

Carbon Tax

The science is (apparently) in...
a carbon tax is the way to green

Following decades of debate, Prime Minister Julia Gillard last night (10 July) succinctly consolidated the Australian Government's views to what is surely one of the most controversial issues of our time:

"Most Australians now agree our climate is changing, this is caused by carbon pollution, this has harmful effects on our environment and on the economy - and the Government should act.

Economists and experts agree that the best way is to make polluters pay by putting a price on carbon."

Irrespective of whether Ms Gillard's statement reflects the views of most Australians, economists or experts, if enacted as announced yesterday, Australia will introduce a so-called "carbon tax" from 1 July 2012.

In short, approximately 500 of Australia's largest polluters will need to purchase and surrender permits from the Government for every tonne of carbon pollution they produce. The Government claims that this will account for approximately 60% of Australia's carbon pollution.

The Government has set a commencement price of \$23 per tonne of carbon pollution, which will rise (in real terms) by 2.5% per annum during the regime's 3 year term. Thereafter, from 1 July 2015, it is proposed that the regime will be transitioned to an emissions trading scheme (ETS). An ETS will allow the market (with limited proposed Government intervention) to establish the price for carbon pollution.

Impact on business

The Government has proposed specific laws to address the income tax implications associated with the proposed regime. It is anticipated that the relevant permits will be taxed in a similar fashion to conventional trading stock.

The Government has proposed that the permits will be GST-free. Interestingly, given

that it represents a change to the current GST base, such treatment will require the agreement of the States and Territories. The financial transactions that will invariably accompany the regime, e.g. derivatives, will attract the current GST treatment.

To assist small business adjust to a carbon price, the Government proposes that for businesses with an aggregated turnover of less than \$2m a year, the small business instant asset write-off threshold will be increased from \$5,000 to \$6,500 for depreciable assets from the 2012-13 income year. The Government, as part of its 2010 election promises, proposed to introduce a tax write-off for any new business asset that costs up to \$5,000 for small business companies, sole traders and partnerships.

The Prime Minister said that, from 2012-13, fuel tax credits will be reduced for businesses (with some exceptions) so that they face an effective carbon price "like other heavy polluters". Businesses in the agriculture, fisheries and forestry industries will be exempt from the reduction in fuel tax credits. Heavy on-road vehicles like semi-trailers will also initially be exempt from the fuel tax credit reductions. However, the Government says it intends to apply these arrangements to the heavy on-road vehicle industry from 2014-15 i.e. from 1 July 2014. Gaseous fuels such as LPG, LNG and CNG used for on-road transport will not be subject to an effective carbon price as their

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eligibility for a fuel tax credit is reduced to zero due to the Road User Charge.

Impact on individuals

Given the delicate balance of power in Canberra, it is apparent that the Government has attempted to minimise the impact of the carbon tax on most Australian households. To this end, the Government has pledged a combination of tax cuts and payment increases to compensate 9 out of 10 households for anticipated additional costs. It is claimed that:

"For almost 6 million households this will fully meet your average extra costs.

And of these, 4 million Australian households - including every older Australian who relies solely on the pension - will get a "buffer" for your budget, with the extra payments being 20 per cent higher than your average extra costs."

Intriguingly, it appears that 4 million Australian households will be economically better off under the Government's "great big new tax" as the Federal Opposition Leader, Tony Abbott, has coined it in recent months.

The Government is proposing a 2-step increase to the tax-free threshold as part of its carbon tax measures, with associated changes to the low-income tax offset (LITO). As such, the tax free threshold will

be increased from the current \$6,000 to \$18,200 from 1 July 2012 (and the LITO to reduce to \$445, i.e. down from the current \$1,500).

The Government proposes to further increase the tax-free threshold from \$18,200 to \$19,400 in 2015-16. The LITO will be reduced to \$300.

The Government is proposing increases to pensions and Family Tax Benefits as part of the compensation measures associated with the introduction of the carbon tax.

Related measures

The Government has proposed a number of additional measures to:

- (i) ensure Australia's energy security;
- (ii) encourage investment in renewable energy; and
- (iii) provide additional assistance to those industries most impacted by the carbon tax, i.e. the steel industry and the coal sector.

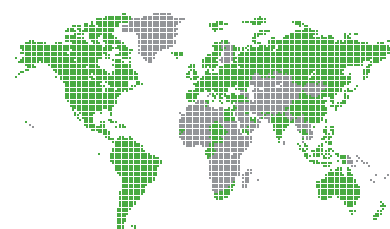
Unsurprisingly, the above measures translate to the introduction of a number of new bodies and programs, some of which include: the Climate Change Authority; the Energy Security Fund; the Energy Security Council; the Clean Energy Finance Corporation; the Australian Renewable Energy Agency; the Clean Technology Innovation Program; the Jobs

and Competitiveness Program; the Steel Transformation Plan; the Coal Sector Jobs Package; the Coal Mining Abatement Technology Support Package; the Clean Technology Program; the Clean Technology Investment Program; the Clean Technology Food and Foundries Investment Program; and the Clean Technology Innovation Program.

Passage to law

The Government has indicated that it will release draft legislation in respect of the carbon tax (and related measures) by 31 July 2011. A period of public consultation, and no doubt intense political campaigning, will follow with a view to introducing legislation into Parliament before the end of the year.

More information regarding the above measures can be obtained from the Government's Clean Energy Future website, located at: <http://www.cleanenergyfuture.gov.au/>.



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