

06 TiF – 013 Fuel Tax Bill 2006

29 March 2006

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## Introduction

On 29 March 2006, the Minister for Revenue and Assistant Treasurer, Peter Dutton, introduced *Fuel Tax Bill 2006* and *Fuel Tax (Consequential and Transitional Provisions) Bill 2006* into the House of Representatives. The proposed legislation will take effect from 1 July 2006, establishing a system of fuel tax credits to replace the grants now provided under the Energy Grants Credits Scheme. The proposed legislation will make available fuel tax credits to nearly all organisations that use fuel in the course of their enterprise (and private individuals in limited circumstances).

## Key aspects

The *Fuel Tax Bill* has been modelled on the *A New Tax System (Goods and Services Tax) Act 1999 (GST Act)*, with fuel tax credits to be treated in the same way as input tax credits and claimed through the Business Activity Statement (BAS). Attribution rules similar to those for GST will apply to fuel tax credits. A GST group's representative member will claim fuel tax credits for members of a GST group. Eligibility for fuel tax credits will be wider than the existing grants scheme and the *Fuel Tax Bill* will also impose some additional environmental requirements.

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## Additional eligibility

### On-road

All on-road use by vehicles with a gross vehicle mass (GVM) of more than 4.5 tonnes will be eligible for fuel tax credits from July 2006. The metropolitan boundary restrictions that now apply to grants for fuel used in on-road vehicles between 4.5 and 20 tonnes GVM will be abolished. On-road fuel tax credit eligibility will also include petrol-powered vehicles over 4.5 tonnes GVM.

The amount of the fuel tax credits available for on-road use will be similar to the grants available under the existing scheme – equivalent to the fuel tax paid, less a hypothecated ‘road user charge’ of around 20 cents per litre.

### Off-road

Fuel used in power generation, including commercial power generation, will be eligible for a full off-road fuel tax credit from July 2006. Activities that are currently eligible under the existing Energy Grants Credits Scheme, including agriculture, fishing, forestry, mining, marine and rail transport and other specified applications will remain eligible for a fuel tax credit for the full amount of the fuel tax paid.

From July 2008, all other off-road business use of taxable fuels will become eligible for a 50 percent credit of the fuel tax paid. This will include activities that were previously excluded, such as some construction activities. From July 2012, there will be credits available for the full amount of the fuel tax paid.

## Additional requirements

### Vehicle standards

To be eligible for fuel tax credits, diesel powered vehicles will need to comply with one of five emissions performance criteria:

- have been manufactured after 1 January 1996;
- be part of an accredited audited maintenance programme;
- comply with Australian Transport Council’s in-service emission standards;
- comply with a government endorsed maintenance schedule that includes an emissions component; or
- be a dedicated farm vehicle.

### Greenhouse Challenge Plus

Organisations claiming more than \$3 million per year in fuel tax credits will be required to join the *Greenhouse Challenge Plus* programme. Members of this programme will be required to calculate emissions of carbon dioxide equivalent (CO<sub>2</sub>-e), develop action plans for greenhouse gas abatement and periodically report progress to the Government.

## Transition

Grants available for the use of diesel under the Energy Grants Credits Scheme will cease on 30 June 2006. Certain claims under this scheme will be allowed until 30 June 2007. Claims for diesel used in the period between 1 July 2003 and 30 June 2006 will be claimed as either grants or as fuel tax credits.

## Other key changes

### eGrant

The eGrant system, which enables fully eligible on-road vehicle operators to have fuel grant claims made on their behalf by fuel suppliers, will be abolished. All fuel tax credit claims will need to be made through the BAS.

### Alternative fuels

Fuel tax credits for alternative fuels (such as biodiesel, ethanol, liquefied petroleum gas (LPG), liquefied natural gas (LNG) and compressed natural gas (CNG)) will be phased out between 2006 and 2011. Fuel tax will progressively apply to alternative fuels from July 2011. The full amount of the fuel tax paid on alternative fuels used off-road by organisations will be creditable.

## What you should consider

**Fuel usage:** Does your organisation purchase fuel for business use? Are there activities that are currently ineligible for on-road or off-road fuel grants that will become eligible for fuel tax credits after July?

**Diesel vehicle fleet compliance:** Do you have diesel-powered vehicles that comply with the new requirements for eligibility?

**Current and expected fuel tax credit amounts:** Do you expect to claim more than \$3 million in fuel tax credits per year and need to join the *Greenhouse Challenge Plus* programme to receive all your fuel tax credits? Who will be responsible for compliance with the *Greenhouse Challenge Plus* programme?

**Internal reporting systems:** How will you align your fuel tax credit claim process with your BAS reporting procedures? Rules similar to those applying for GST branches, groups and joint ventures will also apply for fuel tax credits. If your organisation is now claiming under the eGrant system, after July it will need to calculate its fuel tax credit entitlements. This may require increased coordination with business units in your organisation that will need to provide the relevant information.

**Fuel tax credit calculation:** Does your organisation use multiple fuels with varying on-road and off-road eligibility? Consider how you will calculate the correct amount of fuel tax credits to claim in the BAS.

**Records:** Do you have systems in place that will record compliance with vehicle eligibility, eligible use and if necessary substantiate fuel tax credit claims?

**Transition issues:** Can you sensibly defer any activities that are currently ineligible until after they become eligible for a fuel tax credit in July? For example, fuel in the tanks of 4.5 to 20 tonne GVM vehicles for which on-road grants are not currently claimed might be minimised towards the end of June and replenished in July.

**Alternative fuels:** Is there a potential business case for the increased use of alternative fuels, together with various incentives provided by government?

**State fuel subsidies:** States often provide subsidies for the on-road use of fuel through different schemes. Consider whether your current fuel acquisition arrangements ensure you are accessing these schemes.

**Unclaimed grant entitlements:** In managing the transition to fuel tax credits, it may be worthwhile to review existing claims under the outgoing Energy Grants Credits Scheme. Do you have unclaimed fuel grant entitlements from the previous three years? Should past entitlements be claimed as grants or as fuel tax credits?

## How to Contact Us

### Fuel Tax Contacts

Sydney

**Marie Wheat**

Bus Tel: +61 2 9335 7776

Email: [mwheat@kpmg.com.au](mailto:mwheat@kpmg.com.au)

Melbourne

**Ian Farrow**

Bus Tel: +61 3 9288 5466

Email: [ifarrow@kpmg.com.au](mailto:ifarrow@kpmg.com.au)

Perth

**Jack Lauren**

Bus Tel: +61 8 9263 7167

Email: [jlauren@kpmg.com.au](mailto:jlauren@kpmg.com.au)

### Australian Tax Centre

**Matthew Hayes**

Bus Tel: +61 2 9335 7503

Email: [mwhayes@kpmg.com.au](mailto:mwhayes@kpmg.com.au)

Brisbane

**Keith Polkinghorne**

Bus Tel: +61 7 3233 3157

Email: [kpolkinghorn@kpmg.com.au](mailto:kpolkinghorn@kpmg.com.au)

Perth

**Phil Renshaw**

Bus Tel: +61 8 9263 7136

Email: [prenshaw@kpmg.com.au](mailto:prenshaw@kpmg.com.au)

Adelaide

**David Kuhne**

Bus Tel: +61 8 8236 3140

Email: [dkuhne@kpmg.com.au](mailto:dkuhne@kpmg.com.au)