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Honourable Peter Dunne, Minister of Revenue
Honourable Dr. Michel Cullen, Minister of Finance

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Dear Sirs,

Tax Reform - Removing Barriers to Sustainable Transport

Greater Wellington is writing to you in order to begin discussions regarding support for and consideration of changes to current Fringe Benefit Tax (FBT) rules for employers implementing workplace travel plan measures that encourage employees to shift to sustainable modes of transport to work. Greater Wellington has prepared the proposal outlined below which will assist in minimising FBT costs on travel plan measures in line with the Government's transportation and environment policies.

The proposal has been presented at Greater Wellington's Executive Management Team meeting of 23 July. In addition, Greater Wellington CEO Dave Benham presented it to the Regional Chief Executives Group meeting on 10 August. The proposal for FBT tax reform met with favourable feedback and support at both of these meetings.

Greater Wellington's Regional Land Transport Committee is also supportive of this proposal and believes that we all must begin to proactively act on many fronts to minimise transport impacts on the environment. In particular, Greater Wellington believes this proposal will make a viable contribution towards achieving greenhouse gas emission reductions, and therefore the country's climate change management objectives.

BACKGROUND

Workplace Travel Plans are recognised internationally as an effective sustainability tool that enables employers to address their individual transport issues and reduce single occupancy car use. In New Zealand the emergence of workplace travel plans has occurred rapidly through formal programmes developed and managed regionally such as GW's Travel Plan and ARTA's Travelwise Programmes, as well as work done by The Sustainable Business Network, and more recently Ministry for the Environment's Govt3 Transport initiative towards carbon neutrality.

Interest in workplace travel plans in New Zealand has grown rapidly in response to environmental sustainability and climate change issues. They are becoming prevalent even outside of formal travel plan programmes and are being implemented in workplaces throughout New Zealand. Whether

formally or informally, workplace travel plans are being driven by employers themselves in an effort to improve their sustainability.

The general aim of workplace travel plans is to promote and encourage sustainable travel choices by employees such as public transport, walking, cycling and car pooling. The travel plan measures that have proven to be most successful in achieving long term travel behaviour change include:

- providing subsidies and/or loans to encourage use of public transport
- allowing flexible working hours to facilitate peak-shifting
- providing on-site bicycle parking and encouraging walking and cycling
- facilitating working at home by providing computer equipment.
- providing loans to purchase bicycles or annual public transport passes.

Businesses are more likely to implement some of the above sustainable transport measures as part of a travel plan if they are not penalised for doing so through the requirement of Fringe Benefit Tax payments.

POLICY FRAMEWORK

Travel Plans and their associated measures are consistent with and are supported by the following Central Government strategic policy on transport, sustainable development, and climate change:

- New Zealand Transport Strategy (NZTS) – The strategy outlines the government’s sustainable transport objectives which include economic development, safety and personal security, access and mobility, public health, environmental sustainability and economic efficiency.
- Land Transport Act 1998 - The Act sets out the statutory framework to improve social and environmental responsibility in land transport funding, planning, and management.
- National Energy Strategy (NZES) - This strategy sets out the government’s vision for the New Zealand energy system including reducing green house gas emissions.
- Draft New Zealand Energy Efficiency and Conservation Strategy (NZECS) – The strategy seeks sustainable development solutions that provide the best outcomes for the environment, the economy and society. The Strategy presents sector-based action plans to support the government’s energy efficiency, energy conservation and renewable energy objectives.

This national policy framework is in turn supported by both local and regional strategic policy objectives through Regional Land Transport Strategies and Sustainable Transport Plans, regional and local transport and planning strategies and plans and Long Term Council Community Plans. For

example, the Wellington Regional Land Transport Strategy (RLTS) 2007-2016 establishes a regional strategic framework of objectives and outcomes to increase travel by public transport, reduce traffic congestion, improve road safety, increase travel efficiency and increase walking and cycling.

The Wellington Regional Travel Demand Management Strategy sets out a 10-year plan of projects and actions that seek to reduce the need to travel by private motor vehicle, increase the efficiency of the transport system and influence travel choices that contribute to a more sustainable community.

FRINGE BENEFIT TAX (FBT)

FBT rules currently apply to the following incentives often sought through travel plan implementation measures:

- Provision of free or subsidised public transport;
- Interest free loans for purchasing transport goods such as bicycles, scooters, annual public transport passes;
- Incentives and prizes related to promoting use of active travel modes and travel reduction (this may include umbrellas, raincoats, cycle products, etc.);
- Transport for “Guaranteed Ride Home” programmes (this may include payments for taxi rides, or public transport).

Current FBT policy allows employers to provide tax free benefits on miscellaneous items totalling \$200 per quarter per employee. Employers however are restricted by a cap of \$15,000 for ALL employees. The current threshold creates inequities between those organisations with large numbers of employees and those with small numbers.

There are approximately 40 travel plans currently underway throughout New Zealand with the majority of these in Auckland. Most of the larger employers have implemented measures such as those listed above all with varying degrees of tax impact. The most significant tax impact on employers is the provision of public transport subsidies. Through their travel plan processes, employers have determined that subsidising public transport is the most effective way to encourage car trip reduction. Both the Auckland and Wellington regions’ workplace travel plan data offers evidence that subsidised transport is one of the top two measures that workplaces can implement to encourage their employees to reduce car trips. At the same time, however, this measure incurs the most negative tax impact due to its high cost to the organisation.

Employers implementing or thinking of implementing public transport subsidy schemes or other large incentive programmes are realising now that the tax costs incurred are significant and the ability to provide these over the long term may not be sustainable.

The Employers and Manufacturers Association is currently advocating for an employer subsidy scheme to encourage more employees to use the bus or train to get to and from work.

Tax reform is necessary to mitigate or remove these barriers for workplaces who are undertaking sustainable transport activities that, in the long term, serve to achieve national sustainable transport and environmental outcomes.

PROPOSAL

Recognising that any tax reform has an impact on the national revenue stream, it is proposed that a two-year pilot scheme be implemented involving of a combination of tax concessions and FBT applications. The pilot scheme should be provided to New Zealand businesses implementing workplace travel plan measures that encourage the reduction of car trips and the uptake of sustainable transport activities. It is proposed that the scheme consist of the following elements in order to meet the needs and objectives of all stakeholders involved:

1. Fringe Benefit Tax Rebate

Provide a rebate to businesses equal to the full value of FBT paid on the following incentives provided to employees through workplace travel plans:

- a) Free and subsidised public transport
- b) Interest free loans for purchasing bicycles, scooters, annual public transport passes
- c) Incentives and prizes related to promoting the use of active travel modes and travel reduction (this may include umbrellas, raincoats, cycle products, etc.)
- d) Guaranteed Ride Home programs (may include payments for taxi rides or public transport)

2. Increase Miscellaneous Fringe Benefits Threshold

Increase the current threshold placed on miscellaneous fringe benefits. The current policy lacks the flexibility to meet the needs of the large employers currently involved in travel planning such as national companies, local councils, universities, district health boards, retail complexes etc. Furthermore as travel plans take on new shapes such as Area Travel Plans and Travel Management Associations, the number of employees involved means the average per annum allowance for these travel plans is likely to exceed the current threshold of \$15,000.

3. Application of Fringe Benefit Tax on Employer Car Parks

Apply an FBT rate to employer provided car parks. Under current tax policy, an employer does not incur FBT when the benefit of a vehicle and car park, if available, is offered to employees. This

exemption of a tax has potential to encourage greater private vehicle use rather than promote more sustainable transport modes and may serve to further contribute to congestion and CO2 emissions.

By applying an appropriate FBT rate to employer provided car parks, there is potential to off-set revenue loss that may result from the provision of the FBT rebates and increased miscellaneous fringe benefit threshold discussed above. FBT is already charged on urban car parks provided to employees in Australia. Car parking that is subject to FBT should not include space made available on-site for bicycles or motorised two-wheelers. On-street parking for these modes of transport is normally free in any case.

CONCLUSION

Achieving behaviour change such as employees leaving their cars at home more often and using more sustainable modes occurs over time. The ongoing implementation of subsidies and incentive measures is essential for travel planning in New Zealand to achieve both individual employer objectives relating to sustainability as well as regional and national environment, social, health, sustainable transport and economic objectives.

We agree with many of the issues brought forward in the Ministry of Transport and The Energy Efficiency and Conservation Authority's 2004 submission on *Streamlining the taxation of fringe benefits* (see Attachment). Greater Wellington believes this proposal provides the opportunity to exploit synergies between the government's primary objectives for FBT, to recover tax on non-cash employment benefits, and at the same time advance the government's energy, transport, health, environmental and climate change policies. Further, we suggest that this proposal is a step in the right direction in moving New Zealand closer to a more equitable treatment of transport-related employee benefits.

NEXT STEPS

On behalf of Greater Wellington's Regional Land Transport Committee, I invite the opportunity to meet and discuss the above proposal with you both at your earliest convenience. Please contact me at 04 938 7036 to arrange a meeting date that best suits.

I will, on behalf of the Committee, write to the other regions' Regional Land Transport Committees informing them of the approach to Central Government so that they may also have the opportunity to support this initiative.

We welcome your response to this proposal and look forward to the opportunity to discuss further.

Regards

Councillor Terry McDavitt, Chairperson
Greater Wellington Regional Land Transport Committee

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Attachment: Ministry of Transport and The Energy Efficiency and Conservation Authority's 2004 submission on Streamlining the taxation of fringe benefits

Copy: Rt. Honourable Helen Clark, Prime Minister
Hon Annette King, Minister of Transport

Submission on *Streamlining the taxation of fringe benefits – A government discussion document*

Ministry of Transport and
Energy Efficiency and Conservation Authority

5 March 2004

Key points

1. This joint submission covers the following aspects of the taxation of fringe benefits, which are relevant to the government's environmental and climate change objectives outlined below:
 - Charging FBT for car parks
 - Valuation of car parks and vehicles
 - Proposals for exempting eco-efficient vehicles from FBT
 - Anomalies in the definition of "work vehicle" resulting in inappropriate vehicle choices or modifications
 - Fringe benefit taxation on subsidies of public transport and other options which promote alternatives to individual travel by motor vehicle
 - Note – in this submission, "motor vehicle" does not include motor bikes or equivalent
2. This submission focuses on important issues in the interrelationship of strategic policy for taxation and environmental / climate objectives. Discussion of resultant operational issues is beyond the scope of this submission.
3. While the prime focus of a fringe benefit tax (FBT) is to recover tax from non-monetary benefits provided by employers to employees, FBT could assist in achieving the government's environmental objectives by providing incentives to modify people's behaviour in line with government strategic objectives.
4. The Government has signalled to government agencies that they are expected to apply policies in their own areas to encourage sustainable transport – consistent with the strategies in transport, growth and innovation energy, health and the environment (including climate change). In addition recent legislation such as the Land Transport Management Act (discussed below) also reinforces this imperative. In short sustainable transport is a whole-of-government responsibility.
5. We consider that FBT can be used to influence the form of future transport systems through its impact on the provision of car parks, eco-efficient vehicles, the provision of public transport subsidies and impact on other options to promote alternatives to individual travel by motor vehicle.

Introduction

6. The Ministry of Transport (MoT) has a key role in the development of national policy consistent with the government's vision for transport as set out in the New Zealand Transport Strategy (NZTS) 'By 2010 New Zealand will have an affordable, integrated, safe, responsive, and sustainable transport system.' As such MoT has a strong interest in the development of policy which affects our ability to reach this end state.
7. The Energy Efficiency and Conservation Authority (EECA) has a legislative mandate¹ to promote energy efficiency and renewable energy in all sectors. Transport uses some 42% of the nation's consumer energy resources. Despite significant energy efficiency gains, it continues to use more energy each year than any other sector.

Policy framework

8. The following Government strategic policy documents on transport, sustainable development, energy, climate change, local air quality and health have a direct bearing on the ultimate application of FBT:
 - New Zealand Transport Strategy (NZTS)
 - National Energy Efficiency and Conservation Strategy (NEECS)
 - New Zealand Sustainable Development Programme of Action
 - Climate change policy
 - Growth and Innovation Framework
 - Proposed National Environmental Standards for Air Quality
 - Draft walking and cycling strategy
9. New Zealand Health Strategy also has explicit objectives to support policies that improve access to public transport; reduce obesity and increase the level of physical activity.
10. The recent Land Transport Management Act (the Act) and Local Government Acts also reflect the government's new strategically driven sustainable transport/energy orientation. One of the purposes of the Act is to improve social and environmental responsibility in land transport funding, planning, and management. It requires that Transit and Transfund exhibit social and environmental responsibility and avoid adverse effects on the environment, and improves the ability of Transfund to provide funding for walking, cycling and alternatives to roading.
11. The Act also requires that, in preparing a land transport programme, an approved organisation must take account of environmental sustainability and in particular the NEECS.
12. In this submission we propose to focus on the transport and energy imperatives of government policy, including the importance of:

¹ Under The Energy Efficiency and Conservation Act, 2000
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- diversifying and better managing, or optimising, the use of existing transport infrastructure, consistent with a sustainable development framework.
 - making optimal use of the existing infrastructure, facilitated by full cost pricing across modes, including the costs to the environment.
13. The NZTS is infused with policies and priorities for action which reflect on the need to improve access and mobility. It assumes that government agencies will co-operate in the development, implementation and review of policies to achieve the desired outcomes.
14. The government's statutory National Energy Efficiency and Conservation Strategy (NEECS) also provides a very specific point of reference for the review of FBT. It includes the following objectives:
- Ensure that there are no undue price barriers to implementing energy efficiency and renewable energy in wider activities. and
 - under the title 'Transport System Pricing and Related Policy Initiatives'..... *Alter behaviour and steer investment decisions towards energy efficiency.*
15. In summary, existing government policy reinforces the importance of having FBT policy contribute directly to transport, energy, and health outcomes, within the broader context of sustainable development. There is an increasing focus on the implementation of policies which foster walking, cycling, public transport, and eco-efficient vehicles alternatives to individual travel by motor vehicle.

Synergies between government's environmental objectives and tax policy

16. A fringe benefit tax (FBT) could assist to a limited degree in achieving the government's environmental objectives, simply because taxes can be targeted to influence consumption patterns. The first best option of any charge is to make users pay per unit of the product they are consuming, since the product is then allocated to its most efficient use. A tax which is any less accurate than this can be no more than a second best option. The FBT therefore has limitations in the extent to which it can influence behaviour, but may still be applied to assist in achieving the government's environmental (and other) objectives
17. FBT can influence the behaviour of **employers**, by influencing their vehicle purchasing decisions towards relatively environmentally-friendly options, by influencing decisions on whether to provide employees with car parking, and their ability to provide employees with benefits such as subsidised public transport. The latter might be achieved by removing FBT from public transport subsidies to **employees**. However, FBT is of limited use in influencing the behaviour of employees, since it is the employer who actually pays the FBT, and there are no proposals to change this.
18. In order to take account of environmental externalities, a tax would be most appropriately charged according to use decisions of the vehicle as opposed to simply the purchasing decision. Since the FBT is paid by the employer and not the employee, it does not directly affect use decisions of the employee. This limits the usefulness of FBT in tackling environmental externalities resulting from vehicle use.

19. Furthermore, a charge on vehicles to charge for environmental externalities would need to take account of a number of factors including time of day, location and type of vehicle. It would also need to assign appropriate charges. Only then would the employee have the correct incentives to balance their use of the vehicle with all of the costs which this use imposes on society. The associated compliance costs would rule out this type of charging at present. Another consideration is that under this scenario, the employer is still paying the FBT. The person paying the bill is the person whose incentives will be affected by any charge.
20. FBT can be used to assist in “levelling the playing field” between modes of transport. For example, overseas studies of transport costs and charges generally show that private motor vehicles are undercharged for their total costs (including environmental externalities) whereas public transport users pay too much. One of the proposals in this submission is to exempt the provision to employees of free or subsidised public transport from FBT. This may encourage employers to consider implementing travel demand management programmes.
21. It must be noted that the FBT is a very blunt instrument and its objectives should therefore be made very clear. Each tool used as part of any policy should have no more than one primary objective. If the FBT is there to raise revenue then this is its primary objective and should be stated as such. If it is being used to influence travel behaviour, then its primary objective cannot be to raise revenue. Any proposal must bear in mind that the primary objective must be stated, and any secondary objective will necessarily be less targeted. However, it is possible to achieve some environmental benefits as a secondary objective. For example, FBT may be reduced or waived on more ‘desirable’ goods or services provided to employees. An example of the latter is the suggestion within the discussion document to waive FBT on parking at inner city schools and hospitals, in order to assist in achieving social objectives.

FBT and the relationship to travel plans

22. Many employers are implementing travel plans for their businesses. The generic aim of travel plans is to promote and encourage eco-efficient travel choices by employees. Options for achieving these objectives are providing subsidies to encourage use of public transport, allowing flexible working hours to facilitate peak-shifting, providing on-site bicycle parking and encouraging walking and cycling, and facilitating working at home by providing computing equipment. Other examples of methods include encouraging car-pooling, providing special buses and providing loans to purchase bicycles or annual train tickets.
23. Employers are less likely to offer their employees one of these options as part of a travel plan if they have to pay fringe benefit tax on it. Conversely, an employer may be likely to take the easy way out and offer a benefit which encourages individual travel by motor vehicle if there is no FBT on it.

FBT on car parks

24. The Ministry of Transport (MoT) and the Energy Efficiency and Conservation Authority (EECA) have previously pointed out the anomaly between exempting car parks from FBT, which could encourage greater vehicle use, and charging FBT on provisions which could promote alternatives to individual travel by motor vehicle, such as subsidising public transport.

25. We therefore support the proposal to apply FBT to car parking. "Car parking" subject to FBT should not include space made available on-site for bicycles or motorised two wheelers. On-street parking for these modes of transport is normally free in any case. We note that in Australia FBT is already charged on urban car parks provided to employees.
26. The most appropriate method of valuing car parks would be on the availability, with the value reflecting the market rate for car parking in the location. More congested urban areas would have a much higher charge for off-street parking than regional towns, and this rate would reflect the value to the employee of the park.

Valuation of FBT on vehicles

27. The discussion document proposes to continue the current method of valuing vehicles, i.e. on the basis of availability rather than use. As discussed above, there are limits to the extent to which FBT can be used to influence employee behaviour, and to reflect the costs vehicle drivers impose on society would require a complex system of recording distance, location and time of day, which would have unacceptably high compliance costs.
28. The current method of calculating FBT for each quarter is based on the purchase price of the vehicle, multiplied by a factor to take account of availability and multiplied by the 6% rate of FBT (24% per annum). We question the proposal in the discussion document to lower the FBT rate for vehicles because vehicle running costs are lower now than they were when FBT was introduced in 1985.
29. The statement that costs of running a vehicle have decreased since FBT was first introduced may be true. However, it does not take account of the total costs imposed by drivers on society through pollution, congestion and accidents. Studies have shown that these costs are significant and increasing because of the increasing fleet size, associated vehicle kilometres travelled, and traffic density. Since 1985, there has been a dramatic increase in vehicle ownership and use, due primarily to government policies in the early 1990s to open up the vehicle market to used vehicle imports. If environmental externalities were taken into consideration in addition to vehicle running costs, it is likely that the overall costs of motoring would have increased.

Exempting eco-efficient vehicles from FBT

30. One of the government's objectives for transport is to reduce air emissions and greenhouse gas emissions from motor vehicles, by encouraging the uptake of eco-efficient vehicles. We propose that FBT be waived for fuel efficient vehicles which can demonstrate that they have attained very low vehicle emissions, for example hybrid petrol-electric vehicles. There are international precedents for this type of exemption. For example, the inner London congestion charge is waived for low emissions, alternatively fuelled vehicles.
31. MoT and EECA are actively engaged in encouraging consumers, including fleet purchasers, to buy the most fuel efficient and low-emissions vehicle suitable for their intended use. One of the proposals to be examined this year is an endorsement scheme, whereby the very best vehicles available (in terms of fuel economy and low emissions) would be eligible for an endorsement label or other forms of recognition.

32. We propose that endorsed eco-efficient vehicles, i.e. fuel-efficient vehicles built to strict air emissions specifications, be exempt from FBT. These vehicles are likely to be more expensive than conventional vehicles, and therefore attract proportionately more FBT than conventional vehicles. A differential FBT could be considered in conjunction with proposed investigation of eco-endorsement of vehicles. Benefits to society arise from greenhouse gas emissions savings and a reduction in air pollution, and corresponding decrease in health costs.

Exempting activities which have benefits to society

33. FBT is currently charged on provision of subsidies for use of public transport, including loans for purchasing seasonal or annual public transport passes. While a public transport subsidy is undoubtedly of value to the employee, it also encourages that employee to take public transport rather than drive to work. Therefore it reduces emissions of contaminants and greenhouse gases from vehicles. It is possible that the health benefits to society may be sufficient to justify exempting public transport subsidies to employees from FBT.
34. Employer travel behaviour plans often make provision for employees to work at home some or all of the time, which reduces their need for travel to work on those days. We support the proposal to exempt cellphones, laptops and other business tools from FBT, since these tools are required for effective working at home. The discussion document does not specifically mention non-portable personal computers. There may be a case in terms of facilitating working at home to exempt these from FBT in addition to laptops. However, there are issues around verification of software loaded onto work machines and ensuring these remain virus-free which may make the option unattractive to employers, whereas laptops can be recalled to the main office for regular checks.

Perverse effects from definition of “work related vehicle”

35. FBT does not currently apply to “work related vehicles”, such as utes, pickup trucks and vans, under a defined range of circumstances. Cars (other than taxis) can only qualify for this exemption if they are permanently without useable rear seats. Currently some organisations avoid FBT on vehicles by either purchasing a larger vehicle than may be required (e.g. van rather than a mid-sized car), or by removing the passenger seats from a car so that it becomes a work related vehicle.
36. These purchasing and modification strategies may result in inefficiencies by:
 - operating larger vehicles which produce more emissions, or
 - reducing the ability to carry more than one passenger, hence requiring the use of two vehicles or a larger car.
37. In some organisations, it is the practice when the majority of the work vehicles have room for only one passenger, to carry one or more passengers in the back of vehicles with no seats, even if this practice is prohibited by employers. This compromises passenger safety and the government’s road safety objectives. In the event of a crash rear passengers would not be restrained in any way and would be likely to suffer much more severe (even fatal) injuries than seated passengers wearing seat belts.

38. This anomaly is noted in the discussion document, and we would support steps to correct it. As a general principal, solutions which do not require the keeping of log books have lower compliance costs and would be preferable to solutions which require extensive record keeping. In terms of safety, any definition of “work related vehicle” which is likely to result in carriage of unrestrained passengers should be removed immediately.
39. From an environmental, safety and compliance cost perspective, the optimum solution may be to allow cars (with rear passenger seats) to be considered work related vehicles provided they satisfy the other requirements applying to other work related vehicles. In particular the employer would need to satisfy IRD that use of the car by employees is incidental to business use or for travel from home to work, perhaps with an additional provision for cars that there be a good reason why the vehicle is taken home. This could be done on the basis of a declaration by the employer. It would be up to the employer to determine the level and type of record keeping which would be required to satisfy any IRD audit that the exemption conditions were being met at all times.

Conclusion

40. This submission outlines opportunities to exploit synergies between government’s primary objectives for FBT, to recover tax on non-cash employment benefits, and at the same time advance governments energy, transport, health, environmental and climate change policies.
41. We welcome the opportunity to work with the Inland Revenue Department on detailed proposals to revise Fringe Benefit Tax.