



News Bulletin



Carbon Tax is Here

IT'S HERE - THE CARBON PRICE IS NOW REALITY

On 8 November 2011, the Governor General, Ms Quentin Bryce AC, provided formal assent to the package of legislation that facilitates a price on carbon. In other words, the carbon price is now law.

This is a significant development for the Gillard government and all Australians. It is every bit as important as the GST was for the Howard government or the package of tax changes implemented by the Hawke-Keating government following the 1985 Tax Summit. How history will judge the Gillard government very much depends on the success or failure of the price on carbon.

WHAT IS THE POLICY RATIONALE BEHIND A PRICE ON CARBON?

For over four decades, the policy consensus on taxation involved a premium being placed on the efficient operation of markets. The carbon price represents a significant shift away from this consensus as it represents the government correcting for market failure.

The carbon price policy recognises that there are spillover effects (called "negative externalities" by economists) for entities other than those directly engaged in a transaction. In this case the environmental degradation caused by carbon emissions. This policy means that consumers of carbon intensive goods and services should pay some price for the effects of their consumption on the wider community.

In terms of government correcting for market failure, the carbon price is unique because:

- it has been deliberately calibrated to cause a ripple effect through the entire economy. The government hopes this will change consumer behaviour across a number of carbon intensive goods and services
- the "tax" will eventually morph into an emissions trading scheme, which means that the market will set the price and businesses will be able to buy and sell permits

For these reasons, and whether you agree with it or not, the price on carbon represents a new direction for Australian policy makers.

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WHAT YOU NEED TO KNOW

When assessing a business' potential exposure under the carbon pricing regime, it is important to first correctly characterise the type of business in the context of the carbon price. Entities can be broadly grouped as follows:

- Non-reporting entities. The carbon pricing regime is about energy produced as well as energy consumed. Therefore, it is entirely possible to have entities categorised as large businesses for tax purposes that have a carbon tax profile similar to a \$50,000 start-up. Key issues for this group will be:
 - > Determining cost impacts and assessing pass through price increases
 - > Managing long term contractual issues – opportunities leading up to 1 July to drive down obligations, as well as factors to be aware of when negotiating long term sale contracts post 1 July 2012
 - > Identifying tax and government grant opportunities
 - > Eligible entities harnessing carbon credit trading opportunities
 - > Where necessary, developing three, five and ten year plans including eco-efficiency savings for major projects
- Reporting entities (not required to purchase emission units). Many mid-cap entities may not even be aware that they are now required to report their consumption of energy as well as any direct emissions. This can apply to entities as diverse as financial services providers, local government entities and small scale manufacturing. This group needs to:
 - > Correctly apply carbon accounting so that all liabilities are provided for on balance sheets
 - > Develop appropriate information capture systems within accounting packages
 - > Develop acceptable methodologies to accurately calculate carbon footprint
 - > Comply with new reporting thresholds and reporting periods and ensure directors are aware of personal liability issues associated with incorrect reporting
- Liable entities. In general, an entity will be liable and required to purchase eligible emission units where it operates a facility that produces direct greenhouse emissions of 25,000 tonnes of carbon equivalent. Landfill facilities with direct greenhouse emissions of 10,000 tonnes of carbon equivalent also will be liable. These entities need to:
 - > Consider whether they have systems in place to ensure the accurate measurement of covered emissions
 - > Correctly establish liable entities and any liability transfers prior to 1 July 2012
 - > Deal with the uncertainty associated with the Federal Opposition's position on the price on carbon
 - > Consider the income tax, GST and state tax consequences of trading in eligible emission units, liability transfers etc.

HOW WE CAN HELP

WHK provides a range of services from small scale modelling of input price impacts through to robust carbon footprint assessments in association with our firm wide climate change and sustainability partners. We can assess your information capture systems as well as provide high level tax advice to liable entities.

For further information and tailored solutions to your carbon price issues please contact Paul Wastell on 5564 2100, Tim Bodey on 5304 5700, or Wendy Maloney on 5224 7700.

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