

## **Tax Working Group Public Submissions Information Release**

### **Release Document**

**February 2019**

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In preparing this Information Release, the Treasury has considered the public interest considerations in section 9(1) of the Official Information Act.



## **LPG automotive excise duty rebate system.**

### **Current system**

Automotive excise duty is paid by LPG Producers/Importers on **all** LPG produced or imported into NZ. The rate is 10.4 cents per litre + gst.

The excise is intended as a tax on the ultimate use of LPG as an automotive fuel source. However, LPG used for non-automotive purposes is not intended to attract this tax, so the Government (through NZTA) rebates that portion of the tax applying to non-auto sales of LPG.

In the early 1990s, automotive LPG sales were approx 80% of total LPG sales in New Zealand. The tax rebate was therefore small and the process of 'large upfront payment followed by small rebate' was sensible and efficient.

The situation has since changed dramatically. In the 2017 calendar year, automotive LPG sales comprised just 2.7% of the total (4,900 tonnes out of total NZ LPG sales of 180,303 tonnes). The running 12-month total at September 2018 is down further to 2,978 tonnes.

Unfortunately, this trend is likely to continue as the conversion and refuelling infrastructure is continuing to decline because of the advent of hybrid vehicles for taxis and the increasing cost and complexity of the post conversion of modern vehicles.

In effect, Government – and industry – are now involved in a complicated, costly process that nets only about \$600,000. The Government collects approximately \$36 million + gst in tax revenue pa from LPG sales, only to have to rebate around \$35.4 million + gst of it back to industry/consumers.

The issue for industry is that there are approximately 250 LPG retailers which can claim the rebate plus a further 100 + large bulk users and the major LPG wholesalers. Claims are made two monthly, which means significant time and resource is involved in compliance. Claims are accepted up to two years in arrears.

The issue for Government is similar in terms of 'compliance' and resourcing. The National Motor Registration Centre in Palmerston North handles the rebates, but two other Government agencies are

also involved - New Zealand Customs collects the excise and the Ministry of Transport is responsible for the Regulations.

The fact that automotive sales now comprise such a small and decreasing percentage of total LPG sales raises questions about the cost-effectiveness of continuing the current collection/rebate system.

### **Other Options.**

We submit that there are two other options which could be considered to reduce cost and compliance for all parties.

#### **1. Remove excise duty on LPG.**

Considering the complexity and cost of the current system, both for the Government agencies and industry, the \$0.6 million collected could be considered insufficient to warrant maintaining it.

This move would certainly benefit industry considerably for a number of reasons, including improved cashflow and reduced compliance cost.

This move could be justified on another level as well. LPG has traditionally been granted lower taxes than petrol because of its environmental advantages, both in terms of greenhouse gas emissions and local air quality.

#### **2. Collection from automotive retailers.**

A second option is to collect the excise in arrears from LPG automotive outlets.

MRC would still have to handle the income from 200 + retailers and would continue to have to ensure compliance and verification.

However, this approach would simplify the existing system and save both industry and Government time and money. In addition, Government tax take would be unaltered.

### **Change is essential**

Irrespective of which proposed option is preferred, the status quo should not be maintained because of the significant costs of compliance it imposes on both Government and industry, for very little net collection of the tax.

We would welcome the chance to brief the Committee in more detail on the issue and the proposals for addressing it.

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