Parliamentary Budget Office

ECR-2025-2457

Adjust fuel excise – 25c per litre reduction	
Party:	The Coalition
Summary of proposal: The proposal would halve the fuel excise rate immediately, reducing it by approximately 25 cents per litre for 12 months. The proposal would start on 1 July 2025.	
Additional information (based on further advice provided): The regular indexation of fuel excise every 6 months would continue as usual while the policy is in force.	

Costing overview

The proposal would be expected to decrease the fiscal and underlying cash balances by around $5.9 billion over the 2025-26 Budget forward estimates period (see Table 1). This impact largely reflects a decrease in taxation revenue associated with fuel excise, partially offset by a decrease in administered expenses associated with fuel tax credits (FTCs).

The difference between the fiscal and underlying cash balance impacts is due to the timing difference between when the Goods and Services Tax (GST), income taxes, and FTC scheme liabilities are recognised and when they are collected or paid.

The proposal would not be expected to have an impact beyond the 2025-26 Budget forward estimates period, other than for public debt interest (PDI) impacts. A breakdown of the financial implications (including separate PDI tables) over the period to 2035-36 is provided at Attachment A.

Table 1: Adjust fuel excise – 25c per litre reduction – Financial implications ($m)[(a)(b)]

	2025-26	2026-27	2027-28	2028-29	**Total to 2028-29**
Fiscal balance	-6,613.2	666.3	-	-	**-5,946.9**
Underlying cash balance	-7,449.2	1,502.3	-	-	**-5,946.9**

(a) A positive number represents an increase in the relevant budget balance; a negative number represents a decrease.
(b) PDI impacts are not included in the totals.
- Indicates nil.

Additional impacts factored into this costing

The proposal would lead to an immediate reduction in fuel prices, which in turn would result in a decrease of the Consumer Price Index (CPI) in the quarter it is introduced. This would have flow-on effects to Budget items that are indexed by CPI, such as excise duties, and government payments to households including social security payments. It would also result in a decrease in collections from the GST associated with fuel sales.

Conversely, when the policy ends, there would be an increase in fuel prices, resulting in an increase of the CPI in that quarter, and similar but opposite effects to those from the commencement of the policy. The PBO assumes there would be no net ongoing impact to CPI or any Budget items impacted by CPI following the two movements described above.

The proposal would also be expected to decrease fuel costs for some businesses, increasing their net income and profits, in turn increasing company income tax revenue.

Uncertainties

The cost of the proposal is sensitive to assumptions around:

- Fuel consumption patterns and the impact it has on the assumed trajectory of fuel excise collections and the associated FTCs. Fuel consumption may be affected by the uptake of alternative fuel sources such as hydrogen and electricity in electric vehicles.
- The proportion of business fuel use that is eligible for full and partial FTCs.
- The impacts of the proposal on fuel price levels, the CPI, and the flow-on impacts this has on the broader economy.

The proposal would lead to a decrease of the CPI in the period the fuel excise reduction comes into force, and a corresponding increase when it is lifted. This would in turn decrease certain government revenue and payments indexed to CPI. While the PBO has attempted to quantify these impacts for revenue and expenditure programs that are indexed to CPI (e.g. alcohol excise and social security payments), the introduction of the proposal may lead to decreases in other areas of government expenditure not modelled here, which would slightly reduce the overall fiscal impact.

The PBO further recognises that the reduction in the price of fuel would likely have further impact on the consumption and savings behaviour of consumers and businesses, which would further impact economic activity. As per the Charter of Budget Honesty's policy costing guidelines, the PBO's costings do not include these broader 'second-round' economic impacts.

Key assumptions

The PBO has made the following assumptions in costing this proposal.

- The proposal would not change the effective price of fuel used by businesses for a creditable off-road use. For these businesses, the fuel tax credit (FTC) fully refunds the excise included in the price of fuel.[1]
- Under the proposal, the Road User Charge (RUC) would be equal to the halved fuel excise rate, and thus there would be no partial FTC refunds relating to 2025-26.
- In the absence of the proposal, the RUC rate would be 32.4 cents per litre from 2025-26 to 2034-35.[2]
- The proposal would be expected to decrease the price of fuel used by businesses for business activities ineligible for claiming fuel tax credits. This includes fuel used in light vehicles travelling on public roads (for example, a car, small van, taxi, or ride-sourcing services).

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[1] For more detailed information on fuel taxation please see the PBO's Budget explainer '*Fuel taxation in Australia*'

[2] The heavy vehicle road user charge will increase to 32.4 cents per litre in 2025–26. Refer to: *Federal Register of Legislation - Fuel Tax (Road User Charge) Determination 2023*.

- The reduction of fuel excise would be passed on to consumers, with fuel prices reduced by the change to the excise amount.
- Around 62% of the total volume of fuel subject to excise is consumed by business users.
- Around 47% of the total volume of fuel subject to excise is eligible for the fuel tax credits scheme.
- Around 80% of fuel retailers would remit GST collected on a monthly basis, while around 20% would remit GST collected on a quarterly basis.
- Any savings incurred by businesses due to decreased fuel expenditure would accrue as profits.
- Around 75% of businesses with fuel expenses would lodge BAS returns on a monthly basis and around 25% would lodge BAS returns on a quarterly basis.
- Around 60% of businesses with fuel expenses would be companies with an average marginal tax rate of around 29%.
- Around 40% of businesses with fuel expenses would be sole proprietorships, partnerships, or trusts, with an average marginal tax rate of around 32%.
- The average marginal tax rate of shareholders of businesses would be around 29%.
- Companies would pay out 75% of their after-tax profits as franked dividends.
- Around 27% of companies would be in a net loss taxable income position and would not pay out a dividend.
  - Shareholders would be Australian resident taxpayers that can claim a tax credit for a franking credit attached to a dividend.
  - Shareholders would be individuals, superannuation funds, partnerships, trusts, charities, and other companies with an average marginal tax rate of around 29%. This is based on the weighted distribution of dividend recipients in the Australian Taxation Office's (ATO's) 2021-22 Taxation Statistics.
- The implementation costs of the proposal for the ATO would be small and absorbed.

Methodology

Fuel excise and fuel tax credits

The financial implications of changing the fuel excise and the FTCs were estimated using clearance data provided by the ATO, as well as publicly available information on fuel excise rates and the road user charge. Data was projected over the medium term and then used to estimate the reduction in total excise raised under the proposal.

CPI growth and government payments

The change to the rate of fuel excise will mechanically affect the CPI and hence government payments. The financial implications on the budget were estimated using the PBO's budget analysis tool, *Build your own budget*.[3] Our approach to these impacts are explained in Attachment B.

[3] Build your own budget | pbo

GST implications

The financial implications of changing the fuel excise on GST collections were calculated based on the projected fuel excise rate, and the 10% GST rate. The proportion of fuel assumed to be used by businesses was excluded, as businesses would be able to receive full refunds for the value of GST included in the price of fuel by claiming input tax credits for. The underlying cash balance implications were calculated by adjusting the figures to reflect the timing of GST remittances to the ATO, as described in *Key assumptions* above.

Personal and business income tax

The change in business income tax revenue is a consequence of increased business profitability due to reduced business fuel-related expenses.

This increased profitability also translates to more fully franked dividends being paid, resulting in a small net decrease in tax revenue due to franking credit refundability.

Financial implications were rounded consistent with the PBO's rounding rules.[4]

Data sources

The Australian Taxation Office provided estimates for Road User Charge revenue as at the 2025-26 Budget.

Australian Bureau of Statistics, (2020), *'Survey of Motor Vehicle Use, Australia, 12 months ended 30 June 2020'*, Canberra: Australian Government.

Australian Taxation Office (2022), *'Taxation Statistics 2020-21'*, ATO, Australian Government. Accessed 21 May 2025.

Commonwealth of Australia (2023), 'Fuel Tax (Road User Charge) Determination 2023', accessed 21 May 2025.

Commonwealth of Australia (2025) *Pre-election Economic and Fiscal Outlook 2025,* Commonwealth of Australia.

Parliamentary Budget Office (2022), 'Fuel taxation in Australia', Parliament of Australia.

Parliamentary Budget Office (2025), 'Build your own budget', Parliament of Australia.

[4] https://www.pbo.gov.au/for-parliamentarians/how-we-analyse/pbo-rounding-rules

Attachment A – Adjust fuel excise – 25c per litre reduction – Financial implications

Table A1: Adjust fuel excise – 25c per litre reduction – Fiscal balance ($m)[(a)]

	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31	2031-32	2032-33	2033-34	2034-35	2035-36	Total to 2028-29	Total to 2035-36
Revenue													
Administered tax													
Fuel excise	*-13,600.0*	-	-	-	-	-	-	-	-	-	-	***-13,600.0***	***-13,600.0***
Alcohol excise (change in CPI)	*-31.2*	-	-	-	-	-	-	-	-	-	-	***-31.2***	***-31.2***
GST collections on fuel	*-511.0*	-	-	-	-	-	-	-	-	-	-	***-511.0***	***-511.0***
Income tax revenue - business	*528.0*	-	-	-	-	-	-	-	-	-	-	***528.0***	***528.0***
Income tax revenue - individuals	-	*-3.7*	-	-	-	-	-	-	-	-	-	***-3.7***	***-3.7***
Total – revenue	**-13,614.2**	**-3.7**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	-13,617.9	-13,617.9
Expenses													
Administered													
Fuel Tax Credit Scheme (FTCs)	*6,140.0*	-	-	-	-	-	-	-	-	-	-	***6,140.0***	***6,140.0***
Government transfer payments (change in CPI)	*350.0*	*670.0*	-	-	-	-	-	-	-	-	-	***1,020.0***	***1,020.0***
GST payments to states and territories	*511.0*	-	-	-	-	-	-	-	-	-	-	***511.0***	***511.0***
Total – expenses	**7,001.0**	**670.0**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**7,671.0**	**7,671.0**
Total (excluding PDI)	**-6,613.2**	**666.3**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-5,946.9**	**-5,946.9**

(a) A positive number for the fiscal balance indicates an increase in revenue or a decrease in expenses or net capital investment in accrual terms. A negative number for the fiscal balance indicates a decrease in revenue or an increase in expenses or net capital investment in accrual terms.

\- Indicates nil.

Table A2: Adjust fuel excise – 25c per litre reduction – Underlying cash balance ($m)[(a)]

	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31	2031-32	2032-33	2033-34	2034-35	2035-36	Total to 2028-29	Total to 2035-36
Receipts													
Administered tax													
Fuel excise	*-13,600.0*	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*	***-13,600.0***	***-13,600.0***
Alcohol excise (change in CPI)	*-31.2*	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*	***-31.2***	***-31.2***
GST collections on fuel	*-468.0*	*-43.0*	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*	***-511.0***	***-511.0***
Income tax revenue - business	*462.0*	*66.0*	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*	***528.0***	***528.0***
Income tax revenue - individuals	*-*	*-3.7*	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*	***-3.7***	***-3.7***
Total – receipts	**-13,640.2**	**19.3**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	-13,617.9	-13,617.9
Payments													
Administered													
Fuel Tax Credit Scheme (FTCs)	*5,370.0*	*770.0*	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*	***6,140.0***	***6,140.0***
Government transfer payments (change in CPI)	*350.0*	*670.0*	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*	***1,020.0***	***1,020.0***
GST payments to states and territories	*468.0*	*43.0*	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*	***511.0***	***511.0***
Total – payments	**6,191.0**	**1,483.0**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	7,671.0	7,671.0
Total (excluding PDI)	**-7,449.2**	**1,502.3**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-5,946.9**	**-5,946.9**

(a) A positive number for the underlying cash balance indicates an increase in receipts or a decrease in payments or net capital investment in cash terms. A negative number for the underlying cash balance indicates a decrease in receipts or an increase in payments or net capital investment in cash terms.

\- Indicates nil.

Table A3: Adjust fuel excise – 25c per litre reduction – Memorandum item: Public Debt Interest (PDI) impacts – Fiscal and underlying cash balances ($m)[(a)(b)]

	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31	2031-32	2032-33	2033-34	2034-35	2035-36	**Total to 2028-29**	**Total to 2035-36**
Fiscal balance	*-165.0*	*-304.0*	*-284.0*	*-296.0*	*-310.0*	*-323.0*	*-338.0*	*-353.0*	*-369.0*	*-386.0*	*-409.0*	***-1,049.0***	***-3,537.0***
Underlying cash balance	*-124.0*	*-269.0*	*-289.0*	*-293.0*	*-306.0*	*-320.0*	*-334.0*	*-349.0*	*-365.0*	*-382.0*	*-403.0*	***-975.0***	***-3,434.0***

(a) As this table is presented as a memorandum item, these figures are not reflected in the totals above. This is consistent with the approach taken in the budget where the budget impact of most measures is presented excluding the impact on PDI. If the reader would like a complete picture of the total aggregate, then these figures would need to be added to the figures above. For further information on government borrowing and financing please refer to the PBO's online budget glossary[5].

(b) A positive number for the fiscal balance indicates an increase in revenue or a decrease in expenses or net capital investment in accrual terms. A negative number for the fiscal balance indicates a decrease in revenue or an increase in expenses or net capital investment in accrual terms. A positive number for the underlying cash balance indicates an increase in receipts or a decrease in payments or net capital investment in cash terms. A negative number for the underlying cash balance indicates a decrease in receipts or an increase in payments or net capital investment in cash terms.

[5] Online budget glossary – Parliamentary Budget Office (pbo.gov.au)

Attachment B - Direct and indirect impacts in policy costings

This attachment describes the PBO's approach to costing polices in cases where a proposal would have a flow-on impact to prices, and hence government payments where the payment rate is indexed to those price levels.

In such cases, the PBO's costing includes the impacts on those payments. This approach is different to that used in the preparation of budget costings, because the PBO's costings are calculated outside of the context of updating the economic forecasts.

Costings within and outside of a budget context

The preparation of government budgets involves a comprehensive update to forecasts of the economy, including gross domestic product (GDP), the labour market (employment, unemployment and wages) and the consumer price index (CPI). These forecasts will also account for new government policies. For example, a policy that increases the rate of fuel excise next year will affect the forecast for the CPI.

These economic forecasts are provided to government agencies as the basis for the forecasts of the costs of various programs which are presented in the budget. Continuing the example, the increase in the forecast for next year's CPI (owing to the increase in fuel excise) then increases forecasts for the cost of the age pension because the rate of the age pension is indexed to the CPI.[6]

In this context, the costing for a new policy presented in the budget does not include these flow-on impacts to other payments and revenue, because they will be included indirectly through the updated economic forecasts. If the budget costing for the measure also included those impacts, then would effectively be counted twice.

Outside of a budget context, however, the same costing is prepared without an update to economic forecasts. The PBO operates in this costing environment, so we include the impact of the higher CPI on government payments in our costings. This allows us to more accurately estimate the overall fiscal impact of the proposal, and thus meet our legislative requirement of determining the aggregate fiscal impact of each party's platform.

In these cases, a costing published by the PBO will be different to that published in a government budget, because the PBO's costing *explicitly* includes the indirect effects of the policy on prices, while the budget includes the indirect effects *implicitly*, through the updated economic forecasts. The overall impact on the budget will be the same, but the presented costing will be different.

Calculating the impacts

While detailed models are developed for determining the primary costing, the impact on the CPI is calculated mechanically. For example, if fuel makes up 5% of household spending, and the price of fuel increases by 10% as a result of the policy change, then we assume the CPI will increase by 0.5% (10% of 5%). The consequent impacts of this CPI change on the various government payments are then determined using *Build your own budget*, the PBO's publicly available fiscal analysis tool. This tool relies on ABS data to determine price impacts.

This approach applies only when the impact of the proposal on prices is *mechanical and material*. Consistent with the Charter of Budget Honesty Policy Costing Guidelines, PBO costings do not include broader economic effects of proposals, such as impacts on economic growth or productivity.[7]

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[6] This is a simplification. The rate of the Age pension is actually indexed to the higher of the CPI and the Pensioner and Beneficiary Living Cost Index (PBLCI).

[7] The *Charter of Budget Honesty Policy Costing Guidelines* outline the process for submitting and preparing policy costings during the caretaker period prior to a general election. The Guidelines also note that, "as a general rule, policy costings only take into account the direct behavioural effects of a policy change, and do not include broader economic or 'second-round' effects."