report of Senate Committee of Inquiry into Australia's Greenhouse Future[21]

In 2000, a Senate Committee of Inquiry into the progress and adequacy of Australia's policies to reduce global warming made its report. It found that the "the taxation system is biased towards roads and motor vehicle use" and is one reason for Australia's transport emissions being so high[22].

The Report stated that:

…as a whole, transport is arguably one of the weakest areas of the National Greenhouse Strategy ('NGS').[23]

Evidence presented to the Committee highlighted significant limitations in the NGS, including:

- *'the slow pace of implementation planning, the haphazard approach taken by governments in developing greenhouse policy and gaps in programs and action; and*
- *the lack of integration of greenhouse into other strategic Commonwealth policy objectives, including energy market reform, competition policy, **taxation**, resource management, industry development or transport.'*[emphasis added]

The Committee identified serious deficiencies in greenhouse performance, those overtly relating to transport were:

- *the rapid and unrestrained **growth in energy emissions** which accounts for over 79 per cent of national emissions, particularly electricity generation and transport, which between 1990 and 1998 increased by 24.3 per cent and 18 per cent respectively;*
- *the **limitations of voluntary programs**, such as the flagship Greenhouse Challenge, to achieve significant, verified emissions reductions;*
- *a lack of commitment to tackle the **structural impediments** to greenhouse abatement;*
- ***the failure to integrate greenhouse policy** with **taxation**, competition reform, transport, industry, agriculture and energy policy; and*
- *the poor performance of the Commonwealth and most states and territories in meeting commitments under the National Greenhouse Strategy.* [emphasis added]

On structural change and economic opportunity, the Committee regretted the apparent reluctance of the Commonwealth government:

> *…to tackle the current market structures, particularly in energy and transport, which reward environmentally unsound investment and behaviour (Executive Summary).*

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21 Parliament of the Commonwealth of Australia (2000). *The Heat is On: Australia's Greenhouse Future*. Report of the Senate Environment, Communications, Information Technology and the Arts References Committee. ISBN: 062 71075 9

22 As above, pp. 220-230.

23 More recently (2005) a US report declared: "Transportation is a particularly difficulty challenge" in reviewing further options to restrain vehicle travel growth Sperling D & Cannon J.S.(eds) *Driving climate change: cutting carbon from transportation*, Amsterdam:Elsevier; that is, beyond tax-transfer reforms of cash-out for on-site employer provided parking fringe benefits.

UNSW Transport Program, introduced to reduce trips made by car as part of the UNSW Greenhouse Gas Strategy, also made submissions arguing that the existence of the car fringe benefit acted as an actual financial deterrent to staff to travel by more sustainable transport and served as official endorsement of car dependency and car culture.

The Committee heard sufficient evidence to be convinced of the need for an overall review of the car fringe benefits tax concession,

Recommendation 47
The Committee recommends that the Government carry out a review of FBT legislation to remove the incentive for employers to include motor vehicles for private use in salary packages, to remove financial rewards for travelling more kilometres in a vehicle under a novated lease, and to generally remove barriers to employees using alternatives to single occupancy of cars in commuting. (p.230)

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