

MOTORING MATTERS *Factsheet*

Fuel Tax Reform and Road Pricing



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Current Situation

- ▶ Motorists are charged a variety of taxes and charges for use of the road network; these include Federal fuel tax, GST on fuel (which includes the fuel tax), State and Territory registration charges, stamp duty on registration and tolls.
- ▶ Currently, public expenditure on roads is not directly linked to the revenue received from road users. 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 9.02cpl of the 38.143cpl petroleum products excise.
- ▶ The tax on alternative fuels such as ethanol and LPG is effectively zero, yet vehicles using these fuels contribute to road wear, crash and environmental costs so pay no tax to cover these costs.
- ▶ Under the current pay-as-you-go approach (PAYGO) to road funding, which applies to heavy vehicles only, trucks pay registration charges plus a so-called "non-hypothecated road use charge" of 19.63cpl.
- ▶ If the PAYGO approach were applied to light vehicles, a fuel-based charge of only 9.69cpl would be sufficient to cover their share of road expenditure (after adjusting for State/Territory registration charges). Since motorists actually pay 38.143cpl, they not only 'pay their way', they are overcharged for the use of the road network compared to trucks.

What we want

- ▶ A commitment to develop, in the next term of Government, a fairer and more efficient system of charging road users which replaces current Federal and State road taxes with a road user charge.
- ▶ An ideal road user charge would have two components – an access charge and a user charge. The access charge would cover the costs of vehicle registration to enable monitoring for enforcement, security and consumer protection purposes.
- ▶ A user charge would have four components:
 - a road wear charge, levied according to the wear attributed to vehicle and axle classes;
 - an environment charge, levied according to engine type and fuel type;

Constituent
Member



- a charge to help fund the external cost of crashes; and
 - a congestion charge, collected directly according to road location, time of day and type of vehicle and collected only if the vehicle contributes to congestion.
- ▶ If congestion charging were to be introduced, then charges should not be on top of existing fuel taxes, but introduced only as part of overall reform of current fuel taxation.
 - ▶ Similarly, if emissions trading is implemented and applied to the transport sector (and for efficiency and equity reasons, other emitting sectors), any resulting 'carbon price' should only be allowed to flow through to motorists if it is part of overall reform of current fuel taxation.
 - ▶ A commitment to involve stakeholders in a Summit to determine the benefits of reform (to various road users and the overall economy), the reform options (including fuel-based charges and road pricing technology, congestion charges, 'carbon prices' and revenue implications), the institutional and regulatory framework to deliver the reforms (including appropriately-designed road funds) and the best way forward.

Why we want it

- ▶ Developments in road pricing technology create the opportunity for more cost-reflective pricing which, combined with institutional changes to link road supply and demand, offer the potential for substantial efficiency gains (PC Inquiry Report, Road and Rail Freight Infrastructure Pricing, 2006).
- ▶ Congestion charging offers the potential to reduce the \$9.4 billion cost of road congestion (BTRE, Working Paper 71, 2007).
- ▶ The current level of fuel taxation cannot be justified on revenue raising grounds – the least distorting way to raise revenue is through a uniform tax on all goods and services. Under the current excise structure, tax rates on petrol are more than five times the tax rates on other goods and services.
- ▶ Charges on light vehicles are excessive; a fuel-based charge equivalent to 27cpl (and 43cpl for trucks) would be sufficient to cover the costs of pavement wear, crash costs and air and noise pollution (Cox, Road pricing in practice, Report to AAA, 2007).
- ▶ Equity is improved between light and heavy vehicles, and between urban and regional road users and environmental outcomes will be addressed.
- ▶ Fuel excise is a regressive tax as it places a disproportionately high burden on low income households.

