This paper summarises the issues of relevance to AAA and its Constituents contained in the main report of the Senate Select Committee on A New Tax System. It also identifies issues of importance the report fails to address, looks at the conclusions and various recommendations of the three major parties and outlines where the AAA goes from here.

For simplicity, the Committee’s report can be divided into two sections:

1. A factual discussion of the impact of the Government’s GST package based on submissions and evidence presented by public interest groups, academics, research organisations, and government agencies.
2. Party conclusions and recommendations
   - Labor Senators Conclusions;
   - Government Senator’s Report; and
   - Democrat Findings.

SECTION 1
Key Issues for Motorists

The implications of ANTS for the transport sector were discussed in Chapter 7. The report makes reference to the AAA and RAASA in noting the key issues for motorists. The issues mentioned in the report are:

- Applying the GST to petrol on top of the excise is a tax on a tax;
- The new tax package is silent on the exact reduction in excise when the GST is introduced; and

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1 Report can be found at http://www.aph.gov.au/senate/committee/publications/reports.htm
The disparity between city and regional petrol prices will widen when the GST is introduced regardless of the magnitude of the reduction in petrol excise.

Chapter 7 also discussed transitional measures for motor vehicles. Several alternative transitional measures were suggested by the car rental companies including “phasing down of sales tax rates payable on motor vehicles in the period leading up to the introduction of the GST. AAA does not support any of the options which would result in a more delayed flow-on of benefits to consumers, both business and private.

The report failed to examine the continuing indexation of fuel excise, the introduction of a road user charge, the significant uncertainties regarding the level and allocation of road funding.

**Diesel Fuel Excise**

The impact of the reduction of the diesel fuel excise was discussed in detail in Chapter 12. The common arguments to emerge were that the proposed effective reductions in the price of diesel fuel would lead to:

- an increase in the use of environmentally unfriendly and highly polluting fuels (diesel) at the expense of less polluting fuels (NG, LPG);
- major economic benefits for the road transport and stationary energy sectors; and
- detrimental effects on the environment and human health.

In examining the diesel fuel issue, the report fails to address AAA’s suggestion that rather than introduce diesel fuel credits which will make diesel cheaper for registered businesses, it would be efficient and equitable to tax all fuels at the same rate and to introduce a road user charge. This charge could vary between fuels because of different environmental attributes and between vehicle types because of the differential impact on road wear. This approach would result in petrol and diesel being cheaper than at present.

**Insurance**

On the subject of insurance, the report refers exclusively to the Insurance Council of Australia’s submission and evidence. The Insurance Council identified an added cost imposed on insurance consumers of $2½ billion. They stated that if the bills were passed as they stand their member insurance companies will have no choice but to fully pass on the $2½ billion in the form of higher insurance premiums for policy holders. In fact the Insurance Council informed the committee that insurance premiums will begin to rise from July 1999 to take into account the $2½ billion Government revenue grab.

If the Government tried to prevent the insurance companies recovering the $2½ billion from policyholders, this massive retrospective tax bill would land on shareholders in companies such as GIO and AMP.
At the time of giving evidence the Insurance Council stated that it was in negotiation with the Treasury over whether this $2½ billion unintended consequence would be rectified by amendments. They were arguing that as it was unintended the rectification would not harm the revenue estimates in the announced package. Just before going to print the Insurance Council has notified the Committee that their negotiations have not settled any of the issues and they are reconsidering their support for the Government’s measures. This will now ensure that insurance premiums will rise from July of this year in response to the GST.

SECTION 2

Party Conclusions and Recommendations

The Labor, Government and Democrat conclusions can be seen as political, based on party lines. In rejecting the GST outright the Labor party foregoed the opportunity to put forward alternative options. The Government identified no deficiencies in ANTS, therefore it stands as is. The Democrats have taken the opportunity to put forward a number of alternatives aimed at improving the fairness of ANTS and reducing negative effects.

The Labor party recommends the Senate reject the GST in its entirety. They concluded that the Government’s proposed tax changes will

- encourage business to use the more heavily polluting petroleum fuels at the expense of LPG, LNG and other more environmentally friendly fuels;
- encourage the use of private cars at the expense of public transport;
- encourage more heavy transport vehicles onto Australia’s roads, by shifting freight away from railways; and
- increase the price of transport services (excluding airfares which decrease by 0.8%), road transport is predicted to increase by 2.6% and rail up by 5.8%.

The Labor Senators noted:

- The disparity between country and city petrol prices will increase; and
- The GST package will encourage business to use more heavily polluting fuels at the expense of more environmentally friendly fuels.

The Government Senators’ Report concluded the Government's tax package entirely meets the criteria by which tax reform should be assessed as it is efficient, simple, equitable and increases the sustainability of the tax base.

The Democrats recommend that the ANTS package not be passed by the Senate unless it is substantially altered to improve its fairness, and to reduce negative effects on the environment and employment. The Democrats conclude that reducing payroll taxes rather than petrol and fuel taxes would have a far more positive impact on the economy,
as well as avoiding the environmental and health problems associated with increased fuel usage. This measure would also increase employment by about 30,000 jobs and reduce greenhouse gas emissions.

Other Democrat recommendations from the Environment, Communications, Information Technology and Arts References Committee are:

- Petrol and diesel continue to be taxed through the excise system rather than the GST ie. petrol and diesel be zero rated under the GST but excises be held such that the price at the point of sale is not reduced.
- An additional sales tax be applied on new motor vehicles with low fuel efficiency, based on a sliding scale (applied in addition to the proposed sales tax on luxury cars).
- The current Diesel Fuel Rebate Scheme be retained but modified.
- Public transport be zero-rated under the GST.
- The current exemption from excise be maintained for compressed natural gas (CNG) and liquid petroleum gas (LPG).
- Grants be provided of up to 50 per cent of the cost of converting heavy vehicles to gas use and for the additional capital cost of new gas vehicles, giving priority to public transport vehicles.
- More advantageous depreciation rates and/or tax deductibility rates for the use of CNG and LPG.
- A levy be introduced on the sale of lubricating oil to fund re-refining and collection infrastructure.
- The current exemption from excise of recycled lubricating oil be maintained.
- The tightening of emission standards for vehicles be accelerated so that Australia’s requirements match European standards by 2002.
- A higher diesel excise be imposed on fuel with a high sulphur content (more than .005 per cent) as a means of encouraging the use of cleaner fuel.

Where to for the AAA from here?

AAA is in the process of discussions with the Clubs and the Government on insurance and membership issues. A report of the GST Working Group teleconference held on 3 May 1999, will be forwarded shortly.

AAA will continue to discuss the impact of the GST on petrol prices and fuel excise with Treasury and government officials. Treasury have advised that they will not be examining the specific reduction in excise until the second half of this year. However, the AAA continues to argue for an 8.9 cents per litre reduction and the abolition of excise. This position has been put to Treasury.