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### A Summary of the Carbon Price

#### Introduction

The objective of a price on carbon is to influence consumer behaviour, reducing the purchases of products that result in high emissions in favour of lower emitting alternatives.

Consumer behaviour is influenced in this way through price changes. The higher the amount of emissions that a product is responsible for then the higher the carbon price impact imposed on that product. Naturally, such an increase in cost is likely to be passed on as a higher price to the consumer. Further, businesses may then react to the impact of the carbon price on their costs by instigating initiatives that reduce these emissions in producing their product. This may enable them to generate a market advantage, or to remain competitive.

#### Carbon Tax

A carbon tax is proposed to commence on 1 July 2012 with over half of Australia's emissions being directly covered by this scheme. The tax will target stationary energy, waste, rail, domestic aviation and shipping, industrial processes and fugitive emissions. The Federal Government also intends to extend the tax to cover heavy on-road vehicles from 1 July 2014.

From these sources of emissions only businesses with direct greenhouse gas emissions of 25,000 tonnes per year or more will be liable for the carbon tax. It is estimated that this will result in approximately 500 entities being directly liable to the tax.

It should be noted therefore that the carbon tax will not be directly levied on households, small business, agriculture, forestry and fishing. However, although these end users will not be directly liable for the tax it is still likely to impact these users through higher prices for services and products that utilise carbon emitting fuels.

#### Carbon Price

The carbon tax will be imposed through permits at a carbon price. Those entities that have a direct liability under the carbon tax will be required to provide to the scheme regulator the number of permits that is equivalent to their emissions for the financial year. One permit is the equivalent of one tonne of emissions. For example, if an entity emits 100,000 tonnes from 1 July to 30 June they will be required to provide 100,000 permits.

These entities will purchase the required number of permits from the Federal Government. Note that certain industries will be provided with Federal Government assistance, this will be in the form of receiving their required permits, or some thereof, free of charge.

There will initially be a fixed permit price operating from 1 July 2012 to 30 June 2015. The initial price will be \$23.00 per permit from 1 July 2012 and this will then increase by 2.50 per cent in real terms in subsequent years. Therefore, the carbon price on 1 July 2013 will be \$24.15 per permit and on 1 July 2014 it will be \$25.40.

### Emissions Trading Scheme

On 1 July 2015, the carbon tax will revert to an Emissions Trading Scheme (ETS). The price for permits under an ETS will be based on economic factors, it will therefore vary depending on the number of permits in the market and the demand for those permits.

The permits will predominantly be supplied to the market by the Federal Government, which will set a cap on the number of permits issued each year based on the acceptable amount of carbon emissions for that year. However, to manage price volatility, a price ceiling and price floor will operate for the first three years of the ETS. In other words, the market price of permits will not be fully flexible until after these first three years.

Industries requiring assistance, particularly those trade exposed, will continue to receive their permits, or some thereof, free of charge. The balance of permits to be issued will be sold at auction. The permits will then be transferable and may be bought and sold by businesses.

### Small Business

Small businesses will not be directly impacted by the price on carbon, and they will not be required to report carbon emissions. For most small businesses the price on carbon will result in an increase in their overhead costs. It is anticipated that businesses will, where possible, pass on such cost increases to their customers, just as they would with any other cost increases.

Small businesses will receive Federal Government assistance in the form of the following:

- A \$40 million program delivered over four years providing information to business and community organisations on the implications of a price on carbon and appropriate steps to manage the impacts.
- The immediate small business asset write-off threshold was already proposed to increase from \$1,000 to \$5,000 from 1 July 2012. This threshold will now be further increased to \$6,500 from that date.
- The Federal Government will also be providing much industry and agricultural assistance to enable these businesses to reduce their level of emissions.

There is also significant assistance to be provided to individuals, for example, through changes to income tax rates and thresholds.

Important: This is not advice. Clients should not act solely on the basis of the material contained in this Bulletin. Items herein are general comments only and do not constitute or convey advice per se. Also changes in legislation may occur quickly. We therefore recommend that our formal advice be sought before acting in any of the areas. The Bulletin is issued as a helpful guide to clients and for their private information. Therefore it should be regarded as confidential and not be made available to any person without our prior approval.