



FUNDING THE FUTURE

Towards a green tax reform plan to accelerate sustainable economic recovery & the transition to a low eco-impact society

March 2009

Introduction

The Total Environment Centre, through its corporate sustainability program Green Capital, is investigating the role that tax reform can play in accelerating the rise of a sustainable economy. This is part of our S3i initiative, which targets unsustainable short-termism in business and government decision-making, and promotes incentives, innovation and investment for long-term sustainability.

We expect the 'Funding the Future' events being held in Sydney (March 24) and Melbourne (March 31), and earlier workshops hosted by Green Capital will feed into the Australia's Future Tax System (AFTS) review, headed by Treasury Secretary Dr. Ken Henry. Written submissions to the review close on May 1, 2009, and a final report is to be handed to the Australian Government by Dr. Henry in November.

The AFTS represents an historic opportunity to bring the taxation system, a major lever in our economy, into greater alignment with environmental, social and economic imperatives to drive action on climate change and wider issues for a sustainable society. The review is expected to set the stage for the tax system for the next 20 years or even longer, and is likely to identify key areas for further investigation as well as recommend specific reforms.

The AFTS consultation paper says: 'Australia faces significant environmental challenges in the 21st century, ranging from global issues, such as climate change, to local issues, such as water scarcity, land degradation and species loss. Economic development must be undertaken in an environmentally sustainable way, while also recognising that the environment itself has value. Taxes may provide one means of improving environmental amenity. The tax-transfer system can also detract from environmental outcomes through the incentives it creates. Such incentives need to be carefully evaluated against other policy objectives.'

The 'bads' of the tax system

As Australia debates the emissions trading scheme in 2009 it becomes clearer by the day that starting the transition to a low-carbon, more sustainable economy can't just be left to one part of the regulatory system and the markets.

We need strong market interventions through direct regulation, additional or complementary measures such as renewable energy and energy efficiency targets, and of course – reform of the taxation system.

The Total Environment Centre believes Australia now has an unprecedented opportunity to harness the tax system to help drive the nation towards a more sustainable future – environmentally, socially and economically.

The global recession now coming to Australia is a mixed blessing for the environment movement.

On one hand we're being told we can't afford to introduce emissions trading and other environmental measures because it will kill investment and jobs.

On the other hand the emperor of the capitalist system has rarely looked more bereft of clothes. Governments are intervening in the financial markets massively, so why not do the same for the environment?

In fact, we've seen the US and other governments around the world making so-called 'green stimulus' a significant feature of their economic bail-out packages, and Australia has echoed the trend in areas like the \$6 billion 'green car plan' and the \$4 billion 'green home retrofit' initiative.

'Green skills', 'green jobs' and a 'green gold rush' are now concepts being expounded by governments and the trade union movement, not just a few environmentalists.

So what is the role of the tax system in delivering the greener, more sustainable economy we desperately need on economic and environmental grounds?

TEC has taken a strong interest in tax because we know government uses it as a lever to change business and taxpayer behaviour. There's always debate about how effective and legitimate tax is as a tool for behaviour change, but we know it gets used.

A non-environmental example is private health care insurance. When the Howard Government wanted to drive more people into private health care it used the tax system. Over the years when governments have wanted to drive introduction of cleaner and less-toxic fuels they've used a carrot of varying the fuel excise.

Accelerated depreciation is an incentive approach, as is R&D tax concessions.

There are big issues and big dollars at stake.

Australia is spending \$11 billion plus in a desperate attempt to save the environment and the economy of the nation's food bowl, the Murray Darling Basin, yet we don't realistically tax or 'price' the extraction of our precious water resource. As a consequence water was squandered.

We have the Rudd Government's \$6 billion 'a new car plan for a greener future' to save car manufacturing in Australia, but there's no guarantee Australians will become overnight fans of locally-manufactured more fuel efficient vehicles without some other interventions, including tax reform.

Currently Fringe Benefits Tax encourages company car beneficiaries to drive more rather than opt for green vehicles; the Luxury Car Tax focuses on sale price rather than pollution; and other provisions discourage companies from moving employees out of cars altogether and on to public transport.

On the roads there's a question of whether traditional revenue-raising through fuel excises will continue to be effective to raise funds for building and maintaining roads. Fuel-efficient and electric vehicles will pay a lot less fuel excise, but they'll still want to use roads and will cause congestion.

A 2005 report for the Business Council of Australia estimated road congestion costs by 2015 at \$30 billion a year for Australia. In 2007 the federal Bureau of Transport and Regional Economics put the avoidable costs of congestion on Australian roads at \$9.4 billion in 2005 rising to over \$20 billion by 2020. The 2020 figure includes private time costs of \$7.4 billion, business time costs of \$9 billion, extra vehicle operating costs of \$2.4 billion and extra air pollution costs of \$1.5 billion.

At the same time the latest climate modeling for the NSW Government suggests dangerous ozone pollution in Sydney will be an almost daily occurrence by 2030, with vehicle emissions a key issue. The Bureau of Transport and Regional Economics has estimated that air pollution from cars is killing 2000 people a year already in Sydney.

We want to dig deeper into how tax reform can help.

Preliminary Position

Our 'draft green tax plan' summarises the preliminary position developed by TEC and Green Capital based on:

- An extensive review of submissions already made to the tax review;
- The review's own consultation paper and public statements;
- Wider research by TEC and Green Capital;
- Direct engagement with business, government and community stakeholders.

This position will be further informed by the Funding the Future events and other engagement. All participants in the Funding the Future events and Green Capital sponsors and subscribers are invited to make inputs to this process.

Draft Principles

The following principles are proposed for use in framing 'green tax reform' proposals:

- The current tax system does cause harm to the environment, including through perverse incentives that conflict with sustainability imperatives such as carbon pollution reduction;
- The tax system is a legitimate tool for delivering better environmental outcomes as part of a successful and sustainable economy and is capable of exerting significant influence on business and individual consumers' behaviour;
- However, tax measures on their own are not necessarily the best way to drive change in behaviour and tax reform is likely to be most effective when integrated with other policy initiatives and economic levers;
- Tax reform measures that will be equitable and revenue neutral over time have the best chance of being adopted, with proponents for change bearing a responsibility to articulate how new measures will operate fairly and effectively, and pay their way (i.e. through new/replacement revenue streams, greater productivity, reduced demands on the budget etc.)

Preliminary Focus Areas

So what are the tax reforms we need to ensure a cleaner, healthier and wealthier future, while also having an eye to the immediate demand for stimulus to reinvigorate the Australian economy in the face of a global recession? Based on the principles above and initial assessment by TEC and Green Capital, we have focused on:

- A longer-term shift to full-cost recovery road-user charging for cars and trucks, moving from the current fuel excise system to a user-pays, per-kilometre charge for road users enabled by satellite-tracking technology. This is consistent with emerging trends in North America and Europe, where fuel excise is starting to fail as the mechanism for funding roads as vehicles become more fuel efficient and in the future as we move to electric vehicles. Other measures such as moving from the Luxury Car Tax to a 'Polluting Car Tax' should be considered.
- Transforming Fringe Benefits Tax (FBT) provisions for company cars that perversely promote increased vehicle use, and creating FBT-related incentives for companies to assist employees to move from private vehicles for commuting to public transport, walking and cycling and/or flexible working arrangements such as tele-commuting. These measures should be aligned with greater investment in public transport and the government's \$6 billion car plan and its support for greener vehicles, and could be phased in over several years.
- Accelerated 'green depreciation' for investment in energy-efficiency and other environmentally beneficial retro-fits for buildings and also industrial facilities and equipment. This area has potential to provide 'green stimulus' in the current severe economic downturn by bringing forward investment in areas with an inadequate commercial rate of return (i.e. greater than 3 years) and could include 'sunset' clauses. Waste processing and recycling infrastructure is a key industry area where accelerated depreciation could drive investment and jobs; and prevent resources being wasted by going to landfill.
- Rethinking the pricing of the royalties and rentals we put on our nation's precious natural resources, with a core objective to encourage sustainable use of renewable resources and reduce unsustainable use of non-renewable resources. While the principle of including externalities in pricing is becoming increasingly accepted – can the market operate sufficiently well to take account of scarcity? In theory higher prices lead can lead to access for previously uneconomic resources. However, in the transition we would see serious equity impacts; and some of the alternatives can have very high environmental impacts, for example from exploitation of oil sands or coal liquefaction.
- Specific measures to further encourage investment in R&D for green technology and services, their accelerated deployment and 'green skills training' including re-training in key areas such as building trades (i.e. construction, electrical and plumbing). The CSIRO report, 'Growing the Green Collar Economy' found that under a resource efficiency scenario (use of gas and renewables, energy efficiency, public transport, changed eating habits, etc) there would be employment growth of several hundred thousand jobs in the next ten years, more in 20, but there must be readily available skills, education and training.