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IMPLEMENTATION OF ALTERNATIVE FUELS TAXATION POLICY

SUMMARY OF CONSULTATION PROCESS

The Government confirmed on 13 May 2010 that it would implement energy content based taxation of alternative fuels. This plan includes a 50 per cent tax discount for alternative fuels such as biodiesel, ethanol and the gaseous fuels, including LPG. At the same time the Government also announced a new staged phasing in of the regime to allow the ethanol industry time to adjust. On 7 September 2010, the Government announced a revision of the phasing in of the taxation regime for ethanol. The revised arrangements involved a more gradual implementation of the policy to phase out grants for domestically produced ethanol.

Consultation process

Consultation on the discussion paper 'Implementation of alternative fuels taxation policy', which discussed policy implementation issues, was conducted between 15 October 2010 and 12 November 2010. Consultation meetings were held in Perth, Melbourne, Brisbane, Sydney, and Canberra in the week beginning 25 October 2010, with separate sessions for biodiesel, ethanol and methanol; and the gaseous fuels, liquefied petroleum gas (LPG), liquefied natural gas (LNG) and compressed natural gas (CNG). Forty-seven submissions were received of which eight were partially or fully confidential.

Non-confidential submissions can be viewed on the Treasury Website.

Summary of key issues

Submissions suggested that tax policy for the alternative fuels should not be developed in isolation from broader energy policy for alternative fuels. Specifically, it was suggested that: the changes appear not to be directly linked to the broader government energy strategy and do not fully reflect the broader road transport recommendations from the Australia's Future Tax System review. Furthermore, some submissions suggested that the changes do not encourage emerging fuels such as CNG and LNG, do not address future transport applications such as electrically powered cars and that the excise rate does not expressly take into account carbon emissions of the various fuels.

The submissions raised concerns about favourable treatment for some fuels over other fuels, particularly the taxation of ethanol, but also electricity (which is not included in the fuels to be taxed). The alternative fuels industry (excluding domestic ethanol producers) considers the treatment of domestic ethanol to be generous and have sought similar treatment.

Submissions also discussed imports and the impact they will have on domestic ethanol and biodiesel producers and the limited time available for businesses to implement the tax changes.

Further, industry raised that while the changes were first announced a number of years ago, the start date of 1 July 2011 is near, and the industry will not have certainty about the final form of the tax regime until Royal Assent, which is not expected to occur until immediately before 1 July 2011.

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Submissions also raised the very early stage of commercialisation of the LNG and CNG industries and the negative impact that the tax changes will have on their development.

Response

As a result of feedback received, the draft legislation released by the Government incorporated a number of changes.

The start date of the tax changes will be revised to 1 December 2011 to give affected parties, in particular the gaseous fuels industry, time to prepare for the changes.

The excise and excise-equivalent customs duty rates for all alternative fuels (except ethanol and renewable diesel) will be set using net excise and excise-equivalent customs duty rates and not phased down using the Energy Grants (Cleaner Fuels) Scheme. The Energy Grants (Cleaner Fuels) Scheme Act 2004 will be repealed from 1 December 2011. This approach is expected to reduce compliance costs for affected businesses.

Implementation of the taxation arrangements for the gaseous fuels and methanol will broadly follow the current approach for petrol and diesel and will impose excise and excise-equivalent customs duty on the manufacture or importation of LPG, LNG, CNG and methanol.

CNG for home refuelling systems and for forklifts (or similar vehicles that are not used on-road) will not be taxed.

All LPG will be subject to excise and excise-equivalent customs duty. However, a fuel tax credit will apply to LPG used in carrying on an enterprise.

An automatic remission of excise and excise-equivalent customs duty will be available for LNG and methanol for use other than in an internal combustion engine in a motor vehicle.

The draft legislation will widen the range of feedstocks that can be used to produce ethanol. This ensures that future ethanol products using second generation production methods and feedstocks can potentially qualify for a grant when produced domestically.

A legislative grant will apply to the manufacture of domestic ethanol.

A rebate of excise duty and excise-equivalent customs duty will apply to the production of renewable diesel.

Feedback

Feedback on the consultation process for this measure can be forwarded to consultation@treasury.gov.au. Alternatively, you can contact Phil Bignell on (02) 6263 4372.

Thank you to all participants in the consultation process.