Tax credits for fuel and transport emissions: The sting in the carbon price tail

By Cameron Steele and Scott Higgins

The ‘500 polluters’ tagline has proved popular amongst the commentariat for explaining the reduced coverage of the Gillard Government’s carbon price mechanism, however, this is only part of the story.

An ‘equivalent carbon price’ will also be placed on many transport fuels via changes to the fuel tax credit and excise and customs duty laws, and this change (which is additional to the carbon pricing mechanism) promises to cast the net of direct liability much wider than just the 500 biggest polluters.

In fact the direct liability under these fuel tax reforms may be wider than the former Rudd Government’s Carbon Pollution Reduction Scheme which was expected to cover 1,000 polluters. The ‘equivalent carbon price’ under the Gillard Government’s tax reform measures is not subject to the same minimum emissions thresholds for liability proposed under the Rudd Government’s scheme.

In summary:

- Emissions generated from liquid and gaseous transport fuels are exempt under the carbon price mechanism.
- However, the fuel tax regime will be amended to introduce an ‘equivalent carbon price’ on transport fuels. This will be implemented as a reduction in fuel tax credits and the removal of existing concessions for transport fuels.
- The fuel tax credit reduction applies to businesses that receive fuel tax credits and is not limited to businesses that are subject to the carbon price mechanism.

Businesses need to understand the new changes to assess how they will affect their operations.

Road Transport

Under the current fuel tax regime, businesses are allowed credits for fuel tax paid on their heavy commercial vehicles. The fuel tax credits effectively offset the fuel tax included in price businesses pay for fuel so the fuel tax burden currently falls on light commercial and passenger vehicles only.

The amendments mean that businesses may soon face a reduction in their entitlement to fuel tax credits. This reduction will be based on the relative carbon emissions produced in the combustion of those fuels.

The fuel tax credit reduction will be consistent with the carbon price as fixed for each of the first three years and then, after the transition to a market based carbon pricing mechanism from 1 July 2015, it will be adjusted every six months to reflect the average carbon price.

The fuel tax credit reduction will not apply to the agriculture, forestry and fishery industries and businesses in these industries will continue to receive fuel tax rebates in accordance with the current arrangements.

Heavy on-road vehicles are currently exempt but the Government intends to introduce further legislation to apply a carbon price on heavy on-road vehicles from 1 July 2014.

Summary of major changes

The major changes to the *Fuel Tax Act 2006* (Cth) and the FTC system as a result of the *Clean Energy (Fuel Tax Legislation Amendment) Bill 2011* is summarised in the table below.

Vehicle Mass	On/Off Road	Fuel Type	Current eligibility for FTC	Reduction in FTC
Light (4.5 tonnes or less)	On-Road	Petrol, diesel and other liquefied fuels	No	No
		Gaseous fuels (ie CNG, LNG and LPG)	No	No
		Alternative fuels (ethanol, biodiesel and renewable diesel)	No	No
	Off-Road	Petrol, diesel and other liquefied fuels	Yes	**Yes (from 1 July 2012)**
		Gaseous fuels (ie CNG, LNG and LPG)	No	No
		Alternative fuels (ethanol, biodiesel and renewable diesel)	No	No
Heavy (more than 4.5 tonnes)	On-Road	Petrol, diesel and other liquefied fuels	Yes	**No (but planned from 1 July 2014)**
		Gaseous fuels (ie CNG, LNG and LPG)	No (road user charge greater than FTC)	No
		Alternative fuels (ethanol, biodiesel and renewable diesel)	No	No
	Off-Road	Petrol, diesel and other liquefied fuels	Yes	**Yes (from July 2012)**
		Gaseous fuels (ie CNG, LNG and LPG)	Yes [3]	**Yes (from July 2012)**
		Alternative fuels (ethanol, biodiesel and renewable diesel)	No	No

TABLE 1.1

Fuel	***2012-12***	***2013-14***	***2014-15***
Petrol	5.52	5.796	6.096
Diesel and other liquified fuels	6.21	6.521	6.858
LPG	3.68	3.864	4.068
LNG and CNG	6.67	7.004	7.366

Table 1.1 [4] calculates the reduction in the FTC during the transition period in cents per litre except for CNG and LNG which are in cents per kilogram. Note that the figures in this table represent the reduction in the FTC which is claimable against the current rate of fuel excise and each fuel will have a different excise rate depending on the particular emissions content.

Aviation and non-transport gaseous fuels

Aviation fuel is not eligible for a fuel tax credit and non-transport gaseous fuels are generally exempt under the fuel tax regime.

However, aviation fuels and non-transport gaseous fuels will be subject to an ‘equivalent carbon price’ by increasing the tax on aviation fuel and partially cutting the exemptions for non-transport gaseous fuels.

Opt-in arrangements

An important amendment to the legislative package has been the inclusion of an opt-in provision for large fuel users into the carbon price mechanism. This is important to the extent that large fuel users may prefer to have their liabilities covered under the carbon price mechanism rather than the fuel tax regime. This may be advantageous to the extent that the company can secure better prices for carbon units than the average market price (which is what the excise is based upon) or otherwise wishes to centralise its compliance approach.

Conclusion

Companies should consider how these new changes to the fuel tax regime will affect their business operations and their bottom line. Please contact **Cameron Steele** or **Scott Higgins** for more information.

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