



AUSTRALIAN
AUTOMOTIVE
DEALER
ASSOCIATION

CONSULTATION INTO INCREASING LUXURY CAR TAX REFUNDS FOR ELIGIBLE PRIMARY PRODUCERS AND TOURISM OPERATORS

14 AUGUST 2019



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FOREWORD

The Australian Automotive Dealer Association (AADA) welcomes the opportunity to provide feedback into the Treasury's consultation into increasing Luxury Car Tax (LCT) refunds for eligible primary producers and tourism operators.

The AADA is the peak industry advocacy body exclusively representing franchised new car Dealers in Australia. There are around 1,500 new car Dealers in Australia that operate over 3,000 new vehicle outlets. Dealerships range from family-owned small businesses to larger businesses operating in regional Australia and capital cities across the country.

The new vehicle retailing sector employs more than 58,000 people including 4,655 apprentices, contributes over 15 million in community donations nationally, has a total turnover/sale of almost \$58 billion and generates more than \$2 billion in tax revenue.



James Voortman
Chief Executive Officer



EXECUTIVE SUMMARY

The AADA welcomes the increase in refunds for primary producers and tourism operators, but this is simply tinkering with a legacy tax which no longer has a purpose given the demise of local passenger vehicle manufacturing.

Numerous Government and independent reviews have called for the LCT to be abolished and the tax clearly has some design flaws. There are legitimate questions over whether the tax truly targets luxury cars, particularly as the car most captured by this tax is the Toyota LandCruiser.

The LCT also captures some of Australia's safest vehicles and can discourage consumers from purchasing additional safety features. It also restricts the uptake of fuel-efficient cars and favours less efficient cars due to differential indexation arrangements. Given there is little political appetite from either of Australia's major parties to abolish the LCT, the AADA has previously outlined some options for reform of the LCT.

Perhaps the only remaining arguments for its continuation is that it serves as a valuable bargaining chip for the Federal Government in its pursuit of a Free Trade Agreement (FTA) with the European Union (EU) and Great Britain (GB) in the future. However, even this is being undermined by actions taken by the Queensland and Victorian Governments in recent months which have both introduced state-based LCTs.

RECOMMENDATIONS

1. **Abolish the LCT in a staged manner.**
2. **Reform the LCT by:**
 - Raising the threshold for LCT to target truly luxury vehicles.
 - Exempting low emissions vehicles.
 - Excluding accessories from the calculation of whether a vehicle hits the threshold for paying the LCT.
3. **Address the issue of State-based LCT through the Council of Australian Governments.**

REFUNDS FOR PRIMARY PRODUCERS AND TOURISM OPERATORS

The rebates for primary producers and tourism operators were introduced in 2008 as a concession for the decision to increase the LCT rate from 25 per cent to 33 per cent. Increasing the maximum refund from \$3,000 to \$10,000 is an improvement to the current situation. It will grant farmers and businesses financial relief on a purchase which is often anything but luxurious.

Car buyers in Australia are heavily taxed. Statistics from the Bureau of Infrastructure, Transport and Regional Economics shows that motorists are paying more than \$30 billion in tax annually.

The Budget has now returned to surplus and motorists and the automotive industry played a major role in achieving that surplus. It is now time to modernise the Australian Automotive Taxation Regime and we should start by abolishing remaining Import Tariffs and phasing out the LCT.

The changes mentioned in this consultation process are minor in substance and the fact remains that the LCT is an ineffective tax which delivers unintended consequences. It should be abolished in a staged manner or be significantly reformed.



A FLAWED TAX

The LCT is a flawed tax and has been described by a number of independent reviews and inquiries as an inefficient and discriminatory form of taxation. Individuals purchasing expensive vehicles are already paying more by virtue of the GST contribution they make on the final sale price. Furthermore, it is not clear why luxury new vehicles attract a tax when other luxury products such as yachts and private jets attract no such charge.

The LCT simply does not capture truly luxury cars. A recent investigation found that in 2018, almost 46,000 Toyota customers paid LCT on vehicles such as LandCruisers, Prados and Klugers. Capable vehicles required in rugged conditions which in no way can be described as luxurious. Toyota buyers pay more tax than buyers of luxury cars like Porsche, Ferrari, Maserati and BMW. Only Mercedes-Benz buyers pay more in LCT than Toyota buyers.¹ Other cars affected include utes and family cars such as people movers.

The LCT is also a tax on safety as cars captured by the tax are regularly equipped with state-of-the-art safety features. Furthermore, the tax is applied to all optional features taken up by the purchaser, including safety features. Autonomous safety packages and blind spot monitor are two such examples. However, the additional cost of these features may push the price over the LCT threshold, creating a perverse incentive for motorists to opt out of these safety features.

The LCT is also a tax on the environmentally friendly cars. Fuel-efficient cars are unfairly

targeted by the LCT relative to less fuel-efficient cars. In 2008 a higher threshold was introduced for fuel-efficient vehicles which consumed less than seven litres of fuel per 100km driven. The threshold was set at \$75,000 for fuel-efficient vehicles, significantly higher than the threshold of \$57,180 for all other vehicles. Both thresholds were indexed, but differing methodologies were applied which has resulted in the threshold for fuel-efficient cars increasing less than one per cent over the past decade – it is now \$75,526. The threshold for non-fuel-efficient vehicles meanwhile has gone up almost 20 per cent to \$67,525.

If the fuel-efficient cars were indexed at the same level as other vehicles, the threshold today would be over \$88,000.

TABLE 1 - LCT thresholds²

| Financial year | Fuel-efficient vehicles | Other vehicles |
|----------------|-------------------------|----------------|
| 2019–20 | \$75,526 | \$67,525 |
| 2018–19 | \$75,526 | \$66,331 |
| 2017–18 | \$75,526 | \$65,094 |
| 2016–17 | \$75,526 | \$64,132 |
| 2015–16 | \$75,375 | \$63,184 |
| 2014–15 | \$75,375 | \$61,884 |
| 2014–15 | \$75,375 | \$60,316 |
| 2012–13 | \$75,375 | \$59,133 |
| 2011–12 | \$75,375 | \$57,466 |
| 2010–11 | \$75,375 | \$57,466 |
| 2009–10 | \$75,000 | \$57,180 |

¹ Exclusive: Toyota customers pay more luxury car tax than owners of Porsche, Ferrari, Lamborghini, Maserati, Rolls-Royce, Bentley – and Audi, BMW and Lexus. 25 February 2019

² Luxury car tax rate and thresholds, last checked 8 August 2019

Section 4

There is no doubt that LCT has played a part in restricting Australia's uptake of electric vehicles (EVs). Our study from 2018 showed that the overwhelming number of EVs available in Australia at the time were subject to LCT. Many more affordable EVs will be

supplied on the market, but there have been significant missed opportunities with potential early adopters being put off by an inflated sales price.

TABLE 2 - Federal Taxes applying to EV's available in Australia³

| Vehicle | Country of Origin | Manufacturer Suggested Retail Price | Luxury Car Tax |
|------------------------------|-------------------|-------------------------------------|----------------|
| Audi A3 E-tron | Germany | \$62,490 | |
| Audi Q7 E-tron | Slovakia | \$139,900 | ✓ |
| BMW 330e | Germany | \$70,900 | |
| BMW 740e | Germany | \$229,900 | ✓ |
| BMW I3 | Germany | \$68,700 | |
| BMW I8 | Germany | \$303,300 | ✓ |
| BMW X5 xDrive40e | United States | \$118,855 | ✓ |
| Hyundai IONIQ | Korea | \$44,990 | |
| Jaguar I-Pace | Austria | \$119,000 | ✓ |
| Mercedes-Benz C350e | South Africa | \$75,900 | ✓ |
| Mercedes-Benz E350e | Germany | \$131,600 | ✓ |
| Mercedes-Benz GLE500 | United States | \$131,000 | ✓ |
| Mitsubishi Outlander PHEV LS | Japan | \$50,490 | |
| Porsche Cayenne S E-Hybrid | Germany | \$143,055 | ✓ |
| Porsche Panamera 4 E-Hybrid | Germany | \$248,500 | ✓ |
| Renault Zoe | France | \$47,490 | |
| Tesla Model S | United States | \$124,502 | ✓ |
| Tesla Model X | United States | \$133,602 | ✓ |
| Volvo XC90 T8 | Sweden | \$122,900 | ✓ |

³ AADA Pre-Budget Submission, Page 10, 15 February 2019

Section 4

AADA has previously suggested a number of options to reform the LCT, including:

- raising the threshold to target truly luxury vehicles,
- exempting low emissions vehicles and
- excluding accessories from the calculation of whether a vehicle hits the threshold for paying the LCT.

We have gone into more detail in our 2019/20 [Pre-Budget Submission](#).

These measures will improve the design of the tax, but ultimately abolition is the most sensible option and this should be done in consultation with industry in a graduated way to avoid buyers strike.

STATE-BASED LCTs AND THE RISKS TO FREE TRADE NEGOTIATIONS

One of the few arguments remaining for the retention of the LCT is that it serves as a valuable bargaining chip for the Federal Government in its impending negotiations with the European Union (EU) on a Free Trade Agreement (FTA). EU trade delegations have formally raised their opposition to the LCT in past forums and it will clearly be key to any negotiations for a future FTA.

However, there is a risk that the Federal Government's position will be undermined by actions taken by the Queensland and Victorian Governments in recent months which have both introduced state-based LCTs. The disturbing trend of State Governments implementing their own LCTs emerged in November 2017 when the Queensland Government announced two days before an election that it would be levying an additional \$2 per \$100 of dutiable value to vehicles over \$100,000. In March 2018, the New South Wales opposition took a similar policy to the state election.

In May 2019 Victoria announced a policy which introduced three categories of luxury duty, including a seven per cent duty on the full value of cars valued over \$100,000 and a nine per cent duty on vehicles valued over \$150,000.

These duties are a tax on a tax on a tax – triple taxation, since stamp duty compounds on both GST and the Federal LCT. In combination these taxes make premium vehicles in Australia some of the most expensive in the world and non-competitive in the wider market. There is clearly a risk of contagion here as other State Governments will be tempted to follow suit.

The EU which has already protested the Federal LCT will sit up and take notice and this development will not assist the Federal Government's pursuit of an FTA with the EU and Great Britain in the future.

The Federal Government needs to play a leadership role by addressing this issue through the Council of Australian Governments. It should also consider measures to bring the State Governments into line such as rewarding and penalising states. The distribution of the GST should not reward State Governments that implement taxes that are contrary to the national interest.

CONCLUSION

We would be happy to meet with you to discuss our submission and participate in the committee's hearings.

If you require further information or clarification in respect of any matters raised please do not hesitate to contact a member of the AADA team.

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