



Fuel Excise Reform

June 2004

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FUEL EXCISE REFORM

Introduction

The government will implement major reforms to the fuel excise system commencing 1 July 2006.

The reforms represent the first comprehensive overhaul of the fuel excise system since its inception. They build on the energy-content based excise rates and generous transition arrangements for alternative fuels entering the excise system announced last year (see [Attachment D](#)) and complete the reform process foreshadowed at that time.

The reforms provide an integrated framework for excise policy which addresses economic, transport, environment and social objectives. The changes announced today substantially expand the availability of excise relief for business and households, improve the efficiency of Australia's transport sector, introduce new environmental measures, and substantially reduce the compliance burden on business.

Principles Underpinning the Reforms

The current excise arrangements reflect numerous ad-hoc decisions over many decades. The result has been a system filled with anomalies, distortions and inconsistencies.

The government's reforms to the excise system address these problems and place fuel excise policy on a sound and consistent footing. The main principles underpinning the reforms are that the fuel excise system should, to the greatest extent practicable:

- apply in a consistent and transparent way to all fuels and all relevant fuel users;
- minimise tax on business inputs to production;
- be levied in a way that minimises compliance and administration costs; and
- take account of the government's environmental, social and fiscal objectives.

The scope of the excise system has been refined and will focus on fuels when used in road vehicles and when used privately in off-road machinery (except for in power generation). This means that fuels used for other purposes (eg heating, electricity generation or industrial applications) will be effectively free of excise.

Fuel Excise Relief for Business & Households

Excise relief for businesses and households will be substantially increased under the reforms. The measures will remove around \$100 million in excise from businesses and households in 2006-07, \$350 million in 2008-09 and \$310 million by 2012-13, totalling about \$1.5 billion over the whole period.

Expansion of business credits

An excise credit will be available for all off-road business use of all fuel. The measure will be phased in, with new eligible off-road activities receiving a half credit from 1 July 2008 to 30 June 2012, and the full credit from 1 July 2012.

The changes will benefit a vast number of businesses in a range of activities (see Attachments [A](#) and [B](#) for a detailed list and examples). Artificial boundaries between eligible and non-eligible off-road activities will be removed, and credits will be available for all fuels (including petrol and LPG) used in business activities. The reforms will lower business costs, and should lead to lower prices for consumers.

Tens of thousands of businesses are expected to benefit directly from the changes.

The changes will provide excise relief to businesses involved in a range of activities for the first time (e.g. manufacturing, quarrying for cement, road-building materials and building stones, and construction). Other major beneficiaries include primary producers, mining and commercial power generation.

Current fuel credit recipients (e.g. recipients in the farming and mining sectors who are the main beneficiaries of the current arrangements) will also benefit from the extension of excise relief to currently ineligible activities.

Local and state governments will also benefit significantly, with credits being provided for a range of government activities. For example, State and Territory governments and statutory bodies will gain from the credit on infrastructure construction, large-scale electricity generation and water supply and conservation activities. Local governments will gain from the extension of the full credit to the maintenance of municipal sportsgrounds, gardens or golf courses, amenity horticulture (e.g. growing of flowers/trees in parks and playgrounds) and local public works activities (e.g. road construction).

Fuel used for power generation

The government has refined the scope of the excise system to focus primarily on fuels when used in road vehicles, meaning other fuel uses will be effectively free of excise. Consistent with this, diesel used in commercial power generation will be effectively excise free from 1 July 2006, lowering the cost of producing electricity in regional and remote areas. Gaseous fuels used for electricity generation will continue to be free of excise. This ensures competitive neutrality between all fuels used to generate electricity for business and household use.

Removal of excise on burner fuels

The current 7.557cpl excise applying to burner fuels (heating oil, kerosene, fuel oil) used as a fuel but not in a vehicle, will be removed from 1 July 2006. This change will lower heating costs for as many as 90,000 households, a large number of which will be in regional and rural areas. Many businesses will also benefit.

The change places burner fuels used by households and business on the same excise footing as households and business which use electricity and gas to meet their heating needs.

Supporting the Road Transport Task

The excise reforms will support and enhance Australia's ability to meet its road transport task. The changes expand excise relief to all fuels used on-road in heavy vehicles, and respond to calls from the transport industry to recognise the partial excise paid on fuels used in heavy vehicles as a road user charge.

Expanded excise relief

From 1 July 2006, partial excise relief (through the application of a road user charge – see below) will be provided for all fuels used on-road in heavy vehicles of 4.5 GVM or more. In addition to the benefits to users of diesel vehicles, this change will also benefit around 54 000 heavy petrol vehicles.

Urban / rural boundaries

The existing urban-rural boundaries applying to excise relief for heavy vehicles will be removed from 1 July 2006. The boundaries, which were introduced as part of *Measures for a Better Environment*, will be replaced by the additional environmental initiatives outlined below.

Removing the urban-rural boundaries will address a key source of inefficiency and frustration for a large number of transport operators. The boundaries are an inefficient means of seeking to minimise air pollution in our cities.

Removing the boundaries will facilitate a major reduction in compliance costs for all businesses claiming on-road excise credits. The existence of the boundaries established a barrier to implementing a comprehensive single business credit regime.

Road user charge

The partial excise currently paid on fuel used in heavy vehicles will be formally converted into a non-hypothecated road-user charge from 1 July 2006.

The value of the charge will be adjusted in accordance with the National Transport Commission's heavy vehicle charging determination process established with the states and territories to adjust heavy vehicle registration charges from 1 July 2006 and will be adjusted annually thereafter.

Road funding

In total, the government is allocating a total of \$11.8 billion for road and rail transport over the five years to 2008–09. This includes:

- \$7.7 billion in land transport funding for the AusLink National Network
- \$1.45 billion for the Roads to Recovery programme
- \$2.55 billion for Financial Assistance Grants for roads
- \$90 million for the National Black Spot programme.

The government has separately announced a major down payment on its AusLink land transport initiative with an additional commitment of around \$565 million in

2006-07 (or more than \$2 billion over four years from 2005-06) to improving transport infrastructure, particularly in regional and outer metropolitan areas.

The package includes the continuation of the Roads to Recovery programme and the redirection of funds from the Fuel Sales Grant Scheme (FSGS) from 1 July 2006 to improve transport infrastructure for regional and outer-metropolitan areas. A review of the FSGS (conducted by the Fuel Tax Inquiry) concluded that it was difficult to identify the benefits of the scheme to consumers in rural and remote areas and that significant boundary anomalies were encountered under the Scheme.

The government's business credit reforms ensure businesses across Australia will benefit from lower fuel costs and increased road funding will benefit all members of regional and rural communities. The Petroleum Products Freight Subsidy Scheme will cease on 1 July 2006 – the government believes there are better ways to use this money to help those in remote areas.

Reducing the Compliance Burden

Credits for business use of taxable fuel will be claimable through the Business Activity Statement (BAS) in the same way as GST credits from 1 July 2006.

When fully implemented, the business credit reform will free business from the onerous task of estimating fuel use in various activities according to restricted and complex criteria. This will lead to a significant reduction in record keeping required to substantiate entitlements. Business interactions with the ATO will also be simplified and reduced as they will have a single point of ATO contact and the necessity of separate credit claim forms will be removed.

Businesses will also no longer need to clarify complex eligibility criteria, including through costly and time-consuming litigation. For example, last year alone, there were 90 cases subject to litigation (with 76 cases still unresolved at the end of 2003) relating to the eligibility criteria for business credits for fuel used in off-road activities.

There will also be substantial administrative and compliance savings for the ATO through the streamlining of claims processing and payments.

The start date of 1 July 2006 allows for extensive consultation with industry on implementing the reforms and allows sufficient time for industry to adjust to the new arrangements.

Meeting Environmental Responsibilities

The business credit reforms follow a tightening of fuel standards for petrol and diesel.

On 1 January 2006, the existing diesel fuel quality standard will be tightened and the sulphur content lowered from 500ppm to 50 ppm. On 1 January 2005, sulphur levels in all grades of petrol will be reduced to 150 ppm. The lower sulphur levels build upon the existing fuel quality standards which have already lowered sulphur to 500ppm and effectively banned lead and MTBE in petrol. These fuel standards have already significantly reduced pollution from motor vehicles. The government has also

previously announced financial incentives for the early production of 10ppm sulphur in diesel for the period 2007-2009 and 50ppm sulphur in petrol for the period 2006-2008.

These policies significantly benefit the environment and will facilitate the introduction of cleaner and more efficient engine technologies into Australia. Measures which directly target the environmental performance of diesel and petrol represent a sure path to improved environment outcomes, given these fuels represent 93% of the road transport fuel market.

The business credit reforms include measures to further improve management of the environmental impacts of fuel use. These include making eligibility for excise credits conditional on meeting clear environmental criteria. The package shows that economic and environmental goals can be fully integrated.

Conditional excise credits for large energy users

Under this measure, starting from 1 July 2006, to receive credits of more than \$3 million per year businesses will be required to be members of the Greenhouse Challenge Program. As members of Greenhouse Challenge, credit recipients will measure their greenhouse emissions, develop options for abatement and report on progress.

This measure will encourage the prudent use of energy by significant energy users such as large mining and transport companies. It also complements the government's energy efficiency and greenhouse gas abatement measures.

Conditional excise credits for heavy diesel vehicles

This measure will encourage the owners and operators of heavy diesel vehicles to reduce exhaust emissions of particulates, smoke and smog forming pollutants to acceptable levels.

Australian cities generally have good air quality but the localised impact on air quality and community health of a relatively small number of older or poorly maintained diesel vehicles remains an important issue. Repairing these vehicles can reduce their emission of particulates - the most dangerous emission to human health - by up to 45%.

Starting from 1 July 2006, users of heavy diesel trucks and buses will need to demonstrate that they can meet one of five emissions performance criteria to establish that the vehicle is not likely to be a high polluter to be eligible for excise credits as part of the road user charging arrangements:

- all vehicles manufactured since 1 January 1996
- vehicles that are part of an accredited audited maintenance programme
- vehicles that pass the in-service emission standard set by the Australian Transport Council and referred to in the National Environment Protection (Diesel Vehicle Emissions) Measure agreed in 2001 between the Australian Government and all state and territory governments

- vehicles which comply with a simple government endorsed maintenance schedule which includes an emissions component, which will be developed in consultation with the transport industry
- vehicles owned by primary producers that are used in their owners' primary production business activity

Linking access to on-road credits to reducing emissions will encourage owners of heavy diesel vehicles to help maintain Australia's clean air. This measure complements the government's success in managing urban air pollution through national air quality standards, stringent new vehicle emission standards and fuel quality legislation.

From 2006, the mandated use of ultra low sulphur diesel (50 ppm sulphur) in Australia will mean that all diesel vehicles will be emitting less pollution.

IMPACT OF BUSINESS CREDIT REFORMS: NEW RECIPIENTS

Examples of new activities eligible for business credits from each sector are outlined below.

Manufacturing

Main fuel uses:

- metal and metal products
- mineral products (including cement, lime, plaster and concrete)
- wood, paper and printing
- food and beverages

Extractive Industries

- quarrying or dredging and preparation of rock (mainly clays, limestone, sand, gravel, soil and dimension stones)

Civil Construction

Main fuel uses:

- earthmoving
- infrastructure construction and maintenance (ie. roads, buildings, telecommunications)
- gas reticulation
- water and sewer treatment and reticulation
- dam construction
- other civil construction works performed on behalf of Councils

Agriculture

- grain drying (carried out by a dedicated grain-drying facility located at a place other than the grain-grower's property)
- recycling and compost making businesses
- chipping, mulching and waste vegetation businesses
- some on-farm processing of agricultural products (ie. distillation of harvest)
- manufacturing of mushroom substrates (by growers who are not also mushroom growers)
- horse breeding for show or racing
- tending of livestock at a pen at an abattoir or for export, and the off road transport of livestock
- construction of buildings on non-agricultural properties (ie. sheds for grape-crushing installed on a winery)
- cultivation of flowers for public presentation in parks and playgrounds

- maintenance of golf courses or municipal sportsgrounds
- provision of irrigation by a State/ Commonwealth Authority
- agronomists/ crop research stations researching hardier specimens or pests
- the off-road movement and handling of a crop after it is gathered in.

Fishing

- processing of fish onshore
- refrigeration of fish onshore
- operating a research vessel or facility

Forestry

- planting of trees (intended for purposes other than felling and by a person other than an agricultural producer)
- activities beyond the milling process (ie. planing or shaping wood or producing particle board)
- constructing and maintenance of a sawmill, chipmill or other processing facilities
- quarrying and transporting of materials for the building of roads in forests
- maintenance of forestry vehicles
- transportation of timber on public roads to sawmills
- conservation of forests for non-commercial reasons

Mining

- extraction of sand, sandstone, soil, slate, basalt, granite, gravel from the ground;
- processing of minerals ‘post beneficiation’
- quarrying or dredging (for materials for use in building, road making, landscaping, construction or similar purposes – this includes minerals such as concrete aggregate, road base materials, railway ballast, fill materials, building stone and monumental stone)
- blending of coal after recovery
- activities undertaken “off-site” or “adjacent to the place” where mining occurs
- site preparation for the construction of buildings to beneficiate minerals
- light vehicle use below 3.5 tonnes (in addition to vehicles that are extensively modified for use underground that already benefit)
- the movement of beneficiated material to a stockpile at a mine site
- the packing of beneficiated material

Power Generation

- diesel used for power generation (in addition to existing eligibility of diesel used at the site for domestic purposes or by retail and hospitality businesses in remote areas)
- island resorts (including those with access to the on-shore electricity grid)
- all other businesses in remote areas with limited access to the electricity grid (in addition to agricultural and mining producers who already benefit)
- electricity generated at one premise and used at another premise

State/Local Governments

- a substantial range of activities will now become eligible (many are reflected under sectoral breakdowns above and below)

Transport

Heavy Vehicles

- heavy vehicles of at least 4.5 tonnes and less than 20 tonnes GVM travelling within metropolitan areas
- heavy vehicles including buses using petrol on-road (around 54 000 vehicles in total)

Marine & Rail Transport

- fuel used to load/ unload trains or marine vessels
- moving, handling or storing of cargo (occurring before or after the transport)
- activities related to producing marine vessels or rail vehicles
- construction, maintenance and operation of marine infrastructure including waterways, ports, docks and marinas, freight terminals and storage depots
- using a dredge or equipment used in waterway dredging
- construction, maintenance and operation of aquatic recreational facilities and infrastructure
- construction and operation of rail infrastructure including railways, tramways and light rail networks, freight terminals and storage depots

Nursing & Medical

- preparation of a site and construction of buildings or facilities
- activities carried on outside the grounds of the institutions (ie. pathology laboratories and medical practices)
- veterinary practices

Other Commercial

- water, sewerage and drainage
- wholesale and retail trade
- education, health and community services

BENEFITS OF BUSINESS CREDIT REFORMS: KEY EXAMPLES

Overview

Under the government's business credit reforms:

- all off-road business use of taxable fuel would be eligible for a credit or be excise free
- the existing urban-rural boundaries applying to excise relief for on-road business use of fuel by heavy vehicles would be removed
- credits would be available for all fuel use, including petrol and LPG, used in eligible activities

The impact of this reform would be to extend eligibility for a fuel credit to a significantly wide range of fuels, uses and sectors. For example:

- new business activities would include manufacturing, quarrying for cement, road-building materials and building stones, and construction
- other major beneficiaries include primary producers, mining and commercial power generation
- all business, including current recipients in the mining and primary production sectors, will benefit from the extension of credits to currently ineligible activities
- businesses currently eligible for partial rebates of excise for on-road activities would pay only a road-user charge to cover the real cost of heavy vehicle road use

A comprehensive list of new activities eligible for a business credit is provided at [Attachment A](#) and examples of key affected sectors are outlined below.

The government's reforms also remove the range of complexities and distortions under the current rebates, subsidies and grants (highlighted in [Attachment C](#)).

Some examples at the sectoral level are also presented below.

Sectoral Impacts

It is estimated that the government's business credit reforms will provide significant excise relief for tens of thousands of businesses across Australia.

Agriculture, Fishing & Forestry

Businesses involved in primary production (agriculture, fishing and forestry) will benefit from the business credit reform, which extends eligibility for an excise credit from the current set of restricted activities to all off-road agricultural and associated activities.

There are currently around 465 000 businesses involved in primary production in Australia (based on ABS Australian Business Register ANZSIC industry data) and many of these will benefit from the reforms as they become eligible to receive

additional credits for currently ineligible activities (as outlined in [Attachment A](#)). Currently, around 120 000 primary producers receive credits under existing schemes.

Primary producers will also benefit from the extension of the scheme to all fuels, including petrol. This means, for example, that farmers will now receive a credit for off-road business use of petrol in their utility vehicles and 4 wheel motorcycles.

Eliminating the exclusions and complexities of the current schemes' eligibility criteria will also benefit primary producers. For example, pastoralists and subcontractors will now be able to claim a credit for excise paid on all fuel that they use harvesting their crops, preparing them for market and transporting them between silos. Currently only some of their activities receive excise relief. The off-road transport of livestock to an abattoir, saleyard or holding pen will also now get a credit under the arrangements for heavy vehicles. Currently, only transport of livestock for agistment is eligible.

Mining

Mining companies - including those involved in the quarrying of materials for use in building, road making, landscaping and construction - will now be able to claim a credit for the excise paid on fuel used in all activities that they undertake 'off-road'. All quarrying and extractive activities will now receive a credit, removing a major distortion in the current system.

There are currently around 14 000 businesses involved in mining activities in Australia and around 3 400 of these businesses receive credits under existing schemes. Many mining businesses will benefit from the expansion of excise credits – particularly quarrying and extractive businesses that have not received off-road rebates to date. There are around 2 800 businesses currently involved in these activities.

Miners will also now be able to claim a credit for all diesel that they consume while processing their minerals, or which is consumed by all vehicles - both heavy and light - which they use in off-road exploration and production activities. The exclusions under the current schemes mean this level of excise relief is not provided.

Construction

Construction companies will for the first time be eligible for a credit for excise paid on diesel (and any other fuel) that they use in off-road business applications. There are around 676 000 businesses involved in construction activities that will now have access to a credit under this reform.

By removing the current scheme's exclusion of activities in this key industry, the business credit reform allows construction companies to claim a credit for excise paid on diesel used in earthmoving and in building infrastructure.

Manufacturing

The business credit reform will give manufacturers access for the first time to a credit for excise paid on diesel that they use in their off-road operations. There are currently around 255 000 businesses involved in manufacturing activities that will now have

access to fuel excise credits for their fuel use. This includes manufacturing of metals and metal products, mineral products, wood, paper, printed products, foods, beverages and tobacco.

Marine and Rail Transport

Under the business credit reform, companies involved in marine and rail transport will be able to claim a credit for excise paid on diesel used in all off-road transport activities. The reform will also extend a credit to all fuels used in related activities, such as constructing, maintaining and operating marine and rail infrastructure. This will remove a complexity of the current scheme, which allows transport companies to claim for the diesel that they use in powering their engines but not for building and maintaining the infrastructure that the boats and trains need in order to operate. Around 5 000 businesses involved in marine and rail transport activities will now have access to fuel excise credits for all fuel used in all off-road activities.

Road Transport

Under business credit reform, businesses operating vehicles with a gross vehicle mass of at least 4.5 tonnes used in on-road transport will qualify for a partial credit of excise paid. The remainder will represent an official, non-hypothecated road-user charge. Vehicles eligible for a credit will include around 54 000 heavy petrol vehicles that have not previously had access to credits. Should the excise paid on a fuel be less than the road-user charge, the partial excise credit will be set at zero. Any additional excise collected by the government to encourage the introduction of cleaner fuels will not be covered by this partial credit.

Companies operating heavy transport vehicles in metropolitan areas will benefit from this extension. The business credit reform eliminates the exclusions and complexities of the current schemes' eligibility criteria. For example, courier companies operating vehicles weighing at least 4.5 tonnes and less than 20 tonnes GVM solely in metropolitan areas will now - for the first time - be able to claim a credit for the excise that they incur on the fuel that they use, provided that they meet the environmental conditions discussed earlier.

Power Generation

From 1 July 2006, all power generation businesses will be eligible to claim a credit for excise paid on all their fuel uses. This includes diesel used in commercial power generation, lowering the cost of producing electricity in regional and remote areas. The business credit reforms will extend the credit to all businesses generating electricity for their own use as well as those involved in the supply, transmission and distribution of electricity. There are around 1100 power generation businesses, with less than 10 per cent receiving credits currently.

State and Local Governments

Local and state governments will also benefit significantly, with credits being provided for a range of government activities. For example, State and Territory governments and statutory bodies will gain from the credit on infrastructure construction, large-scale electricity generation and water supply and conservation activities. Local governments will gain from the extension of the full credit to the

maintenance of municipal sportsgrounds, gardens or golf courses, amenity horticulture (e.g. growing of flowers/trees in parks, playgrounds and cemeteries) and local public works activities. Part of this benefit will likely be passed on to consumers in increased services or quality of services and lower electricity, water or transport prices.

IMPACT OF BUSINESS CREDIT REFORMS: CASE STUDIES

Outlined below are six hypothetical case studies which illustrate the complex and distortionary nature of existing rebate, grant and subsidy schemes and the unnecessary costs and compliance burdens they impose on business. They also show the benefits of the single business credit that replaces these schemes.

CASE STUDY 1: Mining Company

- *The Oz Mining Company mines limestone in order to manufacture cement, quicklime, and agricultural products such as stockfeed and soil de-acidifier.*
- *The diesel fuel used to mine the limestone for manufacture in cement and stockfeed is ineligible for an off-road credit.*
- *But the diesel fuel used in mining the limestone for use in de-acidifying agricultural soil is currently eligible for a credit, while the fuel used in mining the limestone for manufacturing quicklime may be eligible for a credit depending on the manufacturing process.*
- *The diesel fuel used to transport waste from Oz Mining mine site may be eligible for an off-road credit, depending on end-use of the limestone being transported.*
- *All excisable fuels used in these off-road activities would be effectively excise free under the Business Credit reforms.*

CASE STUDY 2: The Grain Production Process

- *Bill Farmer cultivates grain.*
- *Bill Farmer is eligible to receive an off-road credit for diesel fuel used in the cultivation and gathering in of the grain.*
- *The loading and unloading of the grain from his semi-trailer to the first point of storage is currently eligible for an off-road credit as part of the gathering in of the crop. However, further loading/unloading of the grain for transport to subsequent storage points is currently not eligible for an off-road credit.*
- *When Bill Farmer transports the grain to the silo, he is eligible for an on-road credit for fuel used on road.*
- *Any further handling and road transport of the grain however is not currently eligible for an off-road credit, as it occurs after the gathering in of the crop. For example, the transfer between silos on a large storage site, mixing of the grain, or bagging of the grain is not eligible for an off-road credit.*
- *Drying of the grain at the silo is not eligible for an off-road credit. However if the grain drying is undertaken at Bill Farmer's property, it is eligible for an off-road credit.*
- *To get the grain to the market, Bill Farmer is eligible for an on-road credit where the grain is transported on-road. If the grain is transported by rail or marine transport, the diesel fuel used is eligible for an off-road credit.*

CASE STUDY 2: The Grain Production Process, cont'

- *If Bill Farmer builds a silo on his property (either by himself or a contractor), the fuel used in its construction is eligible for an off-road credit.*
- *If however the silo is built on the property of Bill Farmer's agent, the fuel used in its construction is not eligible for a credit.*
- *All excisable fuels used in these activities would receive credits under the Business Credit reforms.*

CASE STUDY 3: Livestock and Production for Sale

- *Pharlap Company breeds stock horses for use on farms. They also breed racehorses and grow a fodder crop for sale as stock feed.*
- *Pharlap Company is eligible for an off-road credit for the diesel fuel used in the rearing of the stock horses for sale.*
- *However, diesel fuel used in the rearing of the racehorses (as they are not defined as livestock) is not eligible for an off-road credit, so fuel use needs to be apportioned.*
- *If Pharlap Company sell the fodder crop, fuel used in the cultivation of the crop is eligible for an off-road credit.*
- *However, if they feed the fodder crop to their own racehorses, fuel used in the cultivation of the crop is not eligible for credit as it is not benefiting a business undertaken to obtain produce for sale.*
- *All excisable fuels used in these activities would receive credits under the Business Credit reforms.*

CASE STUDY 4: Cattle Care Activities

- *Round 'Em Up Company rears cattle as a commercial enterprise.*
- *Diesel fuel used in the rearing of the cattle is eligible for an off-road credit.*
- *If the cattle are transported to another property for agistment, the fuel used in transport is eligible for an off-road credit and/or an on road credit.*
- *However, if the cattle are transported to a holding pen, saleyard or abattoir, the fuel used in transport is not eligible for an off-road credit - even if the cattle are held in the pen and fed and watered for a few days.*
- *Fuel used in the care of the cattle at the holding yards is not eligible for an off-road credit.*
- *The company is eligible for on-road credit for fuel used in further transport of the cattle.*
- *All excisable fuels used in these activities would receive credits under the Business Credit reforms.*

CASE STUDY 5: Construction Company

- *G. Rush Co. mines gold. The gold is to be beneficiated at a site some 20 miles away.*
- *The company is eligible for an off-road credit for fuel used in the preparation of the mine site for the construction of buildings, to enable mining for minerals to commence.*
- *The company is eligible for an off-road credit for fuel used in the construction of buildings to enable the beneficiation of the mineral.*
- *However, the company is not eligible for an off-road credit for the fuel used for preparation of the site to enable the construction of buildings to enable beneficiation of the mineral*
- *All excisable fuels used in these activities would receive credits under the Business Credit reforms.*

CASE STUDY 6: Parcel Delivery Business

- *Michelle's Parcel Express operates a 4.5 tonne truck out of Noosa.*
- *The business services a wide area ranging from Nambour in the north to as far south as the northern suburbs of Brisbane.*
- *Noosa is part of the Sunshine Coast-Brisbane –Gold Coast metropolitan area defined under the existing on-road scheme. Journeys undertaken wholly in this area are ineligible for a grant whereas journeys that cross the metropolitan border are eligible for a grant.*
- *Some of the businesses delivery points are inside the metropolitan area, eg Maroochydore, Buderim and Caloundra, and others are outside the metropolitan area, eg Nambour, Bribie Island and Caboolture.*
- *Daily services involve delivery of goods to some or all of these locations.*
- *The eligibility of each leg of the delivery round for an on-road credit is determined by the starting point of the journey, what goods are on board the truck when it arrives at a particular point and what goods are loaded and unloaded at each point. For instance if the daily delivery involved delivery of goods at Bribie Island and Caboolture only then the entire round trip would be eligible.*
- *If however goods were delivered to Caloundra on the way to Caboolture, then only that part of the trip from Caloundra onwards would be eligible.*
- *All excisable fuels used in Michelle's deliveries would receive credits under the Business Credit reforms.*

BACKGROUND: EXCISE REFORM

Outlined below is background information on recent government announcements relating to fuel excise reform and on the work of the Energy Committee of Cabinet and the Energy Task Force.

Previous Government Announcements

In 2003 the government made two announcements in relation to excise reform – an announcement on 13 May by the Treasurer in the 2003-04 Budget context and a subsequent announcement by the Prime Minister on 16 December.

2003-04 Budget

The main elements of the government's 2003-04 Budget announcement were that:

- the government will reform the existing fuel tax arrangements to bring all currently untaxed fuels used in internal combustion engines into the system
- fuels that will become excisable will include liquefied petroleum gas (LPG), liquefied natural gas (LNG) and compressed natural gas (CNG)
- no excise will apply to new fuels entering the excise system until 1 July 2008
- excise will then be introduced in five equal annual steps to a final rate on 1 July 2012
- final excise rates to apply to fuels will be determined later that year, and will take into account factors such as the energy content of fuels
- the reforms will establish a fairer and more transparent fuel excise system (with improved competitive neutrality between fuels) and provide the opportunity for currently untaxed fuels to establish their place in the market place
- the reforms fulfil the government's existing commitments concerning the tax treatment of fuels

16 December 2003

The key elements of the 16 December announcement (as foreshadowed in the Budget announcement) were that:

- for administrative simplicity, a banded fuel excise system will be adopted, with differing rates for high (38.143cpl), medium (25cpl) and low (17cpl) energy fuels, as outlined in the table below

Fuel type	Energy Content (megajoules per litre)	Excise Rate (cents per litre)	Alternative Fuels (cents per litre)
High-energy content fuels: e.g. Petrol, diesel, GTL diesel, biodiesel	Above 30	38.143	19.1 (Biodiesel)
Mid-energy content fuels: e.g. LPG, LNG, ethanol	Between 20 – 30	23.0	12.5 (LPG, ethanol, LNG)
Low-energy content fuels: e.g. Methanol	Below 20	17.0	8.5 (methanol)
Other: e.g. CNG	Between 38 - 41 {megajoules per cubic metre}	38.0 {cents per cubic metre}	19.0 {cents per cubic metre}

- excise on diesel and petrol would remain unchanged under the banded system
- alternative fuels entering the excise system will receive a discount of 50% on the full energy content rate (e.g. while petrol and diesel excise will remain at 38.143 cents per litre (cpl), excise on LPG, LNG and ethanol will be 12.5 cpl – half their energy content value; biodiesel and CNG will be excised at 19cpl)
- the transition path for fuels entering the excise system will be as follows (as adjusted in March 2004)

FUEL TYPE	1 July 2006	1 July 2007	1 July 2008	1 July 2009	1 July 2010	1 July 2011	1 July 2012	1 July 2013	1 July 2014	1 July 2015
High-energy content Biodiesel	0	0	0	0	0	3.8	7.6	11.4	15.3	19.1
Mid-energy content LPG, LNG, ethanol	0	0	0	0	0	2.5	5.0	7.5	10.0	12.5
Low-energy content Methanol	0	0	0	0	0	1.7	3.4	5.1	6.8	8.5
Other CNG (cents per m ³)	0	0	0	0	0	3.8	7.6	11.4	15.2	19.0

- excise will not be levied on domestic (eg heating and cooking) uses of gaseous fuels such as LPG and business use of gaseous fuels (LPG, CNG, LNG) in non-transport applications (eg power generation) will also be effectively excise free
- additional assistance would be provided for the LPG sector (through a \$1000 subsidy starting 1 July 2011 and concluding 30 June 2014 for purchases of dedicated or dual fuel LPG vehicles delivered new) to assist its transition into the excise net
- these excise reforms represent a first tranche in the development of a comprehensive package of transport-related measures, including broad-based reform of the business excise credit system and future road funding