



Submission

Senate inquiry into changes to car fringe benefits arrangements

October 2012

Introduction

The Royal Automobile Club of Victoria (RACV) exists to deliver valued benefits to more than two million members by informing and advising them, representing their interests, providing them with assistance in the event of an emergency, and delivering products and services in the fields of motoring, mobility, leisure, assurance, social wellbeing and the home.

With an RACV member in three out of every four Victorian households on average, RACV claims broad representation and a responsibility to represent the needs of our members on the issues that affect them most. Given that many of our members drive, RACV is in the unique position of being able to understand and represent the views of a large segment of the motoring population. Through subsidiary EPAC Salary Solutions, RACV also offers salary packaging and vehicle leasing arrangements Australia wide which enables us to collect data on the driving patterns of customers and track how this changes over time. RACV therefore welcomes the opportunity to make a submission to the Inquiry into changes to car fringe benefits arrangements, particularly on the effects of the changes.

Discussion

RACV knows that mobility is important to all Victorians. Our research shows that the motor car plays a major role in keeping Victorians mobile and is likely to do so well into the future. Our members want safe, efficient and affordable motoring.

To date, some drivers have benefitted from the option of salary packaging to pay for the costs of owning and operating their vehicle. Recent changes to the car fringe benefits arrangements are anticipated to impact the take up of leases as well as the driving patterns of lease holders. RACV has conducted a preliminary analysis of available data to explore the nature and extent of any shifts which may have occurred thus far.

RACV has operated a salary packaging business for some years and is currently in the process of integrating it with a recently acquired second business. Many of our drivers use the statutory method as part of their leasing arrangements.

RACV data extracted from the subset of vehicle leasing contracts where the driver uses the statutory method shows that the kilometres travelled by motorists operating their vehicle under a salary packaging scheme in the years prior to the change in FBT arrangements averaged around 25,000km. As expected, this is higher than the community average for the same period of around 14,000km, a figure obtained from the Australian Bureau of Statistics.

It should be noted that salary packaged vehicle leasing arrangements are primarily marketed at drivers already driving at a higher mileage than average. There have been claims that some drivers may have significantly increased their annual mileage or driven very long distances close to the end of the FBT year simply to reach a higher kilometre bracket and take advantage of the lower FBT rate under the previous arrangements. RACV is not aware of any scientific evidence that confirms this. Nevertheless, RACV supports the position that taxation policy should not encourage excess driving which can have a negative accident risk exposure and also environmental implications.

RACV believes that the reduction of FBT from 26 per cent to 20 per cent for those motorists travelling less than 15,000km, may act to incentivise the uptake of salary packaging for the average motorist who as stated previously, travels around 14,000 kilometres a year. However the new approach is likely to be a setback for drivers who live far from their workplace or require a vehicle to cover vast distances for various reasons. These drivers will see an incremental increase in their FBT costs over the next few years.

Encouraging more drivers to salary package may also have some benefit in encouraging more drivers to operate newer vehicles which typically have better safety and lower fuel consumption and emissions than older vehicles. The exact extent of this change in purchasing practice is presently unclear, although RACV tracking of available vehicle sales data appears to support this contention.

Shown in Figure 1, RACV data comparing the annual mileage for 2009-2010 and 2010-2011 to the year 2011-2012 reveals that the new arrangement may have acted as an incentive to reduce mileage in the first year since the change. The percentage of total customers who travelled between 25,000km and 40,000km reduced from 40 per cent to 32 per cent, whilst the percentage of motorists staying in the two thresholds where the tax has either fallen or remained the same has risen from 57 per cent to 65 per cent.

Figure 1 – Breakdown of Salary Packaging Customer Mileage

FBT Year	Under 15,000km	15,000km – 25,000km	25,000km – 40,000km	Over 40,000km
2009 - 2010	7%	48%	41%	4%
2010 - 2011	8%	49%	40%	4%
2011 - 2012	10%	55%	32%	3%

Although this trend is encouraging RACV data indicates the average kilometres travelled in 2012 dipped only slightly from 23,884 in 2011 to 23,418 in 2012. The relatively large reduction in percentage of customers travelling between 25,000kms and 40,000kms together with the relatively stable average kilometres travelled in 2012 suggests that drivers were not undertaking additional or unnecessary travel at the margins in order to reach a lower FBT bracket under the previous scheme.

It should be noted that the data available is immature and is drawn from the integration of data across two businesses which may not be directly comparable. A more thorough assessment of the efficacy of the new arrangements can only be undertaken once transition to the new rules is complete.

RACV believes that once the transitional measures have been phased out, there will be advantages for the consumer in terms of a simpler calculation of tax liability. However, it is likely that the complex differential rates during the phase in period have made it more difficult for consumers to readily understand the details of the changes.

Summary

RACV believes that a more thorough assessment of the efficacy of the new arrangements can only be undertaken once transition to the new rules is complete. However, the preliminary analysis highlights a number of positive trends below which RACV will continue to monitor on behalf of our members.

1. RACV believes that the new FBT arrangements are likely to be a factor in the reduction in average kilometres travelled;
2. RACV further believes that this trend will continue as the changes are phased in and thus will act as an incentive for people who travel less than 15,000km to take advantage of salary packaged vehicle schemes;
3. The change in FBT arrangements should also act to reduce any unnecessary travel by the few motorists who had leases in the higher kilometre categories; and
4. RACV considers that both the reduction in average kilometres travelled that may be attributed to the new law and the incentives provided by the new law to salary package new vehicles achieve the policy objectives of promoting safer and more environmentally friendly vehicles and de-incentivising excess fuel usage.