



AUSTRALIAN  
AUTOMOTIVE  
DEALER  
ASSOCIATION

# RESPONSE TO THE **TREASURY** **LAWS AMENDMENT (FAIRER FOR** **FAMILIES AND FARMERS) BILL** **2024: LUXURY CAR TAX**

OCTOBER 2024



# CONTENTS

Section 1: Foreword	03
Section 2: AADA Recommendations	04
Section 3: Fuel Efficient Car Definition	05
Section 4: Indexation of the LCT Threshold and Fuel-efficient Car Limit	08
Section 5: Modernisation Automotive Taxation	09
Section 6: Abolish or Reform the LCT	10
Section 7: Conclusion	11

## FOREWORD

The Australian Automotive Dealer Association (AADA) welcomes the opportunity to provide this submission to the TREASURY LAWS AMENDMENT (FAIRER FOR FAMILIES AND FARMERS) BILL 2024: LUXURY CAR TAX.

The AADA is the peak industry advocacy body exclusively representing franchised new car Dealers in Australia. There are around 3,200 new car Dealers in Australia predominantly made up of private family-owned and run small businesses to larger and publicly owned businesses operating in regional Australia and capital cities across the country. Franchised new car Dealers employ more than 60,000 people directly with a total economic contribution of over \$18.6 billion.

The AADA has a very strong interest in this Bill, given the very important role Automotive retailers play in invoicing, collecting, and remitting the Luxury Car Tax (LCT).

While AADA appreciates the opportunity to participate in this consultation, we believe any changes being considered to the LCT should form part of a wider root and branch review of Australia's automotive taxation regime. The rate of change occurring in the sector means that the current system of automotive taxation is no longer fit for purpose.

The AADA has long called for the abolition of the LCT which discourages the uptake of the world's safest, cleanest and most efficient vehicles. Several independent reviews and inquiries have recommended its abolition and Dealers, consumer groups, manufacturers and even Australia's trading partners are united in their opposition to the LCT.

As a result, AADA strongly believes that the LCT should be abolished. If the LCT is to be retained, it should at a minimum be reformed by 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.

The changes to the LCT announced in the 2023-24 mid-year economic and fiscal outlook (MYEFO) which are subject to this consultation have been framed in terms of their ability to incentivise fuel-efficient vehicles. However, AADA has serious concerns that the changes to the LCT will in fact have the opposite effect.

The AADA has long called for consistency in the indexation method for both the fuel-efficient threshold and all other cars threshold. Prior to aligning the indexation, the Government should right the wrongs of the past by bringing the fuel efficiency threshold up to the level of growth experienced by the all other vehicles category.

**James Voortman**  
Chief Executive Officer



# KEY POINTS

1. Changes to the Luxury Car Tax should be considered as part of a root and branch review of all automotive taxation.
2. AADA does not support the new definition of a fuel-efficient vehicle.
3. The new definition of a fuel-efficient vehicle will discourage the uptake of fuel efficient vehicles.
4. The new definition of a fuel-efficient vehicle is inconsistent with the Government's New Vehicle Efficiency Standard.
5. Applying a single method of indexation for both fuel efficient and all other cars is long overdue.
6. Before aligning the indexation, the fuel efficiency threshold should be increased to account for the same level of growth all other vehicles have experienced.
7. The Luxury Car Tax should be abolished.
8. If not abolished the tax should be reformed by
  - 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.

## FUEL-EFFICIENT CAR DEFINITION

The proposed revised definition of a fuel-efficient vehicle for the LCT through the reduction of the maximum fuel consumption from 7 litres per 100km to 3.5 litres per 100 km, means that the range of vehicles captured by the LCT will be expanded.

In particular, the new threshold will ensure that a number of hybrid vehicles will now be subject to LCT. We believe this is in direct contrast to the intent of the legislation which according to the explanatory statement is to:

***“seek to incentivise the take-up of fuel-efficient and electric vehicles and ensure the concessional treatment of fuel-efficient cars is consistent with the Australian Government’s National Electric Vehicle Strategy (NEVS)”***

There is a very real risk that the revised fuel efficiency threshold will in fact result in consumers purchasing less efficient vehicles. AADA would argue that by making hybrid cars more expensive, the reforms to the LCT could encourage buyers to purchase petrol or diesel vehicles. A simple case study is the Toyota Kluger, a vehicle available in both a petrol and a hybrid engine.

As you can see from graphic 1 sourced from Redbook, there is a significant improvement in fuel costs and tailpipe emissions in the hybrid version of the Kluger.

Consumers already pay a premium for hybrid technology as referenced in graphic 2, but this premium will only increase due to the new definition of a fuel-efficient vehicle.

Under the proposed reforms, the more efficient variant of this model would become more expensive, and the price of the less efficient model would not be affected. There are very few fuel-efficient seven-seater vehicles available for sale in Australia, and this proposed legislation will make one of the few options more expensive for families.

The AADA also has concerns that the proposed fuel efficiency definition is inconsistent with the Government’s New Vehicle Efficiency Scheme. The explanatory statement states:

***This amendment ensures the treatment of fuel-efficient vehicles for LCT is consistent with the Australian Government’s NVES by ensuring that only electric vehicles or vehicles that are at least partially electrified, such as plug-in electric hybrids, will receive the concessional fuel-efficient vehicle threshold (the fuel-efficient car limit), thereby incentivising the take up of such vehicles.***


Specifically favouring or targeting specific vehicle technologies is completely inconsistent with the NVES which the Government has repeatedly stated is a technology neutral policy measure. The AADA believes hybrid technology will be absolutely crucial in helping manufacturers to meet their NVES compliance obligations alongside a suite of vehicle technologies.

## Section 3

### GRAPHIC 1

**2024 Toyota Kluger GXL Auto AWD** **\$54,650 - \$65,350**  
Price Range (Used)

Release Date: 2024




- SUV, 5 door
- 4cyl 2.4L Turbo Petrol Engine
- 8spd Sports Automatic
- 4X4 On Demand

ANCAP Rating + Compare [View details](#)

★★★★★

**2024 Toyota Kluger Grande Auto eFour** **\$82,860\***  
Price Guide (Excl. Govt. Charges)

Release Date: 2024



- SUV, 5 door
- 2.5i/184kW Hybrid Engine
- 6spd Constantly Variable Transmission
- 4X4 On Demand

ANCAP Rating + Compare [View details](#)

★★★★★

Source: Redbook

A casual observation of Australia's new car market reveals that most consumers are not yet ready for a pure electric vehicle and many are turning to hybrids as a fuel efficient option. New car sales data for the first nine months of the calendar year reveal almost 130,000 new hybrid vehicles have been sold, up 87 per cent on the same period last year. Hybrid sales are significantly outperforming sales of electric, petrol and diesel vehicles.

They offer superior fuel efficiency to petrol and diesel cars and offer a bridging technology for consumers who are not quite ready for an electric vehicle.

The new fuel efficiency definition will make some hybrids more expensive. Rather than incentivising the uptake of electric and plug-in hybrids as per the intent of this policy, the increased LCT costs are much more likely to result in consumers buying an internal combustion engine vehicle. It will undermine the important role hybrid vehicles will play in achieving the very stringent NVES.

## Section 3

### GRAPHIC 2

		Vehicle 1: Toyota Kluger GX/GXL/ GRANDE Wagon CVT (released 2021)	Vehicle 2: Toyota KLUGER GX/GXL Wagon Auto (released 2022)
<b>Details</b>	Body	4 door, 7 seat Wagon	4 door, 7 seat Wagon
	Engine	2.5L 4CYL ELECTRIC/PETROL 95RON,	2.4L 4cyl Supercharged Petrol 91RON,
	Transmission	1 SPD CVT	8 spd Auto
	Drivetrain	4WD	4WD
<b>Tailpipe CO2 (g/km)</b>	Comb	128 [Better than average]	193 [Slightly worse than average]
	Urban	137 [Better than average]	252 [Worse than average]
	Extra	126 [Better than average]	158 [Slightly better than average]
<b>Annual fuel cost</b>	(\$AUD)	\$1693	\$2356
<b>Fuel consumption (L/100km)</b>	Comb	5.6	8.5
	Urban	6	11.1
	Extra	5.6	6.9
<b>Energy consumption</b>	(Wh/km)	N/A	N/A
<b>Electric range</b>	(Km)	N/A	N/A
<b>Air pollution standard</b>	(Emissions)	Euro 6	Euro 5
<b>Annual tailpipe CO2</b>	(tonnes)	1.79	2.7
<b>Fuel lifecycle CO2</b>	(g/km)	137	208
<b>Noise data</b>	(Range)	71 dBA @ 2500 RPM	70 dBA @ 3750 rpm

Source: Green Vehicle Guide

## INDEXATION OF THE LCT THRESHOLD AND FUEL-EFFICIENT CAR LIMIT

The AADA supports the alignment of indexation for the two LCT thresholds. This is something the AADA has long campaigned for, but prior to alignment we believe there is an opportunity to increase the fuel efficiency threshold to account for the unintended consequences of the past 16 years of differing indexation methods.

In 2008, the higher LCT threshold was introduced for fuel-efficient vehicles. 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 the differing methodologies resulted in the threshold for fuel-efficient cars increasing at a slower rate. The below table from the ATO reveals that the fuel efficiency threshold has increased by just over 21% since 2008 while the all other vehicles threshold has increased by double at over 40%.

Prior to harmonising the indexation of the two thresholds, the Government should increase the fuel efficiency threshold to a level in which it has experienced the same growth as all other vehicles category. This would see the fuel efficiency threshold sit at around \$105,000 which provides an incentive for consumers looking to purchase a luxury fuel efficient vehicle.

### LCT Thresholds

Financial year	Fuel-efficient vehicles	Other vehicles
2024-25	\$91,387	\$80,567
2023-24	\$89,332	\$76,950
2022-23	\$84,916	\$71,849
2021-22	\$79,659	\$69,152
2020-21	\$77,565	\$68,740
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
2013-14	\$75,375	\$60,316
2012-13	\$75,375	\$59,133

The indexation factor for the 2024–25 financial year for:

- fuel-efficient vehicles is 1.023
- other vehicles is 1.047.



# MODERNISE AUTOMOTIVE TAXATION

Australia needs an urgent review of its Automotive taxation regime. Each year, Australians pay tens of billions in motoring taxes and charges to governments. According to the Bureau of Infrastructure, Transport and Regional Economics in the 2021-22 financial year, more than \$35 billion in such charges were paid.

As fuel-efficient vehicles are increasingly adopted and trends such as ridesharing accelerate, Australia needs to consider the way in which we tax motorists and create a system which is fit for purpose for the future. At the federal level, a considerable part of that tax revenue has been drawn from the Luxury Car Tax (LCT) and the vehicle tariffs that are applied to new cars sourced from countries with which Australia has no Free Trade Agreement (FTA). These taxes are outdated and have been discredited by various independent taxation reviews.

The Government should abolish or restructure these taxes to provide consumers and local Dealers with some relief, particularly as the new car market faces an uncertain future as the industry transitions to lower emissions and the New Vehicle Emissions Standard begins.

Federal taxes on new cars, such as the import tariff and the LCT highlighted above disadvantage consumers seeking to buy new cars which deliver greater safety as well as environmental and fuel efficiency benefits. These legacy taxes were introduced in an era when Australia still manufactured passenger cars and maintaining them only disadvantages consumers and local businesses.

Domestic passenger vehicle manufacturing no longer exists, but the tax structures that were there to support it continue to make passenger vehicles in Australia more expensive than they should be. Australia needs to modernise its automotive taxation regime to encourage affordable safe, clean and efficient new cars. The Government has identified road safety, lower energy costs and emissions reduction as priorities – renewing the national fleet by selling new cars supports these priorities.

The AADA notes that technological and societal changes to our personal modes of transport, whether it be the increased uptake of fuel-efficient vehicles or autonomous vehicles in the longer term, will undercut current Commonwealth, State and Local Government taxation revenue streams. We urge the Federal Government to commence a program of consultation and establish a comprehensive automotive taxation regime that is fit-for-purpose for these new realities.

# ABOLISH OR REFORM THE LCT

The LCT is a poorly structured tax and acts as a barrier to the renewal of the passenger vehicle fleet at a time when technological improvements continue to make new car models safer, more energy-efficient and more environmentally friendly.

Furthermore, it is disappointing that the LCT applies to optional features which discourage consumer uptake of safety features due to concerns it will push their new vehicle over the threshold.

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, private jets and jewellery attract no such charge. The LCT is also a hurdle to good relations with our trading partners. In particular, the EU is disproportionately affected and has repeatedly criticised the Australian Government's application of the tax at various trade forums and negotiations.

If the total abolition of the LCT cannot be contemplated then the tax should be reformed by considering the following options:

### **Raise the threshold to target truly luxury vehicles**

The Government should consider increasing the threshold to an amount that truly meets the definition of luxury left in the market. Our review of car prices and models indicates that a nominal threshold of \$100,000 would meet the above definition. The threshold for the tax currently applies to vehicles such as the Toyota Prado rather than only the truly luxury vehicles for which it was intended.

### **Exclude accessories from the calculation of whether a vehicle hits the threshold for paying the LCT**

Adopting this option would modify the calculation of the LCT to ensure that it is calculated solely on the price of the base-level variant of a vehicle, rather than including all of the accessories available in other variants. This is of particular importance for vehicles that are marginally below the LCT threshold, that mostly only cross it because their new owners have chosen a variant with greater safety features. This situation is particularly problematic for many 4WD vehicles, where aftermarket safety or work-related accessories (winches, lights, bull bars, etc) are added to the price of the vehicle and thus take it above the LCT threshold. The result is that consumers will still get their accessories, but source them after they have purchased their vehicle, and potentially not use genuine parts, with associated effects on the safety of the vehicle's driver and passengers.

### **Exempt Low Emissions Vehicles (LEVs) from the Luxury Car Tax**

While lower emissions vehicles have a higher threshold, they are still being taxed for the amount exceeding that threshold. The Government should incentivise the uptake of these luxurious lower emissions vehicles by developing a complete exemption from the LCT.

## CONCLUSION

We would be happy to meet with you to discuss our submission and participate in any further consultation. If you require further information or clarification in respect of any matters raised, please do not hesitate to contact me.

**James Voortman**  
Chief Executive Officer  
E: [jvoortman@aada.asn.au](mailto:jvoortman@aada.asn.au)



**AUSTRALIAN  
AUTOMOTIVE  
DEALER  
ASSOCIATION**

**CANBERRA OFFICE  
Suite 3, Level 1, 42 Macquarie Street, Barton ACT 2600  
PO Box 4409 Kingston ACT 2604**

**E [info@aada.asn.au](mailto:info@aada.asn.au)  
[aada.asn.au](http://aada.asn.au)**