



AUSTRALIAN
AUTOMOTIVE
DEALER
ASSOCIATION

RESPONSE TO THE PRODUCTIVITY COMMISSION INTERIM REPORTS

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FOREWORD

The Australian Automotive Dealer Association welcomes the opportunity to respond to the recommendations provided by the Productivity Commission in the interim reports on 'Creating a more dynamic and resilient economy' and 'Investing in cheaper, cleaner energy and the net zero transformation'.

The AADA represents almost 3,800 new car and truck dealers in Australia, which range from family-owned small businesses to larger and publicly owned businesses, operating in regional Australia and capital cities across the country. Franchised new car and truck dealers employ more than 68,000 people directly, with a total economic contribution of around \$18 billion. Each year franchised new car dealers sell more than 1.6 million new and used vehicles, and complete over 44 million individual service, repair, and maintenance jobs.

Franchised new car dealers are currently undergoing the largest systemic industry shift seen, driven by changes to economic and environmental policies such as the New Vehicle Efficiency Standard (NVES), franchising and consumer law reforms, sustainability, gender and other new reporting requirements. While occurring in separate sectors of the economy, economic and environment policy is often closely linked, and these new policy developments all continue to directly shape the operating environment for franchised new car dealers.

The AADA is very supportive of efforts to modernise Australia's corporate tax system to encourage business investment and drive productivity-enhancing change. In particular, improvements aimed at lowering the corporate income tax (CIT) rate for medium-sized businesses are vitally important. However, proposals to move to a lower company income tax combined with a new Net Cashflow Tax (NCT) raise significant concerns for the franchised new car dealer industry. As an industry with high turnover and low margins where high levels of stock under financing arrangements are the norm, an NCT is likely to disadvantage our members compared with the current CIT framework.

The AADA also recognises the importance of reducing carbon emissions in the transport sector in a cost-effective way. Government support in the form of financial incentives remains critical to encourage broader uptake of lower emission vehicles and the AADA would urge caution before ending or removing the few incentives for lower and zero emission vehicle purchases that remain.

Section 1

With a growing influx of affordable EVs, consumers now have more choice in both the new and used car markets, but this must be matched with growing demand levels. The AADA also supports greater transparency in emissions reduction policies through regular cost effectiveness assessments of both new and existing measures.

The AADA explores these issues in further detail below.

James Voortman
Chief Executive Officer



CREATING A MORE DYNAMIC AND RESILIENT ECONOMY

DRAFT RECOMMENDATION 1.3 – INTRODUCE A NET CASHFLOW TAX OF 5%

• Franchised new car dealer business model

The Australian automotive new car retailing industry can be broadly defined into two categories. Vehicle manufacturers or original equipment manufacturers (OEMs) are largely multinational corporations that supply vehicles into the Australian market. Car dealers, by contrast, are generally Australian-owned private or family businesses that enter franchise agreements to purchase vehicles from these manufacturers and retail them to Australian consumers. This system, commonly known as the franchising model, has underpinned the way Australians buy new cars for more than a century. This automotive franchising model presents key structural features that distinguish it from typical medium-sized businesses or franchise operations.

The franchise model for new vehicle retailing is structured where the manufacturer will import vehicles, which are then wholesaled to Australian dealers to be sold to consumers. This means that once the dealership takes delivery of that stock, it is owned and paid for by the dealership (under financing arrangements). The dealership will be paying for the interest on the floorplan finance until such time as that vehicle is sold.

In Australia, more than 93 per cent of new vehicles sold in 2024 were done so under a franchised model, with just a handful of brands employing other distribution models such as 'agency' or direct to consumer.

Due to these arrangements, franchised new car dealers operate with unusually high levels of vehicle inventory that is typically financed through specialised 'floorplan' lending arrangements. Dealers may carry several months of vehicle stock on site, with floorplan loans covering the wholesale cost of each vehicle until it is sold and paid for by the end consumer. This business structure creates significant complexity when tax liabilities are linked directly to cash inflows and outflows rather than to accounting profits.

For example, a dealer may purchase a vehicle from an OEM for \$45,000 using a floorplan loan to cover this cost until sold to a consumer (interest will be paid as this stock awaits sale). The dealer may then sell this vehicle to a consumer for \$50,000, which appears as a profit of \$5,000. However, if the rules of the NCT don't fully account for the interest and financing costs of the stock, dealers will be subject to tax liabilities over and above what would currently be the case under current corporate tax arrangements.

Floorplan interest costs are an unavoidable cost of holding stock in a franchised new car dealership, and careful consideration must be given to any change in corporate tax regimes so as not to significantly disadvantage particular industries.

Section 2

- **An industry undergoing rapid regulatory change**

The Australian automotive industry is already undergoing rapid regulatory change, through the introduction of the New Vehicle Efficiency Standard (NVES), examination of franchising and Australian Consumer Law regulations, sustainability, gender equality and other reporting requirements. Dealers are already investing significant time and resources to understand and comply with these evolving regulations, which affect everything from vehicle sourcing and emissions reporting to consumer guarantee obligations and franchise protections. Introducing a NCT alongside the existing corporate income tax arrangements would add another layer of complexity and compliance cost at a time when dealers are already stretched adapting to these reforms.

- **Greater consideration needed**

Before progressing any changes to corporate tax settings, particularly the introduction of a NCT, the AADA considers that a thorough and transparent assessment of the industries most likely to be adversely affected must be undertaken. This includes detailed economic modelling that reflects the real world operating conditions of franchised new car dealerships, where high value but low margin vehicle sales, significant stock held under finance, and significant fluctuations in cash flow across periods are the norm.

For the automotive retail sector, such modelling should compare the impacts of an NCT against the existing corporate income tax framework and examine different dealer profiles, from large multi group businesses to small family owned or single franchise businesses across both metro and regional markets. Only with this evidence can policymakers properly understand the risks to new car dealer operations.

The AADA also emphasises that any move to alter corporate tax arrangements must be accompanied by a slow, carefully planned transition. Adequate lead times, clear guidance, and phased implementation are essential to allow businesses to adapt systems and financing arrangements without significant impacts to operations or discouraging investment.

INVESTING IN CHEAPER, CLEANER ENERGY AND THE NET ZERO TRANSFORMATION

DRAFT RECOMMENDATION 1.3 - INTRODUCE AN EMISSIONS- REDUCTION INCENTIVE FOR HEAVY VEHICLES AND PHASE-OUT POLICY OVERLAPS FOR LIGHT VEHICLES

Franchised new car and truck dealers strongly support measures that drive real and sustained reductions in transport emissions. A technology neutral incentive for heavy vehicles could be a valuable step in encouraging heavy commercial operators to transition to lower and zero emission vehicles, whether through electrification, alternative low-carbon fuels, or other emerging technologies. The AADA would just suggest caution in the development of these policies, as it risks creating significant market challenges where technological advancements have not reached policy ambitions. While there have already been significant advancements in bringing lower and zero emission options to the heavy vehicle sector, it is still very much in its infancy.

The light vehicle sector is just in the early months of operating under the New Vehicle Efficiency Standard (NVES) with the results of this policy yet to be seen. Current emission reduction policies for the heavy vehicle sector such as those seen under the Emission Reduction Fund (ERF), and the current Road User Charge system are best placed to incentivise operators to switch to lower emission options while maintaining the appropriate vehicles for their business.

The second part of Draft Recommendation 1.3, which proposes to phase out existing incentives for light vehicles, is of significant concern. The NVES is a supply side policy that compels manufacturers to bring lower-emission vehicles to market, but it does not guarantee that consumers will purchase them. Removing incentives and state or territory concessions on stamp duty and registration at this early stage of EV adoption risks undermining consumer demand, just as a wider range of affordable EVs are becoming available. Incentives are still needed to move beyond the first wave of early adopters and reach mainstream buyers, particularly in regional areas where operating costs, charging infrastructure and resale values remain key barriers.

The experience of other markets shows that demand side incentives are most effective when applied consistently and phased down only once electric and low-emission vehicles have grown to a significant enough proportion of the market. Removal of these incentives could slow the transition and which in turn impacts franchised new car dealers who are investing heavily in EV sales capability, technician training and charging infrastructure.

The AADA therefore urges governments to maintain existing light vehicle incentives until the market has matured, and consumer uptake is strong across all light vehicle segments.

Section 3

DRAFT RECOMMENDATION 1.4 - APPLY FRAMEWORKS TO ACHIEVE EMISSIONS TARGETS AT LEAST COST AND IMPROVE TRANSPARENCY

The AADA welcomes moves to establish a consistent way to measure the real cost of different abatement policies. In a recent study, commissioned by the AADA and prepared by the Centre for International Economics (CIE), we analysed the potential impact of NVES on automotive dealers and found that the introduction of NVES could cost Australian dealerships anywhere between \$1.1 billion and \$2.1 billion between 2025-2029, highlighting the significant cost burden on dealer businesses. This is a significant cost for businesses to absorb, and ultimately compliance with NVES will require major price and operational adjustments across the sector.

Under the scenario where vehicles across all segments are compliant with the NVES, the cost of abatement has been estimated to be as high as \$60 per tonne of CO₂, which is significantly higher than the average Australian Carbon Credit Unit (ACCU) spot price of \$36 per tonne. This suggests that the policy is comparatively costly in relation to the expected emissions reduction it achieves.

This is why it is critically important to understand how particular emission reduction policies stack up against each other and their overall cost-benefit. This transparency would give dealers and customers more certainty and provide regulators and policymakers insights into ways to cut emissions more efficiently.

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.

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