

## **THE ENVIRONMENT AND TRANSPORT**

### **(see also LAND AND HOUSING)**

*[This Note summarises a number of problems and options for action which have been identified by tax experts, leading community sector organisations and other analysts as needing attention in the Henry report. TaxWatch itself does not express policy views.]*

### **SUSTAINABLE DEVELOPMENT**

#### **Some key problems**

The current tax concessions for capital investment in industries such as mining, oil exploration and aviation encourage excessive consumption of non-renewable resources and also damage the environment. The rates of fuel taxes and depreciation allowances unduly discourage early replacement of vehicles, equipment and technology with more energy-efficient alternatives.

Some of these concessions could operate to undermine the effectiveness of the Carbon Pollution Reduction Scheme rather than reinforce the Scheme by actively encouraging low consumption of non-renewable resources and low generation of atmospheric pollution. The same would apply if the CPRS was replaced by a carbon tax.

The current tax treatment of housing is highly damaging to the environment. This relates especially to the undue encouragement of urban sprawl with adverse impacts on pollution and climate change, and of large houses with very high energy consumption.

The general bias in the tax system towards assets rather than income tends to encourage investment in industries which are highly capital-intensive and consume natural resources rather than, for example, lower-energy options which also provide strong job opportunities.

#### **Options for Action**

- Phase out subsidies for fossil fuel products while also implementing measures to protect vulnerable low-income households.
- Alter depreciation allowances to remove the special benefits which favour the mining and airline industries and expand those which encourage environmental protection activities and replacement of energy-inefficient equipment or technology.
- Adopt proposed reforms in relation to taxation of housing (see Land and Housing section) and transport (see below);
- Expand the range and effectiveness of taxes on resource use and waste, accompanied by revenue-neutral reduction in corporate income taxation.

## **TRANSPORT**

### **Some key problems**

Taxation of fuel is very low by international standards, partly because the fuel excise has not been indexed for almost a decade. Its undue generosity distorts choices in favour of private vehicle use and disadvantages other modes of transport

(such as rail, bus, bicycle and walking) which tend to cause less pollution, greenhouse gases, urban congestion and depletion of non-renewable resources. Similar impacts arise from the especially low excise rate on aviation fuel.

The Fringe Benefits Tax (FBT) arrangements for motor vehicle use are excessively generous and the varying rate scale increases incentives to drive long distances, thereby aggravating excessive fuel consumption, pollution and traffic congestion. The arrangements unfairly disadvantage other modes of transport which do not have such damaging environmental impacts. They are also inequitable because they greatly favour higher-earners and people with employers who are willing and able to provide the vehicles. These impacts are accentuated by the FBT concessions for free or discounted parking.

The current level of stamp duty on motor vehicle purchases may deter replacement of older cars with newer more energy-efficient models. An alternative approach is to reduce upfront tax of this kind and increase tax on vehicle usage, especially for high-consumption vehicles.

The current array of exemptions and concessions in transport-related taxation causes a substantial loss of revenue which is badly-needed to improve transport infrastructure. It is also a highly ineffective and outmoded way of trying to encourage Australian-based manufacture of vehicles.

### **Options for Action**

- Increase the general level of fuel excise or at least restore indexation of it.
- Phase out the concessional excise rate for aviation fuel.
- Phase out or reduce most elements of the fuel tax credits scheme for heavy on-road transport and off-road mining use.
- Introduce congestion charges and other user charges for motor vehicles, while also reducing taxes on purchase of energy-efficient vehicles.
- Restructure the concessional FBT rates to discourage excessive vehicle usage and to encourage use of energy-efficient vehicles.
- Remove the special FBT concessions for parking.