

Customs and Excise Amendment Bill (No 5)

Government Bill

Explanatory note

General policy statement

The purpose of this Bill is to increase Government land transport funding to allow current land transport funding programmes to be maintained, and to provide increased funding for the Government's land transport priorities. The Bill amends the Customs and Excise Act 1996 and the Transit New Zealand (Apportionment and Refund of Excise Duty) Regulations 1998 (the **regulations**).

The Customs and Excise Act 1996 ("the principal Act") provides for the levying of excise and excise-equivalent duty on fuel. A proportion of this duty, as specified in the regulations, is applied to Crown land transport funding.

Under the Transit New Zealand Act 1989, Crown land transport funding is made through a dedicated part of the Crown account called the National Roads Fund (**NRF**). The NRF pays for 3 principal activities—

- the road safety (administration) programme (administered by the Land Transport Safety Authority and the police):
- road funding (administered by Transfund New Zealand):
- funding for passenger transport and alternatives to roads (administered by Transfund New Zealand).

The cost of revenue collection is also paid out of the NRF.

The NRF receives revenues from motor vehicle registration and licensing fees, road user charges (**RUC**) levied under the Road User Charges Act 1977, and a portion of fuel excise and excise-equivalent duty levied under the Customs and Excise Act 1996.

The Bill secures additional revenue for the NRF through increasing the excise and excise-equivalent duty on motor spirits by way of an amendment to the Customs and Excise Act 1996. All of the increased fuel excise duty will be paid into the NRF as a result of an amendment to the regulations. Under a complementary measure, the Government also intends to secure further additional revenue by increasing RUC on diesel vehicles of 4 tonnes weight or less through an Order in Council made under the Road User Charges Act 1977.

Clause by clause analysis

Clause 1 is the Title clause.

Part 1

Preliminary provisions

Clause 2 is the commencement clause. The Bill comes into force on the day on which it receives the Royal assent.

Clause 3 sets out the purpose of the Bill.

Part 2

Amendments to Customs and Excise Act 1996 and related amendments

Clause 4 amends the Third Schedule of the principal Act to increase by 4.2 cents per litre (excluding GST) the rate of excise duty and excise-equivalent duty for motor spirits. The new rate is 38.5 cents per litre (excluding GST).

Clause 5 amends the Transit New Zealand (Apportionment and Refund of Excise Duty) Regulations 1998 (SR 1998/94) to reflect the 4.2 cents per litre increase in the excise duty on motor spirits. This clause proportionately adjusts—

- the proportion of excise duty on each litre of motor spirits that is credited to the NRF;
- the rate of refund of excise duty and GST payable on each litre of motor spirits.

The clause also amends the regulations to provide for the refund of excise duty and GST charged in respect of motor spirits used for search and rescue purposes by a dedicated rescue vessel.

The clause also ensures that refunds paid out after the date on which the Bill comes into force in satisfaction of an obligation incurred before that date are paid at the former rates.

Regulatory impact and compliance cost statement

Statement of problem and need for action

Funding for roading, public transport, alternatives to roading, and road safety is constrained by the levels of fuel excise duty and RUC collected for the NRF. Forecast revenue sources to the NRF are likely to be insufficient to maintain existing investment levels for land transport, or provide more funding to meet the Government's priorities outlined above.

Statement of public policy objective

In light of the direction of the New Zealand Transport Strategy, the Government has agreed that the funding priorities of the NRF to 30 June 2003 are as follows:

- **congestion:** to reduce severe congestion (congestion that occurs regularly during the week, causes long time delays, and has significant economic, social, and environmental impacts):
- **public transport:** to improve funding and delivery of public transport:
- **walking and cycling:** to promote walking and cycling:
- **regional development and alternatives to roads:** to assist local authorities to meet specific needs where regional development and alternatives to roads are constrained by inadequate investment:
- **safety:** to improve road safety in order to achieve a substantial reduction in the road toll by 2010.

In addition, the Government wishes to ensure that there is adequate ongoing investment in the maintenance and improvement of the roading system as a whole.

The Government will also increase the flexibility of Transfund to fund its walking, cycling, regional development, and alternatives to roading priorities.

In deciding to allow refunds from the NRF for fuel used by dedicated rescue vessels, the Government has agreed that it is not equitable for fuel used at sea by rescue vessels to be subject to excise duty that is retained in the NRF exclusively for land transport purposes.

Statement of options for achieving public policy objective

The Government has considered 2 broad options that could help to meet the Government's land transport investment objectives. Both of these options assume that funding is prioritised to meet the Government's priorities to the extent possible within the legislative frameworks. The options are—

- to reallocate funding from within existing sources and levels; or
- to increase fuel excise duty and light RUC.

Reallocating current funding from the NRF could result in some funding being allocated by Transfund to projects that will relieve congestion. However, there would be substantial delays for some projects, and investment in roading projects across the country would decrease significantly. There would also be no scope for increased spending on public transport, walking, cycling, regional development, alternatives to roading, and road safety.

Increasing road user charges will increase the capacity of the NRF to fund the Government's objectives.

If fuel excise duty is increased by 4.2 cents per litre, additional funding for public transport, walking, cycling, regional development, alternatives to roading, and road safety could be delivered, and there would be an increase in the amount of funding available for roading.

Statement of the net benefit of this proposal

Benefits

Much of the additional expenditure would be invested in projects that should provide considerable net road safety, congestion reduction, social benefits, and environmental benefits. These benefits will be realised by transport users (including businesses heavily dependent on transport, motorists, cyclists, pedestrians, and public transport users) and by communities that currently bear the social, environmental, and safety costs of inadequate and poorly balanced transport infrastructure investment.

Traffic congestion in Auckland is currently estimated to cost the total economy around \$1 billion per annum. The proposed funding package should allow for some key Auckland projects that are intended to produce benefits in reducing congestion to proceed over

the next 4 years. The benefits of relieving congestion will be primarily realised by private motorists and passengers, owners of small to medium-sized commercial vehicles (those who will be facing increased fuel excise duty and RUC), public transport users, and communities who benefit from a significantly reduced flow of through traffic.

Fuel used in dedicated rescue vessels for search and rescue purposes will no longer be required to fund the NRF.

Administrative costs

There would be minimal administrative costs involved in any increase in fuel excise duty, or in the provision of fuel excise refunds for fuel used by dedicated rescue vessels.

Compliance costs

The compliance costs arising from the proposals in this Bill are negligible.

Economic costs

Increased road taxation could have a negative impact on the economy, but as demand for light RUC and petrol vehicle use appears to be relatively inelastic, any adverse impact on the economy is likely to be negligible. In 2001, the average household expenditure on fuel for road vehicles was \$1,476 per annum. The proposed increase in fuel excise duty would have an average effect of \$1.20 a week (excluding GST) in additional household expenses, or \$62 per annum (excluding GST).

Delays in the construction of planned land transport infrastructure over the next few years as a result of lack of funding would impose higher (relative) costs on land transport users.

Business compliance cost statement

Sources of compliance costs

The only source of compliance costs will be the one-off requirement for oil companies to advise retailers of the proposed change to fuel excise duty.

Parties likely to be affected

Oil companies and petroleum retailers will be the only groups affected.

Estimated compliance costs of the proposals

Negligible.

Longer term implications of the compliance costs

There are no long term implications.

Level of confidence of compliance cost estimates

A comprehensive analysis of the benefits from these proposals has not been undertaken because the impact is one-off and negligible.

Key compliance cost issues identified in consultation

No consultation has been undertaken.

Overlapping compliance requirements

There are no overlapping compliance requirements that arise from these proposals.

Steps taken to minimise compliance costs

No steps have been taken because compliance costs are one-off and negligible.

Consultation**Government departments:**

Department of Prime Minister and Cabinet

Ministry of Economic Development

Ministry of Justice

Ministry of Transport

The Treasury

Hon Jim Anderton

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	Amendments to Customs and Excise Act 1996 and related amendments		Schedule
4	Third Schedule amended		Amendments to Third Schedule of Customs and Excise Act 1996 (excise and excise-equivalent duties)

The Parliament of New Zealand enacts as follows:

1 Title

- (1) This Act is the Customs and Excise Amendment Act (**No 5**) **2002**.
- (2) In this Act, the Customs and Excise Act 1996¹ is called “the principal Act”.

¹ 1996 No 27

Part 1

Preliminary provisions

2 Commencement

This Act comes into force on the day on which it receives the Royal assent.

3 Purpose

The purpose of this Act is—

- (a) to increase, by 4.2 cents per litre (excluding goods and services tax), the rate of excise duty and excise-equivalent duty on motor spirits; and
- (b) to proportionately adjust the amount of excise duty on motor spirits that is credited to the National Roads

- Fund, and the rate at which that duty and goods and services tax are refunded; and
- (c) to provide for the refund of excise duty and goods and services tax charged in respect of motor spirits used for search and rescue purposes by a dedicated rescue vessel.

Part 2

Amendments to Customs and Excise Act 1996 and related amendments

4 Third Schedule amended

The Third Schedule of the principal Act is amended by revoking so much as relates to Excise item numbers 99.75.15C and 99.75.18H and Tariff items 2710.19.11 and 2710.19.29, and substituting the Excise item numbers and Tariff items and rates of duty specified in the Schedule.

5 Proportionate adjustment of rates in Transit New Zealand (Apportionment and Refund of Excise Duty) Regulations 1998

- (1) Regulation 3(2)(a) of the Transit New Zealand (Apportionment and Refund of Excise Duty) Regulations 1998 (SR 1998/94) is amended by omitting the expression “13.525 cents”, and substituting the expression “17.725 cents”.
- (2) Regulation 4(1) of the Transit New Zealand (Apportionment and Refund of Excise Duty) Regulations 1998 is amended by inserting, after paragraph (c), the following paragraph:
“(ca) for search and rescue purposes in a dedicated rescue vessel; or”.
- (3) Regulation 5(a) of the Transit New Zealand (Apportionment and Refund of Excise Duty) Regulations 1998 is amended by omitting the expression “15.3 cents”, and substituting the expression “19.941 cents”.
- (4) If an application under section 101 of the Transit New Zealand Act 1989 for a refund of excise duty or goods and services tax (or both) is pending at, or is made after, the commencement of this Act, and the application relates to excise duty or goods and services tax (or both) paid (whether before or after the commencement of this Act) in satisfaction of a liability incurred before that commencement, the application must be determined as if **subsections (1) to (3)** were not in force.

Schedule
Amendments to Third Schedule of Customs and Excise Act 1996
(excise and excise-equivalent duties)

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Part A
Goods manufactured in New Zealand

Excise item number	Goods	Unit	Rates of duty
99.75.15C	- Motor spirit with a Research Octane No. (RON) less than 92 (regular grade) which, if imported, would be classified within Tariff item 2710.19.11 or 2710.19.29	per ℓ	38.5¢ plus 8¢ per g of Pb
99.75.18H	- Motor spirit with a Research Octane No. (RON) 92 or greater (premium grade) which, if imported, would be classified within Tariff item 2710.19.11 or 2710.19.29	per ℓ	38.5¢ plus 8¢ per g of Pb

Part B
Imported goods

Tariff item number	Goods	Unit	Rates of duty
2710.19.11 or 2710.19.29	- Motor spirit with a Research Octane No. (RON) less than 92 (regular grade) which, if manufactured in New Zealand, would be classified within Excise item number 99.75.15C	per ℓ	38.5¢ plus 8¢ per g of Pb
2710.19.11 or 2710.19.29	- Motor spirit with a Research Octane No. (RON) 92 or greater (premium grade) which, if manufactured in New Zealand, would be classified within Excise item number 99.75.18H	per ℓ	38.5¢ plus 8¢ per g of Pb

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