

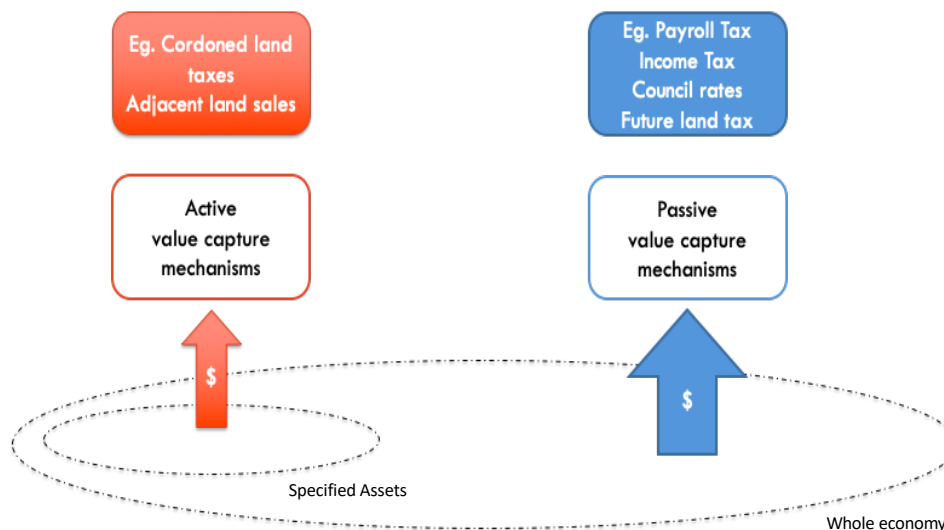
Passive value capture through income taxation, and a beneficiaries-based funding model for infrastructure

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QUESTION: Does passive value capture by government (e.g. those that collect income tax) have a role to play in investment decisions related to economically but not financially viable projects?

ANSWER: Potentially yes – income tax collecting governments may recover their investment and unlock other and externality benefits through this investment



Key assumptions and limitations

- Business cases are accurate.....
- Income tax rate of 30%
- All freight user benefits translate into taxable income (no non taxable diversion)
- Freight user benefits represent whole of supply chain benefits (no multiplier effect)
- No better alternative use of funds

Further research directions

- Testing of the nexus between freight user benefit and taxable incomes
- Considering similarities to tax increment financing and hypothecation of levies and impact on tax concepts of equity
- Testing of multiplier effects in benefit generation
- Consideration of passenger benefit conversion to taxable income
- Policy reasons for beneficiary funding
- Feedback into business case development (results skewing)

Beneficiaries	Inland Rail ^(a)	
	A\$(m)	%
Freight users	11,616	52
Passenger users	32	0
Public	1,560	7
Government agency	890	4
Infrastructure owner	8,405	37
Total	22,502	100

Tax effect

Beneficiaries (restated)	Inland Rail
	A\$(m)
Freight user	8,131
New income tax raised	3,485
Total	11,616

At 4% discount rate, including Western Line Upgrade. P50 cost estimates.

Through considering the taxation flow effects on user benefits, we can see that there are times where projects funding by government is justified by the induced income tax revenues this generates.

The Inland Rail project is provided as a case study

Beneficiary funder	Government			Public	Users
	Total	Agency and Infrastructure Owner	Income taxation value capture		
Freight users	11,616	-	3,485	-	8,130
Passenger user	32	-	-	-	32
Public	1,560	-	-	1,560	-
Government agency	890	890	-	-	-
Infrastructure owner	8,405	8,405	-	-	-
Total	22,502	9,295	3,485	1,560	8,162

Government benefit and funding analysis	Federal Government	Users
Benefits – Agency and Infrastructure Owner	9,295	-
Benefits – Income tax value capture	3,485	-
Benefits – on general public (public goods)	1,560	-
Users	-	8,162
Total	14,340	8,162
Funding provided	8,575	NA
Surplus/(deficit)	5,765	NA



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