

Carbon Price Mechanism

*Tax implications for businesses impacted by the
carbon price and its complementary measures*

1 August 2011

Carbon price mechanism

Tax implications for businesses impacted by the carbon price and its complementary measures

On Thursday 28 July 2011, the Australian Government released exposure draft legislation, including consequential and associated tax measures, in relation to its recently announced climate change plan, 'Securing a Clean Energy Future – the Australian Government's Climate Change Plan'.

Legislation is expected to be tabled in Parliament during the Spring 2011 sitting following a short period of consultation which concludes on 22 August 2011. As a result, the comments below are preliminary in nature.

What is the issue?

The proposed carbon price plan will embed a carbon price into the Australian economy. It sets a fixed price path for the first three years (\$23 per tonne of CO₂-equivalent (CO₂-e) emissions adjusted in real terms by 2.5 per cent per annum) before moving to a flexible price mechanism from 1 July 2015. It proposes a framework for setting a cap on greenhouse gas emissions by capping the number of carbon units available once the flexible price period commences, which can be adjusted over time to ensure that the Government's reduction targets are met.

The initial fixed price period will assist businesses to assess their expected carbon liability and determine the cost effectiveness of abatement strategies. It should also enable investors to factor a carbon price into their investment decisions and reweigh portfolios as appropriate.

There are a number of income and indirect tax impacts of the proposed carbon price plan, both for those directly impacted by the carbon price and for those impacted by the

complementary measures, such as changes to the fuel tax and excise rates; and small businesses and individuals impacted by the tax-related compensation measures. We have summarised these tax consequences for those with responsibility for, and within, the tax function of any affected entities. For a broader overview of what the carbon price means for business, refer to the [PwC Publication](#) which explores the implications and opportunities that key elements of the climate change plan presents for business.

Who is liable under the carbon price plan?

Liability to the carbon price plan

A facility must produce 25,000 tonnes or more of certain CO₂-e emissions per annum to be subject to the carbon price plan.

The obligation to surrender carbon units resides with the person (referred to below as the "liable entity") who has operational control over the facility, that is, the person with authority to introduce and implement any or all of the operating, health and safety, and environmental policies for that facility. This definition is consistent with the definition of operational control in the *National Greenhouse and Energy Reporting Act 2007*.

Where a facility is operated by an unincorporated joint venture (UJV), the person with operational control (operator) will be responsible. Where no one person has operational control over a UJV facility, the emissions liability for that facility will instead be allocated between the joint venture participants in proportion to their interest in the facility.

An application may be made for a Liability Transfer Certificate to transfer liability for emissions from that facility in the following circumstances:

- Between corporate group members - A company may apply for a Liability Transfer Certificate in respect of a facility that is under the operational control of another member of the same corporate group; and/or
- A person who has financial control of a facility - A person (not a foreign person) may apply for a Liability Transfer Certificate in respect of a facility that is under the operational control of another person (the operator) if the first person has financial control over the facility. If the first person is a member of a controlling corporation's group, the operator must not be a member of that group.

There is no joint and several liability for the carbon price between wholly-owned or controlled group entities as it resides with the legal entity. Organisations should consider having carbon price sharing and funding agreements in place to determine how liabilities are to be transferred between all or certain group entities, their pricing mechanism, and appropriate accounting methodologies for those liabilities.

Compliance of liable entities with the carbon price plan

The reporting period is 1 July to 30 June regardless of whether an entity uses a different accounting period for income tax purposes. Liable entities will be required to surrender carbon units to the Regulator to meet their emissions obligation for each compliance year.

For larger emitters (35 kilotonnes CO₂-e or more) in respect of a fixed price year (pre-1 July 2015):

- A surrender of carbon units accounting for 75 per cent of their estimated emissions obligations is required by 15 June (i.e. 15 days before the compliance year ends); and
- The balance to be surrendered by 1 February the following year (i.e. seven months after the end of the compliance year).

For smaller emitters in respect of a fixed price year, and for all liable entities during the flexible price years (from 1 July 2015), the single ‘true up’ date will be 1 February after the end of the compliance year. It will be important for emitters to recognise which category they fall under in order to understand the associated obligations.

Penalties for non-compliance

During the fixed price period (pre-1 July 2015), penalties for non-compliance will be 130 per cent of the fixed price for carbon units for the applicable compliance year. During the flexible price period (from 1 July 2015), penalties for non-compliance will be 200 per cent (unless prescribed by regulations) of the benchmark average auction price for carbon units during the particular compliance year.

Penalties and shortfall charges will not be deductible. The grossed-up penalty for a company during the fixed price period is therefore 1.857 times the fixed price, and 2.857 times the average price during the flexible price period.

What are the income tax implications of a carbon price plan?

Under the draft consequential amendments to the *Income Tax Assessment Act 1997*,^a new Division 420 will be inserted dealing with assessability and deductibility of “registered emissions units” (Units), which include carbon

units, Kyoto units, prescribed international units and Australian carbon credit units.

Assessability

Liable entities will be assessable on revenue account on amounts they are entitled to receive on ceasing to hold a Unit.

“Free Units” received by emissions-intensive trade-exposed (EITE) entities as part of the “Jobs and Competitiveness Program” and “Free Units” received by “coal-fired electricity generators” can be sold back to the Regulator or traded, at which time that income will be assessable.

Government grants received as part of the carbon price plan will be assessable under the current income tax law, which is not expected to change.

The PAYG instalment provisions will be amended to ensure that instalment income includes all amounts included in assessable income on the sale of Units.

Deductibility

Expenditure incurred in becoming the holder of a Unit is deductible in the income tax year when the Unit starts to be held. No deduction is allowed for the cost incurred in holding a Unit where sale of the Unit would not produce assessable income (e.g. certain foreign residents – see later under “International tax considerations”). Additionally, expenditure incurred in relation to holding a Free Unit is not deductible.

Rolling balance mechanism

The tax treatment of Units using a rolling balance will be similar, but not identical, to trading stock for tax purposes. Broadly, the value of all Units held at the start of the income tax year is compared with the value of all Units held at the end of that year. An increase in value is assessable and a decrease is deductible. As a result, although the cost

of a Unit is generally deductible as incurred, the deduction is effectively deferred until the Unit has been surrendered, sold or otherwise ceases to be held.

There are three methods for valuing Units for tax purposes being: FIFO cost method; actual cost method; and market value method. There are specific rules dealing with when entities can change the method adopted.

During the fixed price period, there will be a cash flow impact, but not a timing impact for Units (other than Free Units), as they are automatically surrendered on purchase from the Regulator (i.e. they cannot be traded).

Free Units received by EITE entities in the fixed price period still held at year end will be valued at zero. While this in itself does not produce a timing issue, it can incentivise entities to use acquired fixed price Units before their Free Units to obtain a timing benefit at year end. However, we note the tax cost of Free Units received by coal-fired electricity generators will be their market value, which will create a timing disadvantage if the Free Units are still held at the end of the income tax year.

When the flexible price period begins, tax timing issues will no doubt arise for those entities that have an income tax year end other than 30 June (i.e. a substituted accounting period), as the emissions compliance year is fixed as the financial year commencing 1 July and ending 30 June. However, more generally, there is a tax timing disadvantage for all Units acquired during an income tax year, but not surrendered until 1 February the following year. In the flexible price period, since all entities are only required to surrender on or by 1 February, this creates potential timing volatility for 100 per cent of their Units acquired. As a result, the more accurate the systems that capture emissions, the greater certainty a liable entity will have when surrendering Units to cover emissions for the compliance year. However, practically this may be

particularly difficult to estimate prior to the end of the income tax year.

Integrity measures

Non-arm's length transactions, and transactions between associates, will be subject to integrity provisions that deem the transaction to have occurred at market value.

We note there are also a number of integrity measures that apply to the transfer of international emissions units to and from the Australian National Registry.

Interaction with taxation of financial arrangements (TOFA)

A Unit will not itself be a financial arrangement. However, any derivatives entered into to manage carbon price risk may be subject to the tax treatment prescribed under the TOFA provisions. Under TOFA, the bringing to account of gains and losses on trading in derivatives will not have the same timing issues as noted above in respect of Units. Rather, in broad terms, gains and losses from derivatives will be recognised on revenue account on a realisation basis (assuming no TOFA timing elections are made).

Research and development concession

There will naturally be growth in research and development (R&D) expenditure in the lead up to, and following, the introduction of the carbon price plan. The Government intends to introduce legislation in 2012 that will implement the Clean Energy Finance Corporation (CEFC) and the Australian Renewable Energy Agency (ARENA) as well as a number of additional programs to deliver various aspects of the mechanism as part of the 2012-13 Federal Budget process.

Where grants are received from the Federal Government as administered by the new, independent statutory body ARENA, any R&D tax credits otherwise available to eligible

companies will generally be clawed back. However, given the funding available from the \$10 billion CEFC will provide support either by way of loans, loan guarantees or equity investments, it is likely that these amounts will not be considered to be a grant, and hence companies may be able to access further tax benefits under the Federal Government's proposed R&D Tax Credit program.

The proposed R&D Tax Credit program is due to apply from 1 July 2011 and will provide a 40 per cent R&D credit for companies with turnover of greater than \$20 million and a 45 per cent refundable R&D credit for companies with turnover of less than \$20 million for expenditure incurred on eligible R&D activities. Legislation in relation to the proposed R&D Tax Credit program has not yet been passed but is expected to be debated and enacted in the Spring sittings of Parliament.

Interaction with resource rent taxes

The deductibility of Units under the proposed Minerals Resource Rent Tax and existing Petroleum Resource Rent Tax will depend on whether the Units are used to abate emissions resulting from activities that occur within the taxing point/ring fence under the applicable resource tax. For vertically integrated operations, there will need to be apportionment where both the upstream and downstream operations produce emissions.

Planning early for transition

Simple things such as bringing forward purchases of fuel prior to 1 July 2012 (that may be more expensive after 30 June 2012 – see comments later) and negotiating with suppliers early are normal commercial transactions that entities should consider. However, when undertaking any specific income tax planning, the general anti-avoidance provisions of the income tax law should always be considered.

International tax considerations

Assessable income arising from the sale of Units will be deemed to have an Australian source. This will have implications for foreign residents that acquire and dispose of Units, as they will generally be subject to Australian tax on Australian sourced income. However, for a resident of a country with which Australia has a tax treaty, Australia's taxing right may be limited to where the foreign resident holds the Units in connection with a permanent establishment in Australia.

Impairments of assets as a result of the carbon price plan may adversely impact the thin capitalisation position of certain inward and outward investors, by reducing their ability to claim debt deductions in relation to the funding of their Australian business. In addition, thin capitalisation positions may be adversely impacted by Government loans to generators and other Government debt provided as part of any 'co-investment'.

Once the flexible price period begins on 1 July 2015, international related parties that transfer Units cross border will need to use arm's length pricing methodologies similar to other cross-border related party transactions. Taxpayers will need to consider the impact of the carbon price on their existing transfer pricing methodology. For example, many companies use a profit method such as the Transactional Net Margin Method for setting or reviewing their transfer prices and the impact of the carbon price on the company's underlying profitability will need to be understood and documented.

Merger and acquisition considerations

At a minimum, when acquiring a liable entity it will be necessary to perform procedures to confirm historical liabilities have been correctly calculated and those liabilities

have been met. There are significant penalties and shortfall charges for non-compliance.

This will become more difficult where liabilities have been transferred. Therefore, it will be important to view Liability Transfer Certificates as part of due diligence procedures.

Since the liability attaches to the liable entity and not the facility, in the absence of other factors, asset acquisitions will be cleaner than entity acquisitions and therefore require less due diligence.

It will also be important to assess the tax value of Units held by a target. In the context of the tax consolidation regime, the treatment of Units held by joining and leaving entities will need to be considered. Amendments are proposed to the tax consolidation provisions to treat Units in much the same way as trading stock. For instance, it is proposed that Units held by an entity joining a tax consolidated group will be treated as 'reset cost base assets' under the consolidation tax cost setting rules.

Tax accounting and legal issues

While accounting standards are yet to confirm whether the cost of emissions is reported above the profit before tax line, we expect that since the carbon price is not directly imposed in relation to profits it will be reported above the line and therefore not defined as an income tax.

In any case, some deferred income tax balances will be impacted due to the carbon price, for example:

- adjustments to deferred tax balances for assets that have been impaired due to the carbon price, and
- deferred tax for differences in the accounting and tax value of Units.

Existing contracts that contain tax and law change clauses should be reviewed to confirm whether it is possible to pass through carbon price costs. The drafting of the precise

clauses and the terminology in the new legislation surrounding the carbon price will determine the ability to pass through the carbon price. Certain clauses that only permit the recovery of new taxes and generic rates and taxes may not permit recovery of the carbon price, and renegotiation may be required.

What are the Goods and Services Tax (GST) implications of a carbon price plan?

In keeping with the VAT/GST treatment applied to similar permits overseas, Australia's carbon units are to be treated as GST-free. Therefore, no GST is payable on the issue, transfer, assignment or other transmission of an "eligible emissions unit" and entities trading in units can claim full GST input tax credits on associated costs.

GST-free treatment is a welcome relief for most industries directly affected by the carbon price plan who had lobbied for this status after the intention of the previous Carbon Pollution Reduction Scheme had been to treat the units as taxable for GST purposes.

The normal GST rules will apply to grants of financial assistance under the package. Grants are generally subject to GST where binding and enforceable obligations are imposed on the grant recipient. Where no such obligations exist, the grants should be out-of-scope for GST purposes meaning no GST is payable on the grant by the grant recipient.

The normal GST rules will also apply to financial derivatives of carbon units. This will result in the input taxation of most carbon unit financial derivatives, meaning that GST will not generally be payable on derivatives trades. However, businesses that trade in financial derivatives will be required to block GST input tax credits on related costs where they breach the financial acquisitions threshold (for example, where related costs exceed \$550,000 in a 12-

month period). 75 per cent reduced input tax credits may be available in relation to particular services acquired in relation to derivatives trades, including trade execution, clearing and settlement. The blockage of GST input tax credits will generally require the implementation of a GST apportionment methodology and the necessary systems and process to calculate input tax credit recovery. The blocked input tax credits will represent an additional cost to the business.

What are the stamp duty implications of a carbon price plan?

The exposure draft legislation does not deal with the potential application of stamp duty on the grant or trading of carbon units.

The grant and transfer of carbon units may be subject to stamp duty in a number of States and Territories.

As part of the tax reform arrangements in the Intergovernmental Agreement on Federal Financial arrangements, the States and Territories have agreed not to levy stamp duty on the transfer of 'emission trading permits'. However, this will only have effect once duty on the transfer of other non-land business assets has been abolished (currently by 1 July 2013 depending on the jurisdiction in question). In broad terms, subject to the States and Territories complying with the terms of the Intergovernmental Agreement and on the basis that trading in the carbon units generally cannot occur until 1 July 2015, no stamp duty consequences should arise on the trading of carbon units.

What are the fuel tax and excise implications of the carbon price plan?

Significant changes to the existing fuel tax credit and excise regimes are a core part of the carbon price proposals, including:

- Excise on domestic aviation fuel will be increased to 10.16 cents per litre (kerosene) and 9.144 cents per litre (gasoline) by 2014-15. The vast majority of fuel used in aviation is aviation kerosene;
- Fuel tax credits available for non-gaseous fuels (e.g. petrol, diesel, fuel oil) used off-road for burning/generating heat, or in internal combustion engines for off-road activities including mining, rail transport, domestic shipping, electricity generation, construction and manufacturing will be reduced by an amount equal to the carbon price (different rates apply to different fuel types);
- Fuel tax credits, excise remissions and exemptions for gaseous fuels (liquid petroleum gas (LPG), liquid natural gas (LNG) and compressed natural gas (CNG) etc) supplied for non-transport use to businesses and households will be adjusted on a 'cent-for-cent' basis equivalent to the carbon content price of the fuels, had the gaseous fuels been subject to carbon pricing (different rates will apply to different fuel types);
- Heavy on-road vehicles using traditional transport fuels (i.e. diesel and petrol) will not be impacted until 1 July 2014; and
- Fuel (other than aviation fuel) used by the agriculture, forestry and fishery industries is unaffected by the proposals.

Refer to the following table showing the interaction between carbon pricing and fuel tax/excise rates.

In preparation for these changes, impacted businesses may need to implement significant systems changes to capture the revised excise and fuel tax claiming rates, in order to report and recover the correct amount to/from the Australian Taxation Office. When Australia moves to a flexible carbon price in 2015, the fuel tax rates will change every six months, placing an added burden on systems.

The changes in the fuel tax/excise claiming rates should be factored into the projected costs of fuel used in feasibility studies.

Depending on the powers of the Australian Competition & Consumer Commission around carbon pricing, there may be scope for businesses that are facing higher fuel costs to pass these higher costs on in their service and supply arrangements, through inserting additional 'pass-through' clauses in their contracts.

Under separate measures, alternative fuels, including LPG, LNG and CNG, are not subject to fuel tax until 1 December 2011. More detail is needed concerning the interaction of the carbon pricing proposals with the new alternative fuel measures to understand the full impact of the fuel tax/excise changes on the use of alternative fuels. Affected businesses will now be grappling with two significant legislative changes in this area in a 12 -month period.

A carbon price will not apply to fuel used by households for transport, light on-road commercial vehicles and renewable fuels including ethanol, biodiesel and renewable diesel.

Proposed fuel tax interaction with carbon price

| Industry | 1 July 2012 – 30 June 2013 | 1 July 2013 – 30 June 2014 | 1 July 2014 – 30 June 2015 | 1 July 2015 – 30 June 2016 Move to flexible price period |
|---|--|---|---|---|
| Agriculture | No carbon price impact | No carbon price impact | No carbon price impact | No carbon price impact |
| Forestry | No fuel tax credit impact | No fuel tax credit impact | No fuel tax credit impact | No fuel tax credit impact |
| Fishing | | | | |
| Aviation | Revised excise rate¹ : | Revised excise rate: | Revised excise rate: | Excise changes determined six-monthly based on average carbon price over previous six months |
| Domestic | 9.536 cpl for aviation kerosene 8.616 cpl for aviation gasoline | 9.835 cpl for aviation kerosene 8.869 cpl for aviation gasoline | 10.16 cpl for aviation kerosene 9.144 cpl for aviation gasoline | |
| International | Exempt from carbon pricing | Exempt from carbon pricing | Exempt from carbon pricing | Exempt from carbon pricing |
| Electricity Generation | Fuel Tax Credit reduction: | Fuel Tax Credit reduction: | Fuel Tax Credit reduction: | Fuel Tax Credit changes determined six-monthly based on average carbon price over previous six months |
| Businesses | 6.21 cpl for diesel, fuel oil , etc ² 5.52 cpl for petrol | 6.521 cpl for diesel, fuel oil, etc 5.796 cpl for petrol | 6.858 cpl for diesel, fuel oil, etc 6.096 cpl for petrol | |
| Domestic | 3.68 cpl for LPG acquired inclusive of excise | 3.864 cpl for LPG acquired inclusive of excise | 4.064 cpl for LPG acquired inclusive of excise | |
| Mining | Fuel Tax Credit reduction: | Fuel Tax Credit reduction: | Fuel Tax Credit reduction: | Fuel Tax Credit changes determined six-monthly based on average carbon price over previous six months |
| | 6.21 cpl for diesel, fuel oil, etc 5.52 cpl for petrol 3.68 cpl for LPG acquired inclusive of excise | 6.521 cpl for diesel, fuel oil, etc 5.796 cpl for petrol 3.864 cpl for LPG acquired inclusive of excise | 6.858 cpl for diesel, fuel oil, etc 6.096 cpl for petrol 4.064 cpl for LPG acquired inclusive of excise | |
| Marine Transport | Fuel Tax Credit reduction: | Fuel Tax Credit reduction: | Fuel Tax Credit reduction: | Fuel Tax Credit changes determined six-monthly based on average carbon price over previous six months |
| Domestic | 6.21 cpl for diesel, fuel oil, etc 5.52 cpl for petrol 3.68 cpl for LPG acquired inclusive of excise | 6.521 cpl for diesel, fuel oil, etc 5.796 cpl for petrol 3.864 cpl for LPG acquired inclusive of excise | 6.858 cpl for diesel, fuel oil, etc 6.096 cpl for petrol 4.064 cpl for LPG acquired inclusive of excise | |
| International | Exempt from carbon pricing | Exempt from carbon pricing | Exempt from carbon pricing | Exempt from carbon pricing |
| Non-Fuel Use | No carbon price impact | No carbon price impact | No carbon price impact | No carbon price impact |
| Solvents, lubricants, inputs to manufacture (e.g. paints, thinners, mould release agents, bitumen cutter etc) | No fuel tax credit impact | No fuel tax credit impact | No fuel tax credit impact | No fuel tax credit impact |
| Burner fuels (stationary use) Generating heat for kilns, drying ovens | Fuel Tax Credit reduction: | Fuel Tax Credit reduction: | Fuel Tax Credit reduction: | Fuel Tax Credit changes determined six-monthly based on average carbon price over previous six months |
| | 6.21 cpl for diesel, fuel oil, etc 5.52 cpl for petrol 3.68 cpl for LPG acquired inclusive of excise | 6.521 cpl for diesel, fuel oil, etc 5.796 cpl for petrol 3.864 cpl for LPG acquired inclusive of excise | 6.858 cpl for diesel, fuel oil, etc 6.096 cpl for petrol 4.064 cpl for LPG acquired inclusive of excise | |

| Industry | 1 July 2012 – 30 June 2013 | 1 July 2013 – 30 June 2014 | 1 July 2014 – 30 June 2015 | 1 July 2015 – 30 June 2016 Move to flexible price period |
|--|---|---|--|---|
| Road Transport Heavy vehicles with a GVM exceeding 4.5 tonnes | Nil carbon price impact on all fuels | Nil carbon price impact on all fuels | Carbon price impact intended to take effect from this date, however, not agreed to by all members of the Multi-Party Climate Change Committee. No carbon price impact on LNG, CNG and LPG vehicles as Road User Charge does not permit fuel tax credit refund anyway | Unknown at this stage |
| Rail Transport | Fuel Tax Credit reduction: 6.21 cpl for diesel, fuel oil, etc 5.52 cpl for petrol 3.68 cpl for LPG | Fuel Tax Credit reduction: 6.521 cpl for diesel, fuel oil, etc 5.796 cpl for petrol 3.864 cpl for LPG | Fuel Tax Credit reduction: 6.858 cpl for diesel, fuel oil, etc 6.096 cpl for petrol 4.064 cpl for LPG | Fuel Tax Credit changes determined six-monthly based on average carbon price over previous six months |
| Other Off-Road Use (non-transport) Non-gaseous fuels excluding ethanol, biodiesel & renewable diesel | Fuel Tax Credit reduction: 6.21 cpl for diesel, fuel oil, etc 5.52 cpl for petrol | Fuel Tax Credit reduction: 6.521 cpl for diesel, fuel oil, etc 5.796 cpl for petrol | Fuel Tax Credit reduction: 6.858 cpl for diesel, fuel oil, etc 6.096 cpl for petrol | Fuel Tax Credit changes determined six-monthly based on average carbon price over previous six months |
| LPG subject to excise remission (note LPG is not subject to excise until 1 December 2011, so these rules may change in practice) | Full excise remission replaced by partial excise remission to reflect the effective carbon price. Partial remission³ : 1.32 cpl for LPG | Full excise remission replaced by partial excise remission to reflect the effective carbon price. Partial remission: 3.636 cpl for LPG | Full excise remission replaced by partial excise remission to reflect the effective carbon price. Partial remission: 5.935 cpl for LPG | Partial excise remission to be determined six-monthly based on average carbon price over previous six months |
| LNG subject to excise remission (note LNG is not subject to excise until 1 December 2011, so these rules may change in practice) | Reduction in the automatic remission to reflect the effective carbon price. Reduced automatic remission⁴ : 3.78 cpl for LNG | Reduction in the automatic remission to reflect the effective carbon price. Reduced automatic remission: 8.666 cpl for LNG | Reduction in the automatic remission to reflect the effective carbon price. Reduced automatic remission: 13.534 cpl for LNG | Reduced automatic remission to be determined six-monthly based on average carbon price over previous six months |
| CNG subject to excise exemption (note CNG is not subject to excise until 1 December 2011, so these rules may change in practice) | Exemption from excise to be adjusted to reflect carbon content price Excise exemption decrease⁵ 6.67 cpl excise for CNG | Exemption from excise to be adjusted to reflect carbon content price Excise exemption decrease 7.004 cpl excise for CNG | Exemption from excise to be adjusted to reflect carbon content price Excise exemption decrease 7.366 cpl excise for CNG | Excise exemption decrease determined six-monthly based on average carbon price over previous six months |

¹Inclusive of carbon price impact (i.e. 3.556 cpl + carbon price for relevant period)

²Fuel Tax Credit reduction for all liquid fossil fuels other than petrol and diesel is calculated using diesel Fuel Tax Credit reduction

³Partial remission (full excise remission reduced by carbon price)

⁴Reduced automatic remission (full excise remission reduced by carbon price)

⁵Excise exemption decrease (excise exemption decreased to reflect carbon price)

What are the other associated income tax reforms?

Personal tax reforms

To supplement the Government's Plan, changes to individual tax rates were announced to assist low and middle income earners meet carbon price impacts.

No legislation to give effect to these measures has yet been released.

From 1 July 2012, individual taxpayers earning up to \$80,000 a year will receive a tax cut with the tax-free threshold increased from \$6,000 to \$18,200 from 1 July 2012 (and to \$19,400 from 1 July 2015), combined with a change in the marginal income tax rates.

The following table sets out the current and proposed resident individual tax rates and thresholds (ignoring the Medicare and Temporary Flood and Cyclone Reconstruction levy which applies to the income year ended 30 June 2012).

| Current Threshold | | 2012-13 | | 2015-16 | |
|---------------------|---------------|---------------------|---------------|---------------------|---------------|
| Taxable income (\$) | Marginal Rate | Taxable income (\$) | Marginal Rate | Taxable income (\$) | Marginal Rate |
| 6,001 | 15% | 18,201 | 19% | 19,401 | 19% |
| 37,001 | 30% | 37,001 | 32.5% | 37,001 | 33% |
| 80,001 | 37% | 80,001 | 37% | 80,001 | 37% |
| 180,001 | 45% | 180,001 | 45% | 180,001 | 45% |

Small business asset write-off

The climate change plan also includes a minor incentive for small business taxpayers (i.e. those with an annual aggregated turnover of less than \$2 million) to claim an up-front tax deduction for the cost of depreciable asset purchases of \$6,500 or less in the year of purchase, as opposed to claiming tax depreciation over the asset's effective life. This is an extension of a previously announced measure. The incentive will apply from the 2012-13 income year and is designed to assist the cash flow of small businesses that will suffer additional indirect costs through the carbon price. No exposure draft legislation has yet been released in relation to this measure.

Tax offset for primary production

The exposure draft legislation provides for a 15 per cent refundable tax offset available for the cost of new eligible conservation tillage equipment (an 'eligible no-till seeder') that is installed and ready for use in a primary production business between 1 July 2012 and 30 June 2015. To be eligible for the offset, primary producers will be required to participate in a conservation tillage survey conducted by the Agriculture Secretary.

***Further information on tax implications
of a carbon price mechanism:***

Sydney

Michael Davidson

(02) 8266 8803
m.davidson@au.pwc.com

Adrian Abbott

(02) 8266 5140
adrian.abbott@au.pwc.com

Melbourne

Kirsten Arblaster

(03) 8603 6120
kirsten.arblaster@au.pwc.com

Ben Lee Kong

(03) 8603 4484
ben.lee.kong@au.pwc.com

Perth

Michael Bona

(08) 9238 3339
michael.bona@au.pwc.com

Adelaide

Scott Bryant

(08) 8218 7450
scott.a.bryant@au.pwc.com

Brisbane

Peter Dunn

(07) 3257 5670
peter.dunn@au.pwc.com

Sustainability and Climate Change:

Leader

Liza Maimone

(03) 8603 4150
liza.maimone@au.pwc.com

Partner

John Tomac

(02) 8266 1330
john.tomac@au.pwc.com

© 2011 PricewaterhouseCoopers. All rights reserved. In this document, “PwC” refers to PricewaterhouseCoopers a partnership formed in Australia, which is a member firm of PricewaterhouseCoopers International Limited, each member firm of which is a separate legal entity.

This document is not intended or written by PricewaterhouseCoopers to be used, and cannot be used, for the purpose of avoiding tax penalties that may be imposed on the tax payer. Before making any decision or taking any action, you should consult with your regular PricewaterhouseCoopers’ professional. No warranty is given to the correctness of the information contained in this publication and no liability is accepted by the firm for any statement or opinion, or for any error or omission. TaxTalk is a registered trademark. Print Post Approved PP255003/01192.