



**FREEWHEELER**  
— MAKE YOUR COMMUTE COUNT —

## Tax White Paper submission by Freewheeler Pty Ltd

### Problems

The tax system currently incentivises car use, for example by providing a fringe benefits tax (“**FBT**”) exemption for salary packaged cars.

An over-reliance on cars (and roads) contributes to a number of growing problems in Australia, including:

1. Road congestion
2. Physical inactivity and poor health<sup>1</sup>
3. Reduced worker productivity
4. Spiralling cost of healthcare and health and road infrastructure
5. Carbon emissions and potential climate change
6. Urban sprawl and inefficient use of high value land in inner cities
7. Proliferation of large “one stop” shopping centres surrounded by car parks, to the detriment of small local businesses
8. Adverse lifestyle, community and tourism effects

### Some figures and commentary

- A 2013 **RAC** and **CCIWA** survey has found that congestion is a “**major economic threat**”.<sup>2</sup>

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<sup>1</sup> [http://well.blogs.nytimes.com/2013/10/28/commutings-hidden-cost/?\\_php=true&\\_type=blogs&\\_r=1](http://well.blogs.nytimes.com/2013/10/28/commutings-hidden-cost/?_php=true&_type=blogs&_r=1)

<sup>2</sup> [http://rac.com.au/cs/idcplg?IdcService=GET\\_FILE&dDocName=raccont030394&allowInterrupt=1&RevisionSelectionMethod=LatestReleased&noSaveAs=1](http://rac.com.au/cs/idcplg?IdcService=GET_FILE&dDocName=raccont030394&allowInterrupt=1&RevisionSelectionMethod=LatestReleased&noSaveAs=1)

- A recent **Infrastructure Australia** report warns that congestion threatens economic growth and living standards and could cost Australia **\$53 billion per year by 2031**.<sup>3</sup>
- In 2011-12, **62.8%** of Australians aged 18 years and over were overweight or obese (ABS).<sup>4</sup>
- **Medibank Private** estimated the total economic cost of physical inactivity in 2008 to be **\$13.8 billion** per year in Australia.<sup>5</sup>
- The **Heart Foundation** states that over **16,000** Australians die prematurely each year due to physical inactivity.<sup>6</sup>
- **The Guardian** reported in May 2015<sup>7</sup> on a new International Monetary Fund estimate that, globally:
  - Fossil fuel companies are subsidised by \$10 million a minute - **\$5.3 trillion** for 2015, greater than the total health spending of all the world's governments
  - The \$5.3 trillion estimate represents 6.5% of global GDP. Just over half of the figure is the money governments are forced to spend treating the victims of air pollution and the income lost because of ill health and premature deaths
- The **Organisation for Economic Co-operation and Development** released the report "**A Metropolitan Century**" in February 2015<sup>8</sup> stating:
  - It is "important to adjust taxes and fees so that the negative consequences of driving into cities are reflected in the cost of car use"
  - "Liveable metropolises in the 21<sup>st</sup> century...look like this...walking and biking are safe and agreeable"

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<sup>3</sup> <http://www.smh.com.au/nsw/53-billion-congestion-crunch-looms-warns-infrastructure-australia-20150521-gh6rzy.html>

<sup>4</sup> <http://www.abs.gov.au/ausstats/abs@.nsf/Latestproducts/33C64022ABB5ECD5CA257B8200179437?opendocument>

<sup>5</sup> [http://www.medibank.com.au/Client/Documents/Pdfs/The\\_Cost\\_Of\\_Physical\\_Inactivity\\_08.pdf](http://www.medibank.com.au/Client/Documents/Pdfs/The_Cost_Of_Physical_Inactivity_08.pdf)

<sup>6</sup> <http://www.heartfoundation.org.au/active-living/why-active-living/Pages/default.aspx>

<sup>7</sup> <http://www.theguardian.com/environment/2015/may/18/fossil-fuel-companies-getting-10m-a-minute-in-subsidies-says-imf>

<sup>8</sup> [http://www.oecd-ilibrary.org/urban-rural-and-regional-development/the-metropolitan-century\\_9789264228733-en](http://www.oecd-ilibrary.org/urban-rural-and-regional-development/the-metropolitan-century_9789264228733-en)

- Bike share programs “offer an uncomplicated way to start cycling for people who have not done so before. Thereby, they can contribute to an increased acceptance of cycling and help to initiate a broader shift towards it”
- “public space is too valuable to be used for parking at subsidised rates that do not take into account all of the negative externalities”
- **The New Climate Economy**, the flagship project of The Global Commission on the Economy and Climate, released the report “**Analysis of Public Policies That Unintentionally Encourage and Subsidise Urban Sprawl**” in March 2015, which found<sup>9</sup>:
  - urban sprawl costs the American economy more than **US\$1 trillion** each year
  - Americans who live in sprawled neighbourhoods are between two and five times more likely to be killed in car accidents and twice as likely to be overweight than those in more walkable neighbourhoods
  - Efficient Smart Growth policies are needed, including:
    - Improved walking, cycling and public transport such as better sidewalks, bike and bus lanes on most urban arterials
    - Efficient pricing of roads and parking, so motorists pay directly for using these facilities, with higher fees during congested periods
    - Least-cost transport planning, which allocates resources to alternative modes and transportation demand management programs when they are effective investments, considering all impacts

## **Background**

Cities around the world are re-prioritising their transport systems.

The road and car approach is outdated. As **IBM** states: “Governments certainly aren’t pouring money - and concrete - into building more roads. Today, technology is

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<sup>9</sup> <http://newclimateeconomy.net/content/release-urban-sprawl-costs-us-economy-more-1-trillion-year> and <http://static.newclimateeconomy.report/wp-content/uploads/2015/03/public-policies-encourage-sprawl-nce-report.pdf>

revolutionizing just about everything imaginable about how we get from point A to point B".<sup>10</sup>

Australia needs a fresh approach too.<sup>11</sup>

The younger generation is less interested in owning and driving cars.<sup>12</sup> They prefer to live in inner-cities and take multiple modes of transport.

For example, "the millennial generation chooses the most practical mode (driving, public transit, biking or walking) for each trip and...nearly 70 percent of millennials use multiple ways of getting around a city or suburb".<sup>13</sup>

For Generation Y, having a smartphone is more important than having a car.<sup>14</sup>

Cities are also changing. Increasing populations within set boundaries, advances in technology, and various problems are leading to new thinking on transport. Transport for London recently hosted a debate aimed at what government and the transport sector can do to improve public health and tackle climate change.<sup>15</sup> Some of the headline ideas included prioritising health objectives in new projects, placing more emphasis on walking and having a holistic approach to transport planning.

In March 2015 the **Australian Government** responded to the **Senate Rural and Regional Affairs and Transport References Committee** report "**The Role of Public Transport in Delivering Productivity Outcomes**".<sup>16</sup> Excerpts from the response include that the Australian Government agrees that:

1. given the productivity cost of capital city congestion, **all levels of government** interested in increasing national productivity consider backing solutions to congestion, including public transport;

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<sup>10</sup> [http://www.ibm.com/smarterplanet/us/en/traffic\\_congestion/article/traffic-management-and-prediction.html](http://www.ibm.com/smarterplanet/us/en/traffic_congestion/article/traffic-management-and-prediction.html)

<sup>11</sup> <https://au.news.yahoo.com/thewest/a/21826146/fresh-approach-urged-on-transport-priorities/>

<sup>12</sup> <http://www.thedrum.com/news/2015/04/01/generation-y-would-rather-spend-money-tech-and-recreation-cars-says-millennial>

<sup>13</sup> [http://www.apta.com/mediacenter/pressreleases/2013/Pages/131001\\_Millennials.aspx](http://www.apta.com/mediacenter/pressreleases/2013/Pages/131001_Millennials.aspx)

<sup>14</sup> <http://www.theaustralian.com.au/life/driving-me-crazy-getting-a-licence-a-low-priority-for-generation-y/story-e6frg9zo-1226703726264> and <http://www.drive.com.au/roads-and-traffic/gen-y-makes-a-sharp-turn-away-from-driving-20130913-2tq7h.html>

<sup>15</sup> <http://www.theguardian.com/public-leaders-network/2014/oct/14/transport-projects-sustainable-uk-ensure-public-health-climate-change>

<sup>16</sup> [http://www.google.com.au/url?sa=t&rct=j&q=&esrc=s&source=web&cd=1&ved=0CB0QFjAAAhUKewiPoKLM6ZPGAhUDSrwKHZIWAO4&url=http%3A%2F%2Fwww.aph.gov.au%2F~%2Fmedia%2F02%2520Parliamentary%2520Business%2F22%2520Chamber%2520Documents%2FDynamic%2520Red%2F24%2520march\\_govresponse\\_RRATRC\\_public%2520transport&ei=N-J\\_Vc-oE4OU8QWZrYHwDg&usg=AFQjCNGpmckekeUHq5TNTxT57WHuKxVJMA&sig2=i5JdtKtF6QSOF1kq1q0Esw](http://www.google.com.au/url?sa=t&rct=j&q=&esrc=s&source=web&cd=1&ved=0CB0QFjAAAhUKewiPoKLM6ZPGAhUDSrwKHZIWAO4&url=http%3A%2F%2Fwww.aph.gov.au%2F~%2Fmedia%2F02%2520Parliamentary%2520Business%2F22%2520Chamber%2520Documents%2FDynamic%2520Red%2F24%2520march_govresponse_RRATRC_public%2520transport&ei=N-J_Vc-oE4OU8QWZrYHwDg&usg=AFQjCNGpmckekeUHq5TNTxT57WHuKxVJMA&sig2=i5JdtKtF6QSOF1kq1q0Esw)

2. smaller cost projects, especially so-called **smart projects** involving the more efficient use of existing infrastructure, or the **more effective integration of routes and modes, be prioritised** according to the positive benefits they produce;
3. the prioritisation of smaller cost projects should include **mobility management** measures which provide people with real choices in the way they travel, and **encourage the use of modes of transport other than single occupancy private vehicle use**; and
4. modal choice for the travelling public and safe road environments for all road users, including cyclists and pedestrians, are important.

Governments are increasingly providing tax incentives to encourage active and sustainable modes of transport (“**Active Transport**”) (See “**Solutions**” heading below). Growing research and literature support financial incentives as an effective intervention for healthy behaviour change, including commuter behaviour.<sup>17</sup>

Active Transport, particularly walking/running, cycling and taking public transport, helps address all of the problems listed above.

The benefits of Active Transport are most pronounced for work commutes, particularly at peak hour. While walking, running and cycling for leisure and fitness are good for health, these activities only significantly reduce road congestion and carbon emissions when used for commutes.

Roads get congested at peak hour. The historical solution has been to build more roads, which quickly become congested. For the rest of the day these roads are relatively unused. This is very inefficient. The transport system needs to find a way of “diluting” the demand on roads at peak hour. The main way this can be done is by diverting demand away from driving to other modes of transport.

However driving is a deeply ingrained cultural habit. In Australia most people drive to work. This is due to:

1. Habit: driving has historically been easy
2. Perception: that driving is more convenient and pleasant than other modes of transport

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<sup>17</sup> <http://www.ncbi.nlm.nih.gov/pmc/articles/PMC3949711/> and <http://www.southampton.ac.uk/assets/centresresearch/documents/wphs/JTUsing%20financial%20incentives%20to%20increase%20physical%20activity.pdf> and <http://www.biomedcentral.com/1471-2458/14/141#abs> and <https://ideas.repec.org/a/eee/transa/v45y2011i7p567-582.html>

3. Infrastructure and incentives: the Government dedicates the majority of its transport resources to funding roads and subsidising car use, to the detriment of other modes of transport

The single-minded focus on cars and roads has not, and will not, solve Australia's quickly growing congestion, health and productivity problems.<sup>18</sup>

Structural change (ie tax reform and investment in appropriate infrastructure and facilities) is needed to:

1. make other forms of transport a realistic alternative to driving; and
2. incentivise people to change their habits and take up Active Transport.

To state the obvious, cars are big objects. If separate, continuous paths are built for cyclists and pedestrians (and light rail), then for every person that switches to Active Transport a large area of road is freed up for road users. This will reduce the need for further high wear and tear road infrastructure and will make commuting by car better too.

Work commutes by car can be a wasted resource in our time poor society. Rather than contributing to congestion, workers can use that time to get exercise (and/or relax, read a book, check your phone or even work remotely while on public transport).

Walking and cycling to work have obvious health benefits. However, people who catch public transport to work also get significantly more exercise per day than people who drive to work.<sup>19</sup> This is because catching public transport involves walking and sometimes cycle legs.

The health benefits from Active Transport naturally lead to increased productivity at work.<sup>20</sup> Employers are in a position to influence their employees' commute behaviours, and benefit from the productivity and overhead consequences.<sup>21</sup> A more balanced transport network would also decrease bottlenecks and shorten commute times, leading to less wasted time.

## **Solutions**

A multi-modal transport network is needed, where cars are just one of the options.

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<sup>18</sup> <https://au.news.yahoo.com/thewest/wa/a/25468487/planning-expert-hits-out-at-car-obsession/>

<sup>19</sup> <http://www.abc.net.au/radionational/programs/healthreport/commuting-to-better-health-in-2015/6000444>

<sup>20</sup> <http://www.businessinsider.com.au/13-reasons-you-should-bike-to-work-2012-10>

<sup>21</sup> <http://www.eremedia.com/ere/you-might-be-surprised-how-much-commute-issues-hurt-hiring-and-retention>

The Australian tax system should therefore encourage Active Transport, to help shift the balance.

The attached paper from the March 2015 **Australian Tax Law Bulletin** (“the Paper”) examines the application of the FBT regime to employers who try to incentivise employees to use Active Transport. The Paper gives different incentive examples and explains the complexities and limitations of the current system, recommending reform.

There are many international examples that the Government could consider in incentivising Active Transport. In the employment area, the Paper lists the following benefit examples that employers can offer employees in relation to Active Transport:

- subsidised public transport fares;
- discounts on bicycles and other cycling equipment;
- workplace facilities, including bicycle storage;
- rewards programs that can be exchanged for goods and services; and
- workplace challenges and events, which may include prizes.

The tax system should not impose FBT on such benefits.

Commute incentive programs can also involve charity fundraising and donations as an option.

Ideally, the tax system would actively encourage employers, individuals and businesses to support Active Transport.

Given the economic benefits of Active Transport, the Government should consider significant Active Transport incentives to encourage a widespread shift in transport behaviour. The long-term economic savings and productivity-boost would far outweigh the short-term costs, leading to Australian citizens paying less tax per person in the long run.

A national survey by the **Heart Foundation** and **Cycling Promotion Fund** in 2014 found that half of all workers would ride a bicycle to work if they were paid a financial incentive to do so.<sup>22</sup> Three incentive models proposed were:

1. Direct subsidy: employee paid set amount per kilometre to ride to work, based on French model
2. Indirect subsidy: employers receive tax refund for employees who cycle to work, which is then paid to the employee
3. Tax deduction for purchase: tax concession for purchase of a bike for riding to work

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<sup>22</sup> <http://www.sbs.com.au/news/article/2014/10/27/heart-foundation-wants-cycle-scheme> and <http://www.heartfoundation.org.au/SiteCollectionDocuments/Financial-Incentives-to-Ride-to-Work-Survey-October-2014.pdf>

Counties in North America already offer incentives to commuters to change their commuting behaviour to reduce congestion during peak times. For example:

1. San Diego's iCommute program<sup>23</sup>
2. Georgia Commute Options<sup>24</sup>
3. Portland's sustainable transportation program<sup>25</sup>
4. Vancouver's sustainable commuting program<sup>26</sup>

Leading technology companies also have alternative transport incentive schemes, such as:

1. Apple Commute Alternatives Program<sup>27</sup>
2. Google green commuting<sup>28</sup>
3. Microsoft<sup>29</sup>

Some country-wide examples include:<sup>30</sup>

1. France trial: tax-free payments of €0.25 per kilometre for employees to commute to and from work by bicycle
2. Belgium and Netherlands: tax-free payment of €0.22 and €0.19 per kilometre of bike commuting respectively
3. Germany: bike commuters can deduct €0.30 per kilometre from their taxable income
4. UK: more than 10,000 companies use the cycle to work scheme that allows employees to purchase bikes using pre-tax income
5. US: employers can provide cash incentives for employees who give up free car parking at work and choose to commute by other means

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<sup>23</sup> <http://fastrak.511sd.com/icommuter>

<sup>24</sup> <http://www.georgiacommuteroptions.org/>

<sup>25</sup> <http://www.portlandoregon.gov/water/63466>

<sup>26</sup> <http://vancouver.ca/green-vancouver/sustainable-commuting-for-staff.aspx>

<sup>27</sup> [https://www.apple.com/environment/pdf/Apple\\_Environmental\\_Responsibility\\_Report\\_2014.pdf](https://www.apple.com/environment/pdf/Apple_Environmental_Responsibility_Report_2014.pdf)

<sup>28</sup> <http://www.google.com.au/green/efficiency/>

<sup>29</sup> <http://blogs.msdn.com/b/microsoft-green/archive/2014/09/12/making-commuting-easy-enjoyable-and-sustainable.aspx>

<sup>30</sup> <http://theconversation.com/paying-commuters-to-get-on-their-bikes-is-not-enough-28998>



A Washington DC study found that benefits to promote walking, cycling and taking public transport to work are rendered ineffective when there is free parking on offer.<sup>31</sup>

### **Freewheeler app**

It has been recognised that a problem with current alternative transport schemes is that employees are often required to choose one type of benefit and cannot claim for a combination of driving, taking public transport, walking and cycling.<sup>32</sup>

Freewheeler addresses this problem. It is a smartphone app (in development) that will enable sophisticated and comprehensive tracking and behaviour change tools for transport.

Freewheeler will **automatically** track and recognise the multiple transport modes in the daily commute, then reward commuters based on how active and sustainable each of their commute “legs” are.

The more “beneficial” the commute mode, the more points earned per kilometre.

In descending order of benefit (proposed, by way of example):

1. Walking or running
2. Cycling
3. Public transport (bus, train, tram or ferry)
4. Electric powered vehicles
5. Fossil-fuelled car pooling

The “**benefits**” criteria focus on:

1. Health
2. Reducing congestion
3. Reducing carbon emissions
4. Reducing urban sprawl
5. Increasing city ambience and liveability

The system:

1. Uses GPS and sensors to track the commute route and transport mode
2. Verifies whether the trip qualifies as a commute
3. Awards points per kilometre according to the “benefits” criteria
4. Enables points to be redeemed for discounts/offers from participating businesses and other interested parties
5. Gamifies the experience and makes it social

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<sup>31</sup> <http://theconversation.com/paying-commuters-to-get-on-their-bikes-is-not-enough-28998>

<sup>32</sup> <http://theconversation.com/paying-commuters-to-get-on-their-bikes-is-not-enough-28998>

Freewheeler will initially connect local businesses (offering a “**rewards network**”) with active commuters. A Heart Foundation report suggests this will work well.<sup>33</sup>

It is planned to eventually design platforms for workplaces, universities, schools, local councils and government to utilise.

The rewards network should create a strong incentive for people to take up Active Transport. The network will also decrease the “reward” burden on other stakeholders, for example employers and government.

However, there is a risk that if an employer engages Freewheeler, then the rewards obtained by the employees from the network will be subject to FBT under the current regime. This could render the scheme unworkable.

It is submitted that organisations and businesses should at least be able to reward commuters for using Active Transport without incurring tax liabilities.

### **Other submissions**

Submissions have been made by Fitness Australia (the “**FITnotFBT**” lobby) and by a coalition of cycling organisations.

The policy arguments in those two submissions also apply to Active Transport.

The FITnotFBT proposal validly states the high cost to Australia of physical inactivity and argues that small businesses should be granted an FBT exemption for off-site gym memberships for employees, to put small businesses on an equal footing to large businesses that can tax effectively provide on-site gyms.

This Active Transport proposal would benefit all businesses in Australia, large and small, where employees commute to a place of work.

The arguments in the cycling coalition’s submission are directly transferable to this submission. However it is submitted that people should also be encouraged to walk, run and take public transport, as well as ride, to work. Many commuters use multiple modes of transport in any one trip. A tax solution that encourages multiple modes of Active Transport would cover far more people and have greater benefits for Australia.

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[www.freewheeler.net](http://www.freewheeler.net)

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<sup>33</sup> <http://www.heartfoundation.org.au/active-living/Documents/Good-for-business.pdf>