



RACQ SUBMISSION TO THE AUSTRALIA'S FUTURE TAX SYSTEM REVIEW PANEL

Prepared By:

The Royal Automobile Club of Queensland Limited

Date:

17 October 2008

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1.0 Summary

The Royal Automobile Club of Queensland (RACQ) supports a system of fair and justifiable taxes and charges for road users and welcomes the Federal Government review of Australia's taxation system.

This submission specifically addresses vehicle related taxes and highlights the need to reconsider the mix of fixed and variable motoring taxes. In particular, a significant opportunity exists to improve efficiency, equity, safety and environmental outcomes by:

- removing the stamp duty on vehicle purchases;
- removing the luxury car tax;
- correcting the fringe benefits tax statutory formula;
- adopting a nationally consistent methodology for passenger vehicle registration charges; and
- giving motorists the option to convert some existing fixed charges such as registration and Compulsory Third Party (CTP) insurance to distance-based variable charges (also known as pay-as-you-drive or per-kilometre pricing).

At a broader level, the Tax Review should assess the sub-optimal economic, safety and equity outcomes associated with tolling new roads and also consider schemes such as vehicle 'feebates' to encourage the purchase of fuel-efficient cars.

In Australia, taxes applied to cars and roads include:

- fuel excise;
- import tariffs;
- GST;
- vehicle stamp duty;
- registration;
- licence fees
- tolls; and
- parking charges.

Reform of this myriad of taxes could have a significant economic impact. Federal and State motoring-related taxes raise more than \$21 billion each year and transport is the third largest expenditure item for most households.¹

Under the current taxation system, many of the taxes associated with motoring are fixed, rather than variable taxes. High fixed costs on vehicle purchases create powerful disincentives for vehicle turnover and uptake of new, more efficient and safe vehicles.

¹ Australian Treasury, *Architecture of Australia's tax and transfer system*, 2008 p12 & 287; www.taxreview.treasury.gov.au/content/downloads/report/Architecture_of_Australias_Tax_and_Transfer_System_Revised.pdf;
ABS, 2006, Cat. No. 6530.0 Household Expenditure Survey, Summary of Results; ABS, 2006, 4102.0 – Australian Social Trends

Fixed taxes on vehicle ownership are inefficient and do not vary according to how frequently the car is driven.

This submission provides economic arguments to support the reduction of many fixed vehicle taxes and explains why variable distance-based taxes are a superior mechanism by which to tax motoring. It should be noted that the RACQ is not advocating for an increase in overall motoring taxes, but rather a conversion of fixed to variable taxation mechanisms that would be more equitable for road users.

The conversion of many fixed motoring taxes to variable, distance-based charges would provide the following benefits:

- Greater alignment of motoring taxes to market-based charges with improved efficiency
- Improved equity for the low-distance drivers such as pensioners;
- Increased pricing options for motorists;
- More efficient use of the road network and a reduction in vehicle kilometres driven;
- Reduced motoring emissions, congestion and accident risk; and
- Increased vehicle affordability.

However, the RACQ recognises that even with a reduction of fixed motoring taxes, the implementation of distance-based driving charges could disadvantage some motorists. These would include people living in rural areas and outer suburbs who drive large distances and have little access to public transport alternatives.

Therefore, the RACQ recommends that consideration be given to a system of optional distance-based charges for motorists to replace fixed registration and CTP insurance charges. This system would provide net consumer benefits, since motorists would only choose this distance-based charging structure if they believed they would be better off as a result.

2.0 Introduction

The RACQ congratulates the Federal Government on its initiative to review Australia's taxation system. Our submission addresses the following Term of Reference within the announced taxation review:

Enhancing the taxation arrangements on consumption (including excise taxes), property (including housing), and other forms of taxation collected primarily by the States.

The RACQ represents 1.2 million motoring members and seeks to maintain the viability of motor vehicle transport on their behalf. Notwithstanding this, the Club recognises that mobility is not free, and a system of taxes and charges is necessary to provide and regulate transport infrastructure. Australia's road network yields enormous economic and social benefits. Against these benefits, however, must be set a range of infrastructure and environmental costs, many of which are borne indiscriminately by motorists, regardless of where or how frequently they drive. These costs are associated with the emission of air pollutants and greenhouse gases, traffic noise, accidents, congestion and road wear.

RACQ supports a system of motoring taxes and transfer payments that promote efficiency, equity and improved environmental outcomes. This aligns with RACQ's Advocacy Charter, which seeks to ensure fair and justifiable costs of road use, along with recognising the environmental impact of motoring. Ultimately, a more efficient road pricing policy would aim to apply market-based principles to road use and provide economic incentives to accurately value and manage motoring activities.

This submission reviews the existing mix of motoring-related taxes and outlines the advantages associated with converting fixed vehicle taxes to variable distance-based charges.

3.0 Evaluation Framework for Taxation

Throughout this submission, vehicle and motoring taxes are assessed according to the tax principles identified in the tax review Terms of Reference:

- equity;
- economic efficiency; and
- simplicity.

According to the Inspector-General of Taxation, these three broad principles provide reliable 'signposts' for improving tax administration and within them encompass additional criteria such as certainty, transparency, neutrality, stability and integrity.² Each of the tax principles is defined below:

² Australian Government Inspector-General of Taxation, *Issues Paper Number 2 Policy Framework for Review Selection*, 2003, http://www.igt.gov.au/content/Issues_Papers/Issues_Paper_2.asp

The Fundamental Principles of Tax Policy³

Equity

Equitable taxes spread the tax burden fairly across the population. Horizontal equity requires that individuals in the same economic circumstances pay the same tax. Vertical equity requires that those with greater capacity pay more tax than those with less capacity.

Efficiency

A tax is considered economically efficient if it is 'neutral' and causes minimal interference in producer or consumer choices. Taxes are therefore efficient if they do not skew resource allocation decisions across the economy and investments are placed where the productivity of capital is highest.

Simplicity

Simplicity in the design and administration of a taxation system means reducing uncertainty and compliance costs.

There is often a trade-off between the first two principles of efficiency and equity, and simplicity. A certain level of complexity and some operating costs are required to implement a tax system in a way that is efficient and equitable. However, at some point, equity or efficiency is likely to be compromised by increasing complexity, especially when a complex tax regime diverts accounting, legal and business resources away from productive ventures into routine tax compliance functions.

4.0 Taxation Policy, Roads and Motoring

Taxation policy sometimes contravenes the principle of efficiency by influencing resource allocation decisions, but this may be justified on economic grounds if it is being done to correct a 'market failure'.

Free access to public goods and quasi-public goods, such as roads, and incidental side effects associated with some economic activities (externalities) could be considered as a form of market failure.⁴

Market prices do not result in optimal resource allocation when externalities are present, thus taxes might be used to influence the relative prices of different goods to improve allocative efficiency. Negative externalities associated with driving on the road network include the costs of crashes, pollution, climate change, congestion and noise.

³ Australian Treasury, *Architecture of Australia's tax and transfer system*, 2008 p167, http://www.taxreview.treasury.gov.au/content/downloads/report/Architecture_of_Australias_Tax_and_Transfer_System_Revised.pdf;
Australian Government Inspector-General of Taxation, *Issues Paper Number 2 Policy Framework for Review Selection*, 2003, http://www.igt.gov.au/content/Issues_Papers/Issues_Paper_2.asp

⁴ Characteristics of public goods include non-rival consumption: one person's consumption does not diminish the amount of the good that is available for others to consume; and non-excludability: you cannot prevent certain categories of people from consuming the good. Free access roads are not pure public goods because they are not entirely non-rival. For example, when roads are congested, each additional driver adds to travel delays, thus reducing the benefits to others. An externality exists when the behaviour of a person or business affects other people but there is no payment to compensate for this impact.

At present, most motoring taxation is not directly related to external costs, although the introduction of the Federal Government's *Carbon Pollution Reduction Scheme* will eventually create an environmental link between motoring and carbon emissions.

5.0 Overview of Taxes Relating to Motor Vehicles

Australian governments levy a number of taxes and charges on road transportation including:

- fuel excise;
- import tariffs;
- GST;
- vehicle stamp duty;
- registration;
- licence fees;
- tolls; and
- parking charges.

In 2007, Federal and State motoring-related taxes raised more than \$21 billion. Federal taxes levied on motoring included fuel excise, the luxury car tax, import duty, GST on vehicles and fuel sales. These totalled \$16 billion after fuel tax credit rebates⁵ were paid.⁶ State revenue from motoring taxes is significantly less, and in Queensland the income from taxes such as vehicle registration, vehicle stamp duty, licencing and the traffic improvement fee amounted to \$1.8 billion (\$1.2 billion after the Queensland Fuel Subsidy of nearly \$600 million was paid).

Under the current taxation system, many of the taxes associated with motoring are fixed, rather than variable taxes. Fixed taxes are taxes not directly related to consumption, such as vehicle registration. In contrast, variable taxes directly increase with consumption, for example, fuel excise.

Fixed and variable taxes charged on vehicle purchases, ownership and driving for three different vehicle categories are summarised in Table 1 below.

As shown in the table, all vehicle purchase taxes are fixed charges and a significant proportion of ongoing motoring related taxes (over one third) are fixed. These taxes are incurred at a fixed amount regardless of how often or how far the car is driven. Although not a tax, CTP insurance is also a fixed cost that motorists are required to pay and in Queensland this is around \$295 each year, taking the proportion of on-going fixed costs to about 50 percent.

⁵ Heavy vehicles receive an on-road grant, or rebate, of 18.51 cents per litre from the excise of 38.143 cents a litre that is payable. The difference is referred to as a non-hypothecated road user charge of 19.633 cents a litre.

⁶ Australian Treasury, *Architecture of Australia's tax and transfer system*, 2008 p12 & 287; www.taxreview.treasury.gov.au/content/downloads/report/Architecture_of_Australias_Tax_and_Transfer_System_Revised.pdf;

Table 1

FIRST YEAR & ONGOING ANNUAL GOVERNMENT TAXES RELATED TO VEHICLES (QUEENSLAND & FEDERAL)

(Assumes vehicle is purchased and operated in Queensland)

VEHICLE TYPE			
Vehicle Purchase Price	\$20,000	\$40,000	\$50,000
Cylinders	4	6	8
Annual distance driven	15,000 km	15,000 km	15,000 km
Fuel economy	7L / 100km	11L / 100km	14L / 100km
TAXES			
Vehicle import tariff (70% of new cars sold in Australia are imported)	\$1,600	\$3,200	\$4,000
GST on the vehicle purchase	\$1,818	\$3,636	\$4,545
*Vehicle registration	\$219	\$336	\$470
Luxury car tax	\$0	\$0	\$0
*Traffic improvement fee	\$44	\$44	\$44
Vehicle stamp duty	\$600	\$1,400	\$2,000
*Driver's licence (annual % of 5-year licence)	\$14	\$14	\$14
Total fixed taxes	\$4,295	\$8,630	\$11,073
*Fuel excise	\$401	\$629	\$801
*GST on fuel	\$143	\$224	\$286
*Qld fuel subsidy (cost reduction)	-\$96	-\$152	-\$196
*Various tolls and parking charges (costed at \$0 for the purpose of this analysis)	\$0	\$0	\$0
Total variable taxes	\$447	\$701	\$894
First year Government taxes	\$4,742	\$9,331	\$11,967
First year percentage of fixed taxes to total taxes	91%	93%	93%
* Ongoing annual taxes	\$725	\$1,095	\$1,419
* Ongoing percentage of fixed taxes to total taxes	38%	36%	37%

Most Queensland motorists who purchase an imported car and keep it for 10 years will pay more tax when they purchase the vehicle than they do on fuel excise over the whole 10 years. For example, on a car purchased for \$20,000 (as described in Table 1) taxes paid on purchasing the vehicle (vehicle import tariff, GST on the purchase and stamp duty) total \$4,018. Amortised over 10 years⁷, this is \$401.80 per annum,⁸ and is the same as annual fuel excise paid of \$401. For a more expensive car, such as the \$40,000 vehicle in

⁷ The average age of Australian passenger vehicles is 9.8 years: ABS Motor Vehicle Census 9309.0

⁸ This is a simplistic calculation that includes only government charges and excludes financing costs such as interest payments on car loans.

Table 1, taxes paid on purchasing the vehicle amortised over 10 years are \$823.60, and considerably more than the annual fuel excise cost of \$629.

The high proportion of fixed motoring taxes result in inefficient outcomes. The removal of fixed taxes or conversion to variable charges would provide many motorists with larger savings when they drive less and increase the incentive to avoid marginal vehicle trips.

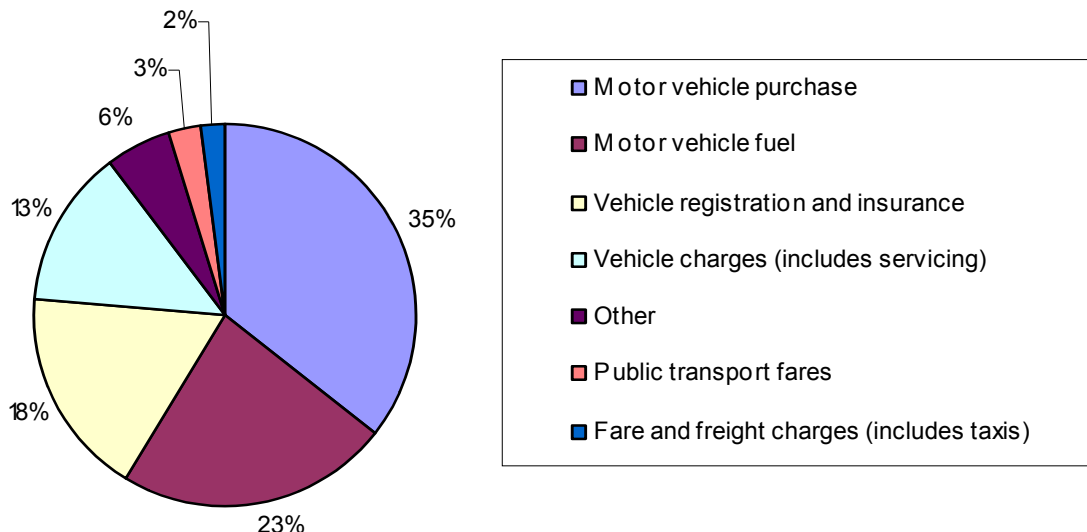
6.0 Household Expenditure on Transport

Reform of motoring taxation can have a significant economic impact. After 'food and non-alcoholic beverage' and 'housing' costs, transport is the third largest expenditure item for households, representing 16 percent of household costs.⁹ This provides significant impetus for government reform of taxation in the transport sector and conversion of inefficient taxes into schemes that improve efficiency and equity.

Figure 1 below shows that the dominant transport cost for households is the vehicle purchase cost of 35 percent, followed by fuel at 23 percent and registration and insurance costs at 18 percent.

Figure 1

Average Weekly Household Expenditure on Transport Costs 2003-04



Source: ABS 4102.0 – Australian Social Trends, 2006.

⁹ Average weekly expenditure in excess of \$140: ABS, 2006, Cat. No. 6530.0 Household Expenditure Survey, Summary of Results; ABS, 2006, 4102.0 – Australian Social Trends, [http://www.ausstats.abs.gov.au/ausstats/subscriber.nsf/0/1A28BB4F3EB7A839CA257115007701F8/\\$File/65300_australia_data_2003-04rev.xls](http://www.ausstats.abs.gov.au/ausstats/subscriber.nsf/0/1A28BB4F3EB7A839CA257115007701F8/$File/65300_australia_data_2003-04rev.xls)

7.0 The Application of Variable Distance-Based Taxes

Within the constraints of the existing tax structure, it would be advantageous to provide motorists with the option to convert annual vehicle registration and CTP to a distance-based charge.

A variable distance-based tax (also called pay-as-you-drive or per-kilometre pricing) means that vehicle taxes are based on how much a vehicle is driven. This is already possible for comprehensive insurance in Australia. Pay-as-you-drive insurance could require customers to report the odometer reading of the car insured and nominate how many kilometres they wish to purchase insurance for.

Per-kilometre taxes aim to transfer a portion of the fixed costs of owning and operating a car to a variable cost. For example, instead of paying annual registration and CTP charges, these costs could be converted to a distance-based variable charge and collected based on odometer readings, fuel use, GPS or on-board car monitoring devices.

The aim of distance-based taxes is to discourage low value travel without increasing the total costs of driving for the average motorist.¹⁰ Variable taxes and charges are usually more economically efficient and equitable than fixed taxes. However, compliance and administrative costs are likely to increase when a fixed tax is converted to a variable tax.

The RACQ proposes that motorists be given the option to convert registration and CTP to variable charges. Both of these fees are regulated at the state government level and (unlike national taxes) could, therefore, be adjusted without first requiring national reform.

8.0 The Benefits and Costs of Converting Fixed Motoring Taxes to Variable Taxes

Taxes affect consumer choices by encouraging individuals to shift preferences from heavily taxed to more lightly taxed activities and goods. This is known as the substitution effect. The resulting impact of variable motoring taxes on consumer preferences is superior to a fixed tax, because variable taxes create a visible link between driving taxation and choices to drive.

Fixed vehicle fees have about the same impact on vehicle traffic as the price of refrigerators has on food consumption. Converting from fixed to distance-based vehicle fees gives motorists a new opportunity to save money when they drive less.¹¹

The improved efficiency, equity, safety and environmental outcomes associated with removing fixed motoring taxes and replacing them with variable charges are discussed below.

¹⁰ Anup P. Bandivadekar, *Evaluating the Impact of Advanced Vehicle and Fuel Technologies in U.S. Light-Duty Vehicle Fleet*, 2008, p28

¹¹ Victoria Transport Policy Institute, *Distance-based Pricing*, 208, p2 <http://www.vtpi.org/tdm/tdm10.htm>

8.1 Increased economic efficiency

Variable taxes that increase with consumption make prices more accurately reflect the costs of each trip made in the car. This provides motorists with more accurate information about the real cost of a trip. In terms of economic theory, this means that the price paid for a particular trip will more closely reflect marginal costs and will increase economic efficiency by discouraging motorists from making a trip on which they place little value. In this way, a variable tax gives motorists an incentive to avoid or reduce lower value car travel.

8.2 Improved equity outcomes

Compared to fixed taxes, distance-based taxes increase equity and fairness and more accurately reflect costs imposed by individual motorists on the road network. Unlike a fixed tax, a variable charge ensures that the tax a motorist pays is aligned to how much they drive on the road network and like any user-pays principle, this promotes horizontal equity. Conversely, fixed taxes reduce equity outcomes by overcharging motorists who drive less than average.

Existing fuel and motoring taxes are considered regressive, because they account for a greater share of income for low-income households than for wealthier households. Variable taxes are likely to be less regressive than existing fixed motoring taxes because they more closely align the amount of tax paid to driving. Motorists would have increased opportunities to save money by deciding how much they drive and choosing not to undertake low value trips. In this way individuals could choose to pay less tax and reduce the impact of motoring taxes on their budget.

Not all households are in a position to limit their driving, particularly if they live in rural or outer suburban areas and have no access to public transport alternatives. An optional system of distance-based charging would avoid penalising these motorists. Such a system would clearly provide net consumer benefits, since only motorists who could benefit from the scheme would elect distance based charging.

8.3 Motorists are given more pricing options

Motorists have the opportunity to save money and avoid incurring taxes by deciding not to take a particular trip. In addition, a reduction in fixed taxes on vehicle purchase costs gives consumers a number of options. For example, the removal of stamp duty on the purchase of a \$40,000 car would reduce the price by \$1,400. The consumer could either:

- choose to buy the same make of vehicle they would have bought under a fixed tax scenario and save \$1,400 in the process (this saving could offset any higher variable taxes); or
- choose to spend the same amount of money on a new car as they previously would have spent (inclusive of fixed vehicle purchase taxes), but upgrade to a better car with improved fuel efficiency or safety features.

8.4 Reduced vehicle travel

Distance-based CTP insurance and registration fees could reduce vehicle kilometres travelled by 10 percent.¹² Although the elasticity of driving with respect to fuel price is relatively low, fuel is only a quarter of the total vehicle and driving costs (see Figure 1). As a result, the elasticity of vehicle travel to total vehicle and driving costs is significantly higher and this makes driving an elastic good with respect to total vehicle costs, emphasising the benefits available from converting fixed costs to variable costs.¹³

8.5 Reduced motoring emissions, congestion and accident risk

Because distance-based charges reduce vehicle kilometres travelled, negative impacts associated with driving such as vehicle accidents, road wear, congestion and pollution would similarly be reduced.

8.6 Increased vehicle affordability

If vehicle purchase taxes were removed in favour of variable distance-based charges, the price of new cars would drop. This would provide a mechanism to increase vehicle fleet turnover, allowing greater penetration of new fuel-efficient and safer vehicles. One outcome would be greater penetration of safety features such as Electronic Stability Control (ESC) technology, which would save lives.¹⁴

8.7 Disadvantages of Introducing Variable Distance-based Motoring Taxes

In order for variable distance-based taxes to improve economic outcomes, the efficiency benefits associated with introducing the tax must be greater than the additional administration and compliance costs. This explains why RACQ is proposing the total removal of vehicle purchase stamp duty to avoid the transaction costs of this tax.

While a motoring taxation system with reduced fixed taxes and a higher proportion of variable taxes would have significant efficiency and equity outcomes, it would also be more complex and could increase administrative costs. However, access to cheaper technology will reduce the associated compliance costs over time.

¹² Victoria Transport Policy Institute, *Distance-based Pricing*, 208, p3&4 <http://www.vtpi.org/tm/tm10.htm>

¹³ The long term elasticity of driving with respect to fuel price is around -0.3, while elasticity with respect to total vehicle costs is higher, at -1.2: Victoria Transport Policy Institute, *Evaluating Pricing Strategies -Factors To Consider When Evaluating TDM Strategies That Change Transportation Prices*, 2008, p5, <http://www.vtpi.org/tm/tm70.htm>

¹⁴ ESC systems reduce the risk of single vehicle crashes by up to 50 percent : Department of Innovation, Industry, Science and Research, *Review of Australia's Automotive Industry- Background Paper*, 2008. <http://www.innovation.gov.au/automotivereview/Documents/AutomotiveReview2008Backgroundpaper.pdf> Currently, ESC is included as standard on about 50 percent of new cars sold in Australia.

9.0 Analysis of Specific Motoring Taxes

9.1 Fuel Excise

The Federal Government taxes petrol and diesel fuel at 38.143 cents a litre and returns less than one third of the revenue as infrastructure funding to the States.¹⁵

A detailed discussion of fuel excise along with recommendations to improve the equity and transparency of this tax is provided in the Australian Automobile Association (AAA) submission to the Tax Review. The RACQ supports these recommendations, including the need to return more revenue to motorists by increasing infrastructure funding.

As outlined in the AAA submission, motoring costs include road network costs, crash costs, and a number of negative economic and environmental impacts. Incorporating these costs into a comprehensive system of road user charging would provide:

- accurate price signals;
- incentives to reduce congestion, pollution and crash costs; and
- increased efficiency and equity outcomes.

Such a system of road user charges requires investment in technology to facilitate differential charges according to time, location, and type of vehicle used for travel and would have associated compliance costs.

9.2 Vehicle Registration and Compulsory Third Party Insurance

State governments impose annual registration and CTP insurance charges for all vehicles using public roads.

Registration taxes are levied in different ways across the states and revenue is used to maintain the road network. In Queensland, South Australia and Tasmania charges increase with the number of vehicle cylinders and registration for a four cylinder vehicle ranges from around \$100 in South Australia to \$263 in Queensland. In Victoria, registration is a flat fee of \$178 while in the remaining states charges vary according to vehicle weight or engine capacity.

Registration imposed on passenger vehicles should be calculated using a nationally consistent methodology. Unlike heavy vehicle registration charges (which are consistent across Australia), the difference in rates, bases and administration of fundamentally the same tax for passenger vehicles makes this charge both inefficient and inequitable.

In Queensland, the combined annual costs of registration and CTP for a motorist can be as much as \$800.¹⁶ As previously discussed, it would be advantageous to allow motorists

¹⁵ In 2007-08, revenue collected by the Federal Government from fuel excise is estimated to be \$14.42 billion – yet expenditure on roads is estimated to be \$3.41 billion. This expenditure is equivalent to revenue from only 9.02 cents per litre (cpl) of the 38.143cpl petroleum products excise (Australian Automobile Association, *On the Road to Greener Motoring – Fuel Tax Reform*), 2008

¹⁶ This cost includes the traffic improvement fee that is currently levied at the same time as registration.

the option of converting registration and CTP payments from an annual fixed charge to a variable charge.

9.3 Vehicle Import Tariff

The RACQ supports the Federal Government's planned reduction in import tariff rates to five percent in 2010.

Seventy percent of new cars sold in Australia are imported. With the exception of four-wheel-drives, these vehicles currently attract an import tariff of 10 percent.¹⁷ This will drop to five percent in 2010.

Since four-wheel-drive vehicles are already taxed at an import duty rate of five percent, the planned reduction in import duty for passenger vehicles will improve the economic efficiency of this tax and reduce its currently distorting impact on consumer choices.

9.4 Vehicle Stamp Duty

Each state levies stamp duty on the purchase and transfer of motor vehicles. This is a particularly inefficient and inequitable tax with no logical basis. The RACQ therefore recommends the removal of motor vehicle stamp duty.

Vehicle stamp duty is applied to the GST-inclusive price of a car, with each state using a different method to calculate the stamp duty payable. Queensland stamp duty rates are:

- 2% for hybrid vehicles;
- 3% for 4 cylinder vehicles;
- 3½% for 6 cylinders; and
- 4% for 8 or more cylinder vehicles.

For example, this adds \$1,400 to the purchase of a \$40,000 six-cylinder car. In other states, stamp duty percentages levied on vehicle sales can be as much as six and a half percent.

Unlike many other motoring taxes, there is no logical basis to support the application of stamp duty on vehicles. With most motoring taxes, there is a partial link between the tax and road funding or vehicle manufacturing processes. For example, it could be argued that vehicle import tariffs benefit the domestic car industry, while some of the revenue from fuel excise and registration fees goes to fund road construction and maintenance. There is no such logic or revenue relationship evident to support stamp duties on vehicles.

Stamp duty involves large compliance costs and is a tax inconsistently levied on a narrow base. This results in a net loss of economic value and adds to the 'efficiency cost' of taxation.¹⁸ For example, stamp duty is applied to cars and property, but not to the purchase of computers or washing machines.

¹⁷ The import tariff on four wheel-drive vehicles is 5 percent

¹⁸ A net loss of economic value often occurs when taxes are implemented. If the tax affects relative prices and affects individuals' incentives and encourages a shift to different activities or goods, this is referred to as

The removal of stamp duty on motor vehicles would reduce purchase prices and reduce the disincentive to turn over vehicles. This would lead to a safer, more fuel-efficient vehicle fleet. It would also remove the suggestion of double taxation and revenue gain to the states (since stamp duty is applied to the GST inclusive price of cars).

9.5 Luxury Car Tax

The luxury car tax (LCT) of 33 percent, levied on most cars priced above \$57,123 should be removed.¹⁹ It is a particularly inefficient tax with numerous economic and equity arguments that support its removal:

- The LCT is levied on a narrow base;²⁰
- Since LCT is not levied on other items like watches, jewellery, boats or aircraft, it contravenes the fundamental efficiency principle that taxes should be neutral in their effect and applied to comparable assets equally;
- The GST was intended to remove anomalies under the old tax system where some luxury items were taxed at a higher rate of sales tax; and
- The tax also has no real environmental benefit and cannot be supported on these grounds.

9.6 Fringe Benefits Tax

The statutory formula for calculating Fringe Benefits Tax (FBT) on vehicles should be reformed to remove incentives for additional travel.

FBT is levied on vehicles provided by an employer for an employee's private use, including those used by an employee under a novated lease arrangement. The statutory formula used to levy FBT is on a sliding scale, which decreases as the distances travelled increase:

Total annual kilometres	Statutory percentage
Less than 15,000	26%
15,000 to 24,999	20%
25,000 to 40,000	11%
More than 40,000	7%

Application of the statutory formula means that a vehicle travelling 14,999 kilometres annually attracts an FBT rate of 26 percent, while a car travelling 15,000 kilometres has a

the 'efficiency cost' of taxation. Efficiency costs associated with tax will be lower where revenue is raised across a broad base, and conversely higher where revenue is raised across a narrow base. Australian Treasury, *Architecture of Australia's tax and transfer system*, 2008 pp174-175; http://www.taxreview.treasury.gov.au/content/downloads/report/Architecture_of_Australias_Tax_and_Transfer_System_Revised.pdf

¹⁹ There are exceptions for agriculture, tourism and fuel-efficient cars using 7L/100km or less

Australian Treasury, *Architecture of Australia's tax and transfer system*, 2008 p12;

http://www.taxreview.treasury.gov.au/content/downloads/report/Architecture_of_Australias_Tax_and_Transfer_System_Revised.pdf

²⁰ A general economic principle is that taxes levied across a broad base have fewer negative economic impacts or efficiency costs than taxes levied across a narrow base.

reduced statutory percentage of 20 percent. This tax regime provides a direct incentive for additional travel that costs the Federal Government \$1.5 billion annually in tax concessions.²¹

The RACQ supports a single fixed statutory percentage to replace the existing arrangements in order to remove the incentive to drive further.

9.7 Congestion Pricing as an Alternative to Tolls

Tolling new roads results in sub-optimal economic, safety and equity outcomes for road users. The RACQ recommends that the Tax Review evaluate the economic costs associated with tolling roads and consider the benefits of alternative mechanisms to fund new road infrastructure, such as inner-city congestion pricing schemes.

The RACQ supports the provision of quality transport infrastructure that delivers real transport outcomes for the community. Tolling new roads is not the most effective way to achieve this.

Tolls discourage the use of new, high quality infrastructure and act to increase congestion on alternative routes. This leads to increased fuel and motoring emissions as price-sensitive drivers detour on to less suitable roads in the network. In Melbourne, traffic on the Eastlink Motorway fell by 50 percent when tolls were imposed after the first month of free travel. Similar dramatic reductions in traffic occurred on the Sydney toll roads when tolls were imposed or increased.

The objective of tolls is to provide a financial return to an infrastructure owner. The extent of financial return is dependent on how many drivers utilise the asset, and this is based largely on the level of service of alternative routes. The asset owner therefore has a strong incentive to ensure other routes remain congested. Because toll roads prioritise financial returns over economic performance, they significantly reduce overall benefits to society.

Unlike toll roads, congestion or cordon charging has been shown to effectively reduce congestion in inner-city areas. This pricing system can focus charges where congestion is worst and vary by location or time of day. Congestion pricing schemes can be implemented using existing electronic tolling technology and revenue used to build roads and improve public transport to further reduce congestion.

Congestion is a significant cost and an externality in terms of economic efficiency. Putting a price on road use can encourage the efficient use of existing road capacity. The RACQ supports the consideration of inner city congestion charging as a more equitable alternative to toll roads. Any scheme would need to include bypass opportunities and public transport improvements to ensure that consumers have reasonable alternatives to paying the charge. The detailed design of any such scheme would need to be developed in consultation with all relevant stakeholders, including RACQ.

²¹ Sydney Morning Herald; 30 January 2008, <http://www.smh.com.au/news/environment/abolish-company-car-subsidy-say-greens/2008/01/29/1201369135260.html>

10.0 Additional Initiatives for Consideration

10.1 Vehicle Rebates and 'Feebates'

The RACQ recommends that the Tax Review consider rebate and 'feebate' schemes to encourage the purchase of fuel-efficient cars.

International data suggests rebates and 'feebates' could work effectively in Australia to increase fleet penetration of fuel-efficient vehicles.²² Under a 'feebates' scheme, a fee or a rebate is assigned to each individual vehicle type based on fuel economy benchmarks. Buyers of more efficient vehicles receive a rebate, while those who purchase less efficient vehicles pay a fee. This provides a direct signal of the value of efficiency to motorists and rewards them for purchasing a fuel-efficient car. 'Feebates' would increase pressure on manufacturers to improve the efficiency of their vehicles and over time would also lead to a more efficient used-car fleet.

11.0 Conclusion

The RACQ supports a system of taxes on motoring that does more than simply appropriate revenue. An improved system of motoring taxes would lower overall motoring costs and provide equitable charging mechanisms. Such a system would reduce overall kilometres driven, while recognising the limited transport alternatives available to rural and outer-urban motorists.

RACQ recommends the following motoring taxation reforms:

- Remove stamp duty on vehicle purchases;
- Remove the luxury car tax;
- Adopt nationally consistent vehicle registration charges;
- Allow a variable distance-based charging as a voluntary option for vehicle registration and/or compulsory vehicle insurance;
- Replace the existing Fringe Benefit Tax formula with a single fixed statutory percentage; and
- Consider reforming fuel excise and tolling to make way for more efficient market pricing mechanisms.

²² The level of effectiveness would depend on the degree of elasticity in the new car market and motorists' perceptions of the rates of return on fuel savings.