AUSTRALIAN TRUCKING ASSOCIATION

NSW REVIEW OF FEDERAL FINANCIAL RELATIONS
DRAFT REPORT

AUSTRALIAN TRUCKING ASSOCIATION SUBMISSION
31 JULY 2020

1. About the Australian Trucking Association

The Australian Trucking Association and its member associations collectively represent 50,000 businesses and 200,000 people in the Australian trucking industry. Together we are committed to safety, professionalism and viability.

2. Summary of recommendations

Recommendation 1

The NSW Government should prioritise reform of Federal Financial Relations as part of the National Cabinet agenda.

Recommendation 2

The NSW Government should implement NSW Federal Financial Relations Review draft report recommendation 13, to work with the Board of Treasurers and state transport departments to design a nationally compatible and fair road user charging scheme for electric vehicles.

Recommendation 3

The NSW Federal Financial Relations Review should include current policies, such as Heavy Vehicle Road Reform, in its assessment of the issues impacting road funding.

Recommendation 4

The NSW Government should advocate that the RUC for electric heavy vehicles is determined through the existing PAYGO and future HVRR cost models, and that electric heavy vehicle costs are not recovered from other road users.

Recommendation 5

The NSW Federal Financial Relations Review should amend draft recommendation 14 to focus on replacing registration charges and Commonwealth fuel duties, and the need to assess the equity impact of a potential distance-based charge on both light and heavy vehicles which operate on longer distances, especially in rural and regional NSW.

Recommendation 6

The NSW Government should implement reforms to road funding decisions, including guaranteed funding periods and independent selection of projects.

Recommendation 7

The NSW Government should prioritise the implementation of an electric vehicle road user charge before consideration of a congestion charge trial.

Recommendation 8

The NSW Government should ensure that any proposed congestion charge trial does not replace urban roads optimisation works, does not set a truck charge multiplier and that the location of the cordon does not include major freight precincts or corridors.

Recommendation 9

The NSW Federal Financial Relations Review should assess the full cost impact on small business of its proposal to remove payroll tax exemptions.

Recommendation 10

The NSW Federal Financial Relations Review should assess alternatives to payroll tax.

Recommendation 11

The NSW Government should work with the Board of Treasurers to reduce the compliance and overall tax burden from payroll tax.

Recommendation 12

The NSW Federal Financial Relations Review should place a higher priority on the removal of motor vehicle stamp duties.

Recommendation 13

The NSW Government should work with the Board of Treasurers and the National Cabinet to reform and remove motor vehicle stamp duties, commencing with heavy vehicles.

3. Introduction

The financial relations between the Commonwealth and the states and territories are central to the level of tax collected from trucking and how road infrastructure is provided.

Trucking enables economic opportunity for the wider community. It provides access to goods and markets. The majority of non-bulk freight is transported by road. More efficient and competitive supply chains enable increased economic output from other sectors.

Trucking is also a small business industry that is characterised by fixed costs and tight margins. It is vitally important that the tax system is effective and seeks to minimise the burden that is imposed.

In the ATA's view, reform of federal financial relations is needed in three key policy areas:

- road charges and funding
- payroll taxes
- stamp duty on heavy vehicles.

Recommendation 1

The NSW Government should prioritise reform of Federal Financial Relations as part of the National Cabinet agenda.

4. Road charges and funding

Chapter eight of the draft report rightly focuses on road funding as a critical issue for the states' financial relationship with the Commonwealth.

Three road funding recommendations are made:

> *Draft report recommendation 13:* The NSW Government should work with the Board of Treasurers and state transport departments to design a nationally compatible and fair road user charging scheme for electric vehicles.
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> *Draft report recommendation 14:* Once distance-based charging for electric vehicles has been successfully implemented, the NSW Government should work with the Board of Treasurers to replace vehicle registration, licence fees, stamp duties on motor vehicles and motor vehicle insurance with a distance-based charging scheme that better reflects the social costs of road use, including wear-and-tear, pollution and congestion. Revenue should be hypothecated to expenditure on roads and other transport infrastructure.
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> *Draft report recommendation 15:* The NSW Government should commence a trial for a congestion cordon around the Sydney CBD to better understand how Sydney drivers respond to time-based road pricing.[1]

[1] NSW Treasury. July 2020. NSW Review of Federal Financial Relations Draft Report. 11.

Road user charging for electric vehicles

Electric vehicle road user charging is a priority reform

The ATA strongly supports draft report recommendation 13. Road user charging for electric vehicles is a priority reform.

The draft report highlights that fuel excise revenue is not keeping pace with the increases in vehicle kilometres travelled across Australia.[2] This structural decline will undermine the ability of governments to maintain the road network. Either the:

- road network will deteriorate, with an unacceptable impact on road safety
- burden of paying for the road network will fall solely on petrol and diesel vehicles, or
- cost of maintaining roads will be increasingly met by general taxation, which may have impacts for other priorities (such as funding schools, hospitals and other services) or require an increase in general taxation.

None of these represent an acceptable outcome. Opponents of an electric vehicle RUC need to address these issues.

The draft report also makes findings on the importance of price signals to individuals making transport choices and the effect on congestion. The draft report makes the argument that road users are not appropriately charged for their use, incentivising road use.[3] The lack of an electric vehicle RUC means this effect for passenger vehicles will only escalate in coming years. The draft report should clarify that heavy vehicles do pay for their road use and that the heavy vehicle cost base is recovered in registration and the fuel-based road user charge.

These issues are already a priority which need to be addressed. As noted in the draft report, the uptake of electric and low emission vehicles is expected to increase as their costs relative to petrol and diesel engine vehicles falls. Price parity is expected as early as 2025.[4]

Recommendation 2

The NSW Government should implement NSW Federal Financial Relations Review draft report recommendation 13, to work with the Board of Treasurers and state transport departments to design a nationally compatible and fair road user charging scheme for electric vehicles.

Road user charging is not about reducing electric vehicle uptake

As the draft report notes, implementing an electric vehicle RUC should not be seen as an attempt to discourage uptake of electric vehicles.[5]

The ATA supports implementing an electric vehicle RUC and at the same time has made recommendations to the Australian Government to accelerate the uptake of electric and hydrogen trucks. These policy objectives are not mutually exclusive.

[2] NSW Treasury. 2020. 83.
[3] NSW Treasury. 2020. 90.
[4] NSW Treasury. 2020. 84.
[5] NSW Treasury. 2020. 84.

ATA members are leaders in developing truck technology. For example, Daimler Truck and Bus will introduce the Fuso eCanter, an all-electric light truck, into the Australian market in February 2021.[6]

The ATA also agrees with the draft report finding that the upfront price of electric vehicles is a more important consideration to incentivising the uptake of electric vehicles.

Recommendations from the Chair of the Senate Select Committee on Electric Vehicles included that road user charging for electric vehicles should be phased in over a five-year period and eventually levied at an equivalent rate to fuel duty.

Evidence to the committee suggested that the up-front price premium on electric vehicles was a deterrent to their purchase, so additional recommendations focused on tax changes to reduce the upfront purchase price.[7]

The ATA considers that an electric vehicle RUC should not impose regulatory burdens on vehicles which operate across state borders. Accordingly, **the draft recommendation for a nationally compatible RUC, to be progressed in collaboration with other governments, should be implemented.**

Calculating a road user charge for electric heavy vehicles

For heavy vehicles, an electric vehicle RUC would need to be integrated into the existing heavy vehicle charges calculation model. Heavy vehicle charges are based on the PAYGO methodology (the National Transport Commission makes charging recommendations, with transport ministers making the final decision).[8]

PAYGO calculates a heavy vehicle cost base on the basis of historical government road expenditure and road usage data. The NTC calculates charges which recover the heavy vehicle cost base, while ensuring each vehicle class, on average, pays the attributable costs allocated to the vehicle category.[9] The charges are collected under the Commonwealth's fuel-based road user charge and state registration charges. Failure to collect the road user charge element from electric vehicles, or at least transparently account for it, would progressively undermine the charging model.

The NSW Government should ensure that heavy vehicle charges calculations transparently include electric vehicles.

- Where state governments implement an electric vehicle RUC, the RUC should be set within the PAYGO model
- Where state governments decide to not implement an electric vehicle RUC, then the amount of revenue attributable to electric vehicles should be determined and treated as a public subsidy, rather than cross subsidising electric vehicles within the model.

These issues should also be addressed in the Heavy Vehicle Road Reform (HVRR) process, which is not considered in the draft report.

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[6] Prime Mover Magazine. 29 July 2020. Fuso announces launch of all-electric eCanter in Australia.
[7] Australian Parliament. 2019. Senate Select Committee on Electric Vehicles Report. 137-140.
[8] NTC. December 2019. Heavy vehicle charges consultation report. 8.
[9] NTC. 2019. 10.

HVRR aims to turn the provision of heavy vehicle road infrastructure into an economic service where feasible. This work is being progressed by the Transport and Infrastructure Council. Any reform of road charging by the Board of Treasurers should not be at cross purposes with reform by the Transport and Infrastructure Council.

The HVRR consultation paper proposes that PAYGO be replaced with a building block model. The paper envisages that the new charging model would be used to set the road user charge on fuel and to recommend state registration charges.[10]

If adopted, this model should also be used to set the RUC for electric heavy vehicles.

Recommendation 3

The NSW Federal Financial Relations Review should include current policies, such as Heavy Vehicle Road Reform, in its assessment of the issues impacting road funding.

Recommendation 4

The NSW Government should advocate that the RUC for electric vehicles are determined through the existing PAYGO and future HVRR cost models, and that electric heavy vehicle costs are not recovered from other road users.

Broader distance-based charging reform

Draft recommendation 14 focuses on extending an electric vehicle RUC to the rest of the vehicle fleet, replacing vehicle registration, licencing, stamp duties on motor vehicles and motor vehicle insurance.

More work is needed before this recommendation could be agreed to by governments. The electric vehicle RUC would need to be transparently assessed before it was extended.

The existing recommendation does not include fuel duties, which would mean petrol and diesel vehicles would be paying double taxation. Any distance-based charging framework, if it were to proceed, should focus on replacing fuel duties and registration charges as the primary focus.

Governments would also need to transparently assess the outcomes of the National Heavy Vehicle Charging Pilot before draft recommendation 14 could be agreed.

The ATA understands that some operators in the pilot, especially those who transport goods over longer distances, would incur higher charges if the pilot settings were implemented.

This is not surprising, but reinforces that a distance based charge would have a greater impact on vehicles that travel longer distances. This would impact freight pricing (including to regional communities), and in light vehicles, apply a greater burden on rural and regional vehicle owners. All of this would require further consideration before it could proceed, with governments needing to ensure equity for regional and remote communities.

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[10] DITRDC, Heavy Vehicle Road Reform consultation paper: proposed changes to the way heavy vehicle charges are set and invested. June 2020. 16.

Recommendation 5

The NSW Federal Financial Relations Review should amend draft recommendation 14 to focus on replacing registration charges and Commonwealth fuel duties, and the need to assess the equity impact of a potential distance-based charge on both light and heavy vehicles which operate on longer distances, especially in rural and regional NSW.

Supply-side road funding reform

HVRR includes four reform elements for consultation:

- service level standards
- expenditure planning and determining what costs are recoverable from heavy vehicles
- independent setting of heavy vehicle charges
- dedicated road funding (hypothecation).[11]

A key element of HVRR which has not been addressed by the NSW review is the supply-side reforms of how road funding decisions are made. Deloitte Access Economics has previously assessed the likely benefits of the potential end states for HVRR, including potential distance-based charges. The analysis found the estimated economic benefits of reform rely heavily on supply-side reforms, such as those that would improve road funding decision making and improve the maintenance of assets.[12]

Both New Zealand and the United Kingdom have introduced reform elements that the NSW Government should implement to improve road investments. These include:

- government setting outcomes and priorities to be achieved by the transport network, with a guaranteed funding commitment, and
- independent selection of individual projects to achieve these objectives.

Improved certainty about the level of road funding can enable better approaches to maintenance, increasing the life cycle of the road asset.

Recommendation 6

The NSW Government should implement reforms to road funding decisions, including guaranteed funding periods and independent selection of projects.

[11] DITRDC. June 2020. 4.
[12] Deloitte Access Economics, Economic analysis of potential end-states for the heavy vehicle road reform. June 2017. xiii-xvii.

Congestion

The final road funding recommendation of the draft report (recommendation 15) proposes that the NSW Government should commence a trial of a congestion cordon around the Sydney CBD.

In terms of the need to price road use, and the higher likelihood (at this stage) of electric vehicle take up in urban areas, implementing an electric vehicle RUC should be the first priority.

The NSW Government (or any state government considering a congestion charge) should consider a number of specific issues in developing a trial—

Location of the proposed cordon

The specific location and borders of a congestion cordon are critical issues. Broadly, a cordon should capture light vehicle traffic that has alternative transport options and does not unnecessarily burden lower income households.

A cordon that included inner urban freight precincts would effectively be a tax on road freight operations, as road freight is not easily substituted to alternative modes.

Not impose a truck charge multiplier

The Grattan Institute's recommendation to implement congestion charges in Sydney and Melbourne (with higher charges for heavy vehicles) assumes that heavy vehicles take up more space on the road, accelerate more slowly and thus cause more congestion.

But this analysis does not account for the actual travelling road space requirements for trucks and cars or how many truck movements would be required if the urban freight task was to be moved in smaller, light commercial vehicles.[13]

The ATA's Truck Impact Chart illustrates that the road space requirements to move a set freight task reduces with the use of high productivity freight vehicles.[14]

Unlike passenger movements (which can often switch to public or active transport), freight movements are typically not discretionary and do not have a choice of mode. There should not be any multiplier for heavy vehicles under a potential congestion charge, which would be nothing more than a tax on goods.

[13] Grattan Institute, 2019, Right time, right place, right price, 14.
[14] ATA, March 2018, Truck impact chart.

Urban roads optimisation

Congestion charges do not replace the need for works to focus on the optimisation of the urban road network. Infrastructure Australia has previously recommended a Roads Network Optimisation Program which would include works such as optimising traffic flow through intersection treatments, traffic light sequencing, clearways and incident management.[15]

Additionally, road funding decisions to not provide infrastructure that would more effectively provide access for heavy vehicles contributes to unnecessary congestion in urban areas. The NSW Government decision to not provide onramps from the Sydney Gateway motorway project to the Cooks River Intermodal Terminal will lead to heavy vehicles continuing to transport through the inner urban residential suburb of Mascot. Whilst industry has strongly advocated to be able to access the motorway for this freight route, government decisions will see the route remain going through an inner urban suburb. Examples such as this should not be within a congestion cordon. Trucks should not be taxed as a result of the failure to provide appropriate infrastructure.

Revenue and charge setting

A congestion charge should also be more than just a simple road tax. In Singapore, the charge is based on achieving a set travel time. When congestion is worse, the charge increases, and when traffic is lighter, the charge reduces. The charge is designed to achieve a congestion outcome.

For confidence in the scheme, how the revenue is allocated is critical. It should be hypothecated to urban transport projects, which should include active and public transport projects but should also include the urban road network (recognising that not all transport choices can include a change of mode).

Recommendation 7

The NSW Government should prioritise the implementation of an electric vehicle road user charge before consideration of a congestion charge trial.

Recommendation 8

The NSW Government should ensure that any proposed congestion charge trial does not replace urban roads optimisation works, does not set a truck charge multiplier and that the location of the cordon does not include major freight precincts or corridors.

[15] Infrastructure Australia, February 2019, Infrastructure Priority List, 46.

5. Payroll taxes

The draft report recommends:

> *Draft report recommendation 12:* The NSW Government should propose that the Board of Treasurers collectively agree a strategic national approach to payroll tax reform that addresses the hollowing out of the tax base and the complexity this imposes on taxpayers.

The ATA supports reform to reduce the compliance burden of payroll tax on business where those reforms **do not increase the overall tax burden**. It is important that reforms do not impose new compliance burdens on small business, by imposing payroll tax on them in the name of 'broadening the base.'

The draft report focuses on the role of payroll tax in supporting state budgets and argues that payroll tax has a low economic cost. However, the draft report also notes that the impact of the tax most likely includes lower wages for employees and higher prices for consumers. These are significant.

Additionally, the draft report focuses on the competition between states to attract business through payroll tax incentives and reductions, arguing that this is eroding the payroll tax base. It also illustrates the payroll tax incentives that have been used in response to the 2019-20 bushfires and COVID-19. It is stated that the varying rates, exclusions and incentives create a compliance burden for business.

The Australian Government's 2015 Re:think tax discussion paper reached similar conclusions. It found that payroll tax was a relatively efficient way of raising revenue, but also that it was likely to be passed on in the form of lower wages and higher prices.[16]

The 2015 review also recognised that there is significant criticism of payroll tax, including its short-run impact on business costs. It also warned that a zero threshold would likely impose significant administrative costs and compliance burdens on very small businesses.[17] The NSW review draft report cites removing no tax-free thresholds as a reform goal. It is not clear that the compliance burden for small business has been appropriately assessed.

The 2010 Future Tax System Review (Henry Review) recommended that in time, payroll tax should be abolished.[18] The review recognised that the current structure of payroll tax is inefficient, but did not recommend broadening the base and removing exemptions as the policy answer.

COVID-19 has impacted the Australian economy through loss of jobs, loss of income and is now affected by weak demand.[19] The Australian Chamber,[20] Australia's largest and most representative business network has highlighted that payroll tax is inefficient and impedes business activity such as employing staff.

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[16] Australian Government. March 2015. Re: think tax discussion paper. 143.
[17] Australian Government. 2015. 144.
[18] Australian Government. December 2009. Australia's future tax system. Part one overview. Xviii.
[19] Grattan Institute. June 2020. The Recovery Book: what Australian governments should do now. 16.
[20] The ATA is a member of the Australian Chamber.

The Chamber argues that state and territory government have an over-reliance on payroll taxes as a revenue source and that reducing the payroll tax burden on business is necessary to support business and job growth as the economy recovers from the impact of COVID-19.[21]

Draft report recommendation 12 would potentially achieve the opposite, increasing the reliance of states and territories on payroll tax.

Now is not the time to increase the payroll tax burden, with the likely impact flowing through to lower wages and higher prices. Instead, existing state decisions to reduce payroll tax burdens reflects the right intent.

State and territory governments should:

- reduce the complexity of payroll tax, where that can be achieved without increasing the tax burden for business
- not increase the administrative burden of payroll tax for small businesses
- continue to lower the payroll tax burden on business.

Recommendation 9

The NSW Federal Financial Relations Review should assess the full cost impact on small business of its proposal to remove payroll tax exemptions.

Recommendation 10

The NSW Federal Financial Relations Review should assess alternatives to payroll tax.

Recommendation 11

The NSW Government should work with the Board of Treasurers to reduce the compliance and overall tax burden from payroll tax.

[21] Australian Chamber. July 2020. Pre-Budget Submission 2020-21. 5, 6.

6. Stamp duty on heavy vehicles

Stamp duties are economically inefficient. They restrict the efficient allocation of capital and labour. Governments should be looking at reducing their reliance on stamp duty as a matter of priority.

The Australia's Future Tax Review (Henry Tax Review) recommended in 2010 that there should be no role for any stamp duties in a modern Australian tax system.[22] In 2015, the Australian Government tax discussion paper noted that stamp duties are some of the most inefficient taxes levied in Australia, and that such taxes are more likely to discourage turnover of taxed goods.[23]

KPMG has noted that the more inefficient or distorting a tax is, the more likely resources will be moved away from their highest-value use, leading to lower productivity across the economy and lower living standards.[24] KPMG also reported that motor vehicle taxes, including stamp duties, are taxes on capital and increase the cost of investing in motor vehicles. This in turn leads to a reduction in investment in vehicles, and a high excess burden.[25]

The draft report recognises that stamp duty on motor vehicles should be replaced and that they discourage vehicle owners from changing and upgrading vehicles, contributing to the average Australian car being 10 years old compared to the Western European average of eight years.[26]

Australia's heavy vehicle fleet is older. The average age of articulated trucks is 12 years; the average age of heavy rigid trucks is 15.7 years.[27]

Whilst the draft report places stamp duty reform some time into the future (after an electric vehicle RUC is implemented and then extended to all vehicles), more pressing reform is necessary.

ANZ analysis in 2017 found that the national average fleet age continues to age at record levels, and that the **industry will need to invest in excess of $3.5 billion in capital over the next 5 years just to meet expected demand.**

Investment needs to be higher to reduce the average age of the truck fleet, which should be a priority. Newer vehicles have the latest safety technologies, meet newer emissions standards, and are quieter. This can include lane departure warning, front underrun protection, autonomous emergency braking (AEBS), adaptive cruise control and electronic stability control (ESC).

We soon expect the Australian Government to release exposure draft ADRs on mandating autonomous emergency braking for new trucks and the extension of mandatory ESC to new rigid trucks, with the measures to roll out from 1 November 2020. This is projected to save more than a hundred lives and prevent more than 2,500 serious injuries.[28] Increased investment in new heavy vehicles and reducing the average age of the heavy vehicle fleet would likely increase the safety benefits to the Australian community from mandating these technologies.

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[22] Recommendation 51 in Australia's Future Tax System report to the Treasurer, December 2009.
[23] Australian Government, March 2015, Re:think tax discussion paper, 145.
[24] KPMG, September 2011, Economic Analysis of the Impacts of Using GST to Reform Taxes, 1, 4.
[25] KPMG. 2011. 6.
[26] NSW Treasury. 2020. 87.
[27] Australian Bureau of Statistics. 2020. Motor Vehicle Census. Table 3.
[28] Australian Government. August 2019. Regulation Impact Statement: Autonomous Emergency Braking. 58.

Priority reform of motor vehicle stamp duties would incentivise a reduction in the average age of vehicles and improve the safety, environmental and emissions standards of Australia's vehicle fleet. Removal of stamp duty could be phased in – commencing with heavy vehicles, to reduce the higher average vehicle age.

Recommendation 12

The NSW Federal Financial Relations Review should place a higher priority on the removal of motor vehicle stamp duties.

Recommendation 13

The NSW Government should work with the Board of Treasurers and the National Cabinet to reform and remove motor vehicle stamp duties, commencing with heavy vehicles.