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PARLIAMENT OF THE COMMONWEALTH OF AUSTRALIA

HOUSE OF REPRESENTATIVES

EXCISE TARIFF AMENDMENT BILL 1989

EXPLANATORY MEMORANDUM

(Circulated by Authority of the Minister for Industry,
Technology and Commerce, Senator the Honourable John N. Button)

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OUTLINE

The main purpose of this Bill is to amend the Excise Tariff Act 1921 ("the Act") to -

- (a) repeal section 6G of the Act, which enables the deferral of the payment of customs duty on certain imported goods used in the manufacture of excisable products, until the resultant excisable product is produced and entered for home consumption (clause 3);
 - . this is a technical amendment which, in conjunction with proposed amendments to the Customs Tariff Act 1987, will now enable the industry protection element of the customs duty payable on such goods, to be collected at the time of importation;

and to incorporate into the Act previously notified excise tariff alterations which:

- (b) decrease excise duty rates on low-alcohol beer (clause 4);
- (c) alter the excise duty on naturally occurring liquefied petroleum gas (LPG) with effect from 1 October 1988 in accordance with the Government's long-standing policy of calculating the excise duty on the basis of 60% of the amount by which the realised price for the gas (calculated as a weighted average of the prices received from exports and local sales of LPG) exceeds \$147 per tonne (clause 5); and
- (d) impose excise duty on topped crude petroleum oil, where that petroleum oil is for use otherwise than as refinery feedstock (clause 6).

Financial Impact Statement

- (a) Repeal of section 6G of the Excise Tariff Act 1921:

This amendment is revenue neutral, as it does not alter the duty payable on certain imported goods; rather, it alters the time when such duty is payable.

(b) Decrease in excise duty rates on low-alcohol beer

This is a Budget measure announced as part of the August 1988 Budget, and is estimated to produce a decrease in revenue of \$400 million in 1988-89 (comprising decreased excise duty of \$730 million and increased sales tax of \$330 million);

(c) Decrease in excise duty rates on LPG

The 1 October 1988 decrease in the excise rate for naturally occurring LPG is estimated to result in a decrease of \$10.7 million in excise receipts in 1988-89;

(d) Amendments relating to Topped Crude Petroleum Oil

The amendments relating to topped crude petroleum oil are estimated to produce a savings to revenue of \$14 million in a full year.

Notes on Clauses

Short title etc.

Clause 1

provides for the citation of the Act, and identifies the Excise Tariff Act 1921 as the Principal Act for the purposes of this Act.

Commencement

Clause 2

provides for the Act to commence on the day on which it receives the Royal Assent, with the exception of:

- a. clause 3, which commences on 1 July 1989, and repeals section 6G from that date;
 - . the prospective date of commencement corresponds with the commencement of the amendment to the Fourth Schedule to the Customs Tariff Act 1987;
- b. clause 4, which shall be taken to have commenced on 24 August 1988 and which decreases the excise duty payable on low-alcohol beer from that date;
 - . the 24 August 1988 commencement is the day after the date on which the measure was announced by the Government as part of the 1988 Budget;
- c. clause 5, which shall be taken to have commenced on 1 October 1988, and which alters the excise duty on naturally occurring liquefied petroleum gas (LPG) from that date;
 - . the date of commencement reflects the Government's policy of revising the excise duty rate for LPG every six months, ie 1 April and 1 October each year;
- d. clause 6, which shall be taken to have commenced on 15 February 1989, and which amends the excise duty rates on topped crude petroleum oil from that date.
 - . the amendment is designed to curtail the practice whereby the product has been used as a substitute for an excisable product. The date of commencement reflects the date of the relevant excise tariff proposal.

Repeal of section 6G

Clause 3

repeals section 6G of the Principal Act with effect from 1 July 1989.

At present section 6G enables the deferral of the payment of customs duty on certain imported goods, where those goods are used in the manufacture of excisable products;

Repeal of section 6G, in conjunction with proposed amendments to the Customs Tariff Act 1987, will enable the industry protection element of the customs duty payable on such goods, to be collected at the time of importation;

The original purpose of inserting section 6G was to overcome a problem faced by manufacturers of certain excisable products, who imported those products for use in the manufacture of other excisable products. In practice, these manufacturers paid double the excise component of the duty ie once as part of customs duty on the importation of the goods, and again as excise duty on the production of the excisable product. While the introduction of section 6G resolved this problem, the provision has made the collection of the industry protection element of the customs duty very complex because:

- consignments of imported goods with different values do not necessarily match production batches, thereby complicating the calculation of the industry protection element where the customs duty rate is *ad valorem*;
- the proportion of the imported goods used in the manufacture of excisable products varies from batch to batch;
- the delivery of the excisable product into home consumption is not related to production batches;
- the finished excisable product in many cases is moved under Customs control from the excise factory to various distribution points for piecemeal delivery into home consumption;

The proposed repeal of section 6G, in conjunction with an amendment to the Fourth Schedule to the Customs Tariff Act 1987, will enable the collection of the industry protection element of the customs duty at the time of the importation of the goods. The remainder of the customs duty will be collected as part of the excise duty on the

finished excisable product which incorporates the imported goods. This will significantly reduce the current administrative complexities while at the same time ensuring the protection element of the customs duty is effectively collected, and the excise component is not paid twice.

Amendment of Schedule having effect from 24 August 1988

Clause 4

decreases the excise duty on low-alcohol beer, as part of Government's announcement during the August 1988 Budget;

The reduction is effected by providing that the excise is to be calculated on the alcohol content by which the volume of alcohol of the beer exceeds 1.15 per cent. Thus, the greater the amount of alcohol in the beer, the more excise duty is payable on it;

- . the duty rate is \$11.70 per litre of alcohol;
- . the threshold of 1.15 per cent is to ensure that beer with alcohol contents of 1.15 per cent or less, which was already free from excise duty, retains that exemption.

Amendment of Schedule having effect from 1 October 1988

Clause 5

alters the excise duty on naturally occurring liquefied petroleum gas (LPG) with effect from 1 October 1988 in accordance with the Government's long-standing policy of calculating the excise duty for this product on the basis of 60% of the amount by which the realised price (ie. calculated as a weighted average of the prices received from exports and local sales of LPG during the immediately preceding 6 months) exceeds \$147 per tonne;

- . the effect of the amendment is to decrease the excise rate on LPG from \$15.39 per kilolitre to \$6.25 per kilolitre, reflecting higher export prices for LPG in the relevant 6 month period;
- . since the excise only applies to offshore fields, the only field affected is Bass Strait;

- . no excise is payable on refinery-produced LPG;
- . the date of commencement reflects the Government's policy of revising the excise duty rate for LPG every six months, ie 1 April and 1 October each year;

Amendment of Schedule having effect from 15 February 1989

Clause 6

alters the excise duty on topped crude petroleum oil, by reference to the intended purpose for which that oil is entered for home consumption. With effect from 15 February 1989 topped crude petroleum oil intended for use other than as a petroleum refinery feedstock will attract an excise duty rate of \$0.04644 per litre.

- . traditionally, topped crude petroleum oil has been used exclusively as refinery feedstock, and the rationale for the free rate of duty hitherto applicable to that petroleum oil has been that such a rate keeps production costs at a minimum in what is after all a process of producing another excisable product;
- . however, in recent times topped crude petroleum oil has been found to have been used as a substitute for other excisable products, notably certain grades of fuel oil.
- . the amendment is designed to curtail the revenue leakage caused by this substitution practice, by confining the duty-free entry of topped crude petroleum to that oil which is intended for use as refinery feedstock.